



PUBLIC SECTOR PENSIONS AUTHORITY

Response to the Consultation relating to the draft Isle of Man Government Unified Scheme (Amendment) Scheme 2017

January 2017

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Part 1 – Forward

In June 2016 Tynwald considered the recommendations made in the of the Public Sector Pensions Authority’s Report: Fairness and Sustainability of Public Service Pension Schemes - Revised Proposals (GD 2016/0033).

Tynwald endorsed the proposals made in the report and a motion was approved for the PSPA to consult on detailed scheme changes with a view to formal amendments to all schemes being laid before Tynwald for approval by February 2017.

The report proposed reforms to the Isle of Man Government Unified Scheme 2011 (the Unified Scheme). These included increasing the employee contribution rate by 2.5% and benefit reductions for current members (future service accrual only) and new members’ equivalent to 1.8% of pensionable pay.

Since that important decision was made, discussions have been ongoing between the PSPA and trade unions to establish the benefit design which will achieve the 1.8% of pensionable pay saving. These discussions have recently concluded with the unions suggesting a reduction in all future service benefits by 6% which will achieve the saving of 1.8% of pensionable pay agreed from the “Fairness and Sustainability” report.

Additionally, the PSPA proposes to introduce a 2.5% increase in the contributions of all current and future new members under GUS (excluding Tynwald Members, who have already had an increase in contributions from October 2016) to be staged over three years from April 2018.

The proposals for reform are a significant step to put the Unified Scheme on a more sustainable footing going forward. However, there is still a requirement to address the historic cash flow position i.e. the deficit between income and expenditure for legacy members who have already retired, or will in the medium term be retiring, on higher benefits for their service already completed and where insufficient financial provision was made in the past. The historic position cannot solely be addressed by reforms to the Unified Scheme. The Treasury has identified options for managing legacy funding issues arising from Public Sector Pensions as part of its medium term financial strategy and it is agreed that continued dialogue will take place between Tynwald Members, the Treasury and the PSPA in order to identify the most appropriate way to manage the legacy issue in the long term.

Considerable work has been undertaken in the last two years with the PSPA working in collaboration with Employers, Treasury and Trade Unions to establish these reform proposals for the Unified Scheme, and the PSPA would like to acknowledge the considerable efforts that have been made by all stakeholders in developing the proposals which have been the subject of this consultation.

In the light of the economic circumstances of the Island, the PSPA considers these changes represent a further significant step towards a workable solution to ensure the Island’s future public service pension provisions remain sustainable and affordable to both members and the Island’s tax payers.

Introduction

This consultation response document focuses on the detailed design documentation associated with making an amendment to the Unified Scheme for the majority of the Isle of Man Public Service.

It is proposed that the benefit changes for existing members in Sections 1 (Standard) to 7 inclusive and for new members who join Section 1 (Standard) or 7 will be implemented from 1 April 2017.

Contribution changes:

New Members joining Section 1 (Standard) or Section 7 (fire fighters) on or after 1 April 2017 will pay the increased contribution rates from the date they join (7.50% and 13.50% respectively)

Existing Member's (in the Scheme on or before 31 March 2017) contribution rates will increase by 2.5%, but at a rate of no more than 1% each year from 1 April 2018.

The contribution rate increase will apply to all Scheme members (excepting Tynwald Members who have already seen contribution increases from October 2016).

Future benefit reduction:

The reduction to pension benefits for future service for both existing and new members will start from 1 April 2017 and will apply to all memberships in Sections 1 (Standard) to 7 inclusive and to all pensions (ill health, surviving adult dependent pensions and pension sharing credits) with no exceptions.

Benefits for members', who have left the scheme on or before 31 March 2017 with either a pension in payment or in deferment, will not be impacted by these changes.

Part 2 - The Consultation Exercise

The consultation period started on Friday 9 December 2016 and closed at midday on Friday 6 January 2017.

Detailed information was provided on the PSPA website in the form of a copy of the draft Scheme and a comprehensive summary of the provisions. In addition a fact sheet for members setting out examples of how the reforms would affect them was published on the website with a separate factsheet for Practitioner members.

Trade union and staff representatives were given advance notice of the consultation and Scheme members were consulted about the proposals by way of an "All Staff" email pointing to further information and copies of the draft Scheme on the PSPA website. Managers were asked to bring the consultation to the attention of colleagues without access to a computer. Relevant employing authorities, the Treasury, staff representatives and trade unions were also invited to comment.

Part 3 – The Responses

The PSPA wishes to thank those who responded to the consultation for their suggestions and comments.

There were 58 individual responses to the consultation, one collective response from the Isle of Man Fire and Rescue Service and a response from the Fire Brigades Union (FBU). Many of the individual responses made more than one comment and they have been broadly grouped together to give a general indication of the responses made.

In summary:

- 15 strongly objected to the proposals.
- 12 agreed with the proposals or were broadly supportive of the changes proposed.

- 10 GPs said that the changes would cause recruitment and retention problems for the island's NHS.
- 9 said they were considering opting-out or believed others would.
- 6 felt that they should not be made to pay for government not making sufficient provision in the past.
- 5 wanted to know how the proposals specifically affected them.
- 4 had queries to do with the differing contribution rates in the various sections of the Scheme.
- 4 commented on the length of the consultation feeling it was too short or said that the PSPA had not discussed the proposals with members in more detail.
- 3 wanted it to be made clear that public servants didn't receive "gold plated" pensions.
- 4 claimed that although they had paid to Protect, they had not been protected.
- 3 referred to the need for improved risk sharing process.
- 3 said that everyone should be treated the same. There should be no special cases or exceptions.
- 2 asked for a political commitment to the current arrangements in order to improve the sustainability of the final proposals.
- 2 said it was unfair that the Judiciary and Tynwald Members didn't pay more.
- 3 thought there should be transitional measures for those nearer to retirement.
- 2 said it will cause recruitment and retention problems for the civil and public service and reduce the calibre and quality of individuals who may apply to work for the Isle of Man Government.
- 1 accepted the need to pay more, but not to get less.
- 1 believed the proposals should be scrapped and consideration given to increasing the payments to pensioners.
- Another asked if a decrease in the inflationary uplift to pensions in payment had been considered.
- Another observed that the proposals hit the youngest the hardest.
- Another had no comments on the proposals but complained that they hadn't been provided with an illustration as to how the changes would reduce their future pension. . They were also concerned about the legacy issues and asked what was being considered. They also thought that a cost review every 3 years was too soon and that it should be every 5 years.
- 1 commented on the adverse effect this would have on members subject to pension sharing orders on divorce.
- One member believed that the schemes remained generous and competitive when compared with UK public sector schemes and that the opportunity to promote them in a positive light exists in order to attract new recruits. The same member also agreed that that reform is necessary and inevitable given people are living longer and pension costs are increasing.

- The FBU invited the PSPA to consider honouring the expected benefits levels for existing members, at the time of joining the Unified Scheme for the period the member remains a scheme member.
- The FBU considers that the potential for new joiners from 1 April 2017 paying a higher contribution rate than existing members is unfair and may damage the uptake of new fire-fighters joining the scheme compounding the sustainability problems and invited the PSPA to maintain equal contribution rates for existing and new members until 2020.
- Finally, it was pointed out that the contribution rate shown for Section 3 members from 1 April 2018 on the table on Page 8 of the Consultation Document was incorrect. It was stating a contribution rate of 10.75% which was wrong and it should have said 10.50%.

Part 4 – Conclusions

The Public Sector Pensions Authority (PSPA), having carefully considered the comments made, wishes to comment as follows:

As can be seen from the summary, the single largest theme that came out of the consultation was from members strongly objecting to the proposals. In total there were **15** members who did so. Given the overall number of active members of GUS (around 8,590 at the end of March 2016) this was arguably less than might have been expected.

Conversely, there were **12** comments from members agreeing, or broadly supporting the proposals.

The third largest number of responses (**10**) came from General Practitioners (GPs) strongly opposing the proposals which some considered would make the scheme inferior to the UK NHS Scheme and as such, expressed the belief that they would create recruitment and retention problems for the NHS and in particular for the GP services on the Island, which they said was already under pressure.

The PSPA corrected the table on Page 8 of the Consultation Document to reflect the correct contribution rate for Section 3 members from 1 April 2018 as shown below:

Section	Contribution Rate Transition		
	1 April 2018	1 April 2019	1 April 2020
3	10.50%	11.50%	12.25%

The PSPA would like to comment as follows:

These reforms are the result of a wide ranging and in depth consultation of which the unions, staff representatives and employing authorities were broadly supportive. The basis and data used to make the recommendations was, at the request of the unions, reviewed by an independent Actuary (also chosen by the unions) and the findings of that Actuary supported the recommendations made for reform.

General Practitioners

Whilst, it is understandable that GPs are concerned for the future and the Island's ability to attract and retain GP's due to the changes proposed on the Island, the same sentiment is felt across a number of professions and whilst it is clear that the pension arrangements in the Island are different, the PSPA do not believe they are inferior to those in the UK NHS Scheme 2015 for new GP's entering the Unified Scheme.

The PSPA reminded the GPs that the BMA had been involved in the PSPA Committee and had approved the proposed changes.

As such the PSPA responded to the GPs questions in some detail and highlighted reasons why the Unified Scheme, whilst different to the UK NHS 2015 Scheme for GP's, is certainly not inferior to it, for the following reasons:

- Contribution rate: GPs on average earnings of £80,000 will pay 27.8% in the NHS UK 2015 Scheme compared to 22.5% in the Unified Scheme;
- Later Working: NHS UK Scheme benefits are paid at State Pension Age compared to age 65 in the Unified Scheme;
- Higher Maximum Lump Sum: NHS UK Scheme lump sum limited to 25% of the value of pension compared to 30% of the value of pension in the Unified Scheme
- Commutation Rates: NHS UK commute pension into cash at a rate of £1 to £12 compared to more generous commutation rate of £1 to £18 in the Unified Scheme;
- Death In Service Cover: NHS UK offer 2 x pay compared to 3 x pay in the Unified Scheme

The PSPA also pointed out that any new GP moving here therefore has the option to use the extra contributions they would otherwise have to pay (in the UK) to fund additional contributions to a personal arrangement to make up any shortfall they may consider they may have in their final pension income.

Another important factor for high earners was that whilst the Unified Scheme allows a greater proportion of pension to be taken as a tax free lump sum, the Isle of Man does not have the same restrictive Lifetime and Annual Allowance Tax regimes as the UK which will impact on the level of pension which high earners, such as GPs can accrue.

Current and new members may opt-out

9 respondents said that they were or might have to consider opting-out of the Scheme and believed a number of their colleagues were of the same opinion.

The PSPA reminded these members why the changes were being made and also that whilst contributions were being increased and future benefits reduced, the Unified Scheme still offered a good range of benefits for their contribution. Additionally, the PSPA made members aware of the loss of other associated benefits such as death cover, lower NI contributions and tax relief. There were various questions about contribution increase, the process of consultation and around former "protections" and the PSPA have responded to each of these individually.

Isle of Man Fire and Rescue Service

A collective response was received from members of the Isle of Man Fire and Rescue Service seeking clarity on various matters including proposals to close the legacy funding gap and detail about how Cost Sharing reviews would take place. Members also asked the PSPA to consider the issue of individual illustrations setting out the effect of the proposals.

The PSPA advised that the issue of how the Government deals with the legacy funding gap in the future is still under consideration by Treasury and the Council of Ministers. The PSPA went on to advise that the Treasury has identified a number of options for managing the legacy funding issues arising from Public Sector Pensions as part of its medium term financial strategy and it had been agreed that continued dialogue will take place between Tynwald Members, the Treasury and the PSPA in order to identify the most appropriate way to manage the legacy issue in the long term.

The PSPA noted members' comments about the issue of individual member illustrations and advised that future annual statements will be issued as stated in the consultation documents.

Fire Brigades Union

The PSPA noted the FBU's beliefs that existing Fire-fighters in Section 7 should maintain their current level of benefits and the 2.5% contribution increase should be deferred until 2020. The PSPA would respond by saying that on the recommendation of the PSPA Pensions Committee, of which the FBU were a part of and in agreement to the proposed benefit reduction and contribution increases, Tynwald approved the reduction of benefits and increases of contributions for all memberships. The PSPA would also remind the FBU that, unlike other members in the Unified Scheme, the value of pension benefits and level of contributions for the Fire-fighters in Section 7 have not changed and remain the same as their former scheme, prior to the introduction of both the Unified Scheme and previous UK reforms. Unlike the rest of the membership in Sections 1 to 6, these changes represent the first reform to benefits and contributions for this group of members for many years.

The FBU also raised other issues in connection with fire fighters which are outside of this consultation, have been previously raised with the PSPA for ongoing discussion and have been responded to separately by the PSPA.

Next Steps

The PSPA and the Treasury have had a clear remit from Tynwald to reduce the rising costs of public sector schemes in a way that is fair and reasonable to all scheme members, employers and the tax payer. Tynwald have agreed to the proposals and that they should be applied to all public sector pension scheme members.

Treasury noted that the Public Sector Pensions Authority is formally consulting on reform proposals to the Government Unified Scheme (GUS) and approved the Authority submitting the current proposals (in line with the Tynwald Motion of June 2016) to reduce the future service benefits for all GUS members (excluding Tynwald Members) by 6% from April 2017

and to implement staged contribution increases of 2.5% from April 2018, for inclusion on the February 2017 Tynwald Order Paper.

Treasury further noted that if the proposals did not receive the approval of Tynwald the PSPA will need to come back with a new/revised scheme. Bearing in mind the consultation responses received, which have been carefully considered by the PSPA and responded to individually where required, the PSPA believes that it should now proceed to finalise the Isle of Man Government Unified Scheme (Amendment) Scheme 2017 for implementation and will recommend to the Council of Ministers that the Scheme be approved and thereafter, passed to Tynwald for approval in February 2017.

The PSPA considers that the proposed Amendment Scheme is one of a number of measures which seek to make the Island's Public Sector Pension Schemes more sustainable. As part of the next steps the PSPA will introduce, via legislation, of a formal Cost Sharing mechanism in the near future.

List of respondents to the Consultation

Treasury

61 individuals.

1 collective response from the Isle of Man Fire and Rescue Service

1 Trade Union