

In Confidence

Minutes of a meeting of the Public Sector Pensions Authority (PSPA) on Friday 28th September 2012 at 2.30 p.m. in the PSPA Meeting Room, Goldie House, Douglas.

Present: PSPA

Mr J Carter (Chairman)

Mr A Cannan, MHK (Vice Chairman)

Mr E Holmes

In Attendance: Mr I T Murray

Mr P T Gawne (notes)

Apologies: Mr A Shipley

Mr L I Singer, MHK

Minute No Minute

93/12 Consultation response to the draft Teachers' Pensions (Amendment) Order 2012

The purpose of the meeting was to review and discuss the responses to consultation about the draft Teachers' Pensions (Amendment) Order 2012 and to decide upon a way forward.

The Chief Executive outlined the main points which had been made during the consultation. He advised that the principal objection conveyed by teachers and their trade union representatives was with regard to the seeking of backdated contributions. Nevertheless, backdating was necessary to ensure the Isle of Man Teachers Pension arrangements maintained parity with the equivalent scheme in the United Kingdom and it was for this reason that the PSPA had proposed to backdate the increase in contributions to 1 April 2012 and seek the repayment of arrears of contributions. Retrospective application was permitted by section 7 of the Public Sector Pensions Act 2011.

The Board acknowledged that amendments to the Teachers' Pension Scheme had been introduced in the UK from 1 April 2012, but due to the timing of the publication of the UK amendment regulations and the subsequent process that the PSPA was required to follow on the Island, an equivalent Order could not be made until consultation had closed and the Board had been given an opportunity to review the responses.

Feedback on the following issues was most prominent:

- Parity with the UK TPS
- Backdating of contributions
- Affordability
- Budget deficit and funding position of the Teachers' Pension Scheme in the IoM
- The speed at which legislation has been introduced
- Recruitment of future staff, particularly high quality and younger teachers
- Timing of the consultation
- Increases in contributions may be acceptable

After discussing the various arguments put forward by teachers opposing the Amendment Order, the PSPA focused on the main arguments put forward by members and their representatives in turn as this would be the basis of the consultation response document to teachers and their unions.

Parity with the UK TPS

The Board acknowledged that, whilst the IOM Teachers' Pension Scheme mirrors the equivalent UK scheme, separate legislation has to be introduced in the Island in order to introduce UK changes. It also noted that previous changes had been introduced to the IoM Teachers' Scheme by the Department of Education and Children as soon as practicable after their introduction in the UK in order to continue to mirror the UK TPS.

The Board also noted that pay and pensions for teachers in the IoM are determined by direct reference to the Terms and Conditions of UK teachers. The BOARD acknowledged that it is was not within its power to change the Terms and Conditions of teachers in the Island and any move away from UK Terms and Conditions, including pay and pensions, must be negotiated first between teachers, their union representatives and the Department. As such the PSPA was obliged to apply the UK led changes to the IoM Teachers' Pension Scheme as soon as practicable.

Backdating of contributions

The Board acknowledged that this was the main area where feedback was provided and there was a great deal of opposition from the majority of members and unions to the backdating of contributions to April 2012, the date the contribution increases were introduced in the UK.

However, the Board were aware that section 7, of the Public Sector Pensions Act 2011, allowed the Board to make retrospective provisions in respect of any part of an IoM scheme which followed a UK scheme, providing it was no earlier than the change in the UK and it did not reduce any benefit in respect of accrued rights before the change.

The Board noted that it (and its forerunner, the Pensions Division of the Office of Human Resources) had previously retrospectively introduced changes to civil service schemes for members, and thus set a precedent for backdating both change and contributions.

The Board were also aware that although GUS members did not have their contributions backdated when the Unified Scheme commenced on 1 April 2012, however, this was because they knew in advance that their contributions would change. Anyone who missed the start date or who changed their decisions subsequent to this had to make backdated payments.

The Board were also cognisant of the fact that the Police had not paid backdated contributions, but this was only due to the employer giving an erroneous assurance that contributions would not be backdated, when this was not within their power to agree.

Therefore, on consideration of all relevant matters, the Board was mindful to backdate contributions to the date of change in the UK, 1 April 2012, in order to

maintain parity with the UK TPS.

However, the Board, being aware of the depth of feeling concerning the collection of arrears and the risk that this might cause industrial unrest, agreed to take further advice on the matter from the Council of Ministers before finally determining this issue.

It was therefore unanimously agreed that there would be no backdating of contributions for the time being and if on further consideration, and after receiving guidance from the Council of Ministers, it was determined that arrears should be collected, that they should be subject to the provision of advance notice to members and spread over a period of not less than 12 months.

Affordability

The Board noted that teachers are in the middle of a pay freeze and acknowledged that, during difficult economic circumstances, any increase in contributions is unwelcome.

However, the Board also noted that the majority of civil and public servants had only just exited a similar pay freeze and any pay awards made had been relatively small in nature. Additionally, with the advent of the Unified Scheme (GUS), the Board acknowledged that the majority of civil and public servants had seen a phased increase in their contributions to GUS from April 2012, and that this would continue for between five to seven years for many members.

Therefore, whilst the Board was sympathetic to the financial position of members of the teaching profession, it did not feel that their financial circumstances were so significantly different to those of other public servants, to warrant them being treated differently.

Budget deficit and funding position of the Teachers' Pension Scheme in the IoM

The Board considered both of these issues together as they are both finance related. Whilst the Board acknowledged that the Island does not have the same budget deficit position as the UK, the last few years had seen a significant drop in its overall revenue, predominantly caused by a reduction in VAT receipts, but also because of the general economic situation in the UK and around the world. At the same time, the cost of funding public service pension provision had continued to increase. Whilst a balanced budget position was being maintained this was only via the use of reserves and by subsidising the gap between public sector pension income and payments via payments from the Public Sector Employees Pension Reserve fund. The Board therefore, concluded that the Isle of Man had economic and pension issues of its own which had to be addressed.

In addition, in terms of an overall pension deficit, the gap between public sector pension income (contributions) and outgoings (pensions and lump sums) in the IoM is estimated to stand at around £22m per annum and rising each year. Historically, the IoM Treasury had not distinguished between the various schemes which contribute to that deficit.

Nevertheless, it was true, as many respondents had claimed, that no actuarial review of the Teachers' Pension Scheme in the Island had been recently undertaken. However, if one had, it would have considered the Scheme's:

- Pension liabilities;
- Cost of funding future service pensions;
- Cashflow.

From work undertaken annually for the IoM Government accounts by the UK Government Actuary's Department (specialist actuarial advisers to many UK and IoM based public sector pension schemes) and from financial information available to the PSPA on contributions and benefits paid, a picture of the IoM Teachers' Pension Scheme had been built and the position for the IoM Teachers' Scheme was understood to be as follows:

- Liabilities: £314m (with no corresponding assets);
- Cost of funding future service pensions: estimated by the Government Actuary's Department to be 28.1% of salaries. Current employee and employer contributions are 20.5% of salaries. Thus there is a projected shortfall in the cost of funding future benefits of 7.6% of salaries;
- Cashflow: over the last 3.5 years, total contributions into the IoM Teachers' Pension Scheme has been £30.8m. Total benefits paid out over the same period have been £41.1m. Therefore, the shortfall in contributions compared with benefits amounts to £10.3m over the period.

Based on the above information, the Board concluded that the IoM Teachers' Pension Scheme is not in surplus and, like most public sector pension schemes in the Island, is actually in deficit, thus requiring a consequent increase in contributions.

The speed at which legislation has been introduced

The Board acknowledged the time lag between the UK contribution changes being introduced and the changes in the IoM. However, this was unavoidable as the PSPA, was unable to make changes to the Isle of Man scheme until the law was changed in the UK, in case the legislation was withdrawn or wasn't approved. Once it was, the PSPA, having drafted the amendment scheme, had to follow strict legislative procedures and timetables. This included seeking approval for the draft scheme from the PSPA Board and thereafter, for the consultation process from the Council of Ministers. Only once this had been granted could the PSPA begin to consult with the Treasury, Departments, scheme members and their respective trade unions.

The Board noted that it was proposed, in order to minimise any future time lag in respect of contribution increases emanating from the UK (likely for the years 2013/14 and 2014/15) that the legislation proposed that contribution changes made to the UK TPS would automatically apply in the Island for the next two years.

Scheme members would be given advance warning of the proposed increases once confirmed by the UK and also the date of increase in the Island thus removing any requirement for contributions to be backdated in future. The PSPA were therefore not minded to change the draft Scheme of Amendment in this respect.

Recruitment of future staff, particularly high quality and younger teachers

The Board was acutely aware of the importance and difficulty of the work performed by teachers in the Island and the need to recruit high quality staff in future. In particular, it took into account that younger people from university with consequent student loans etc would be amongst those who would need to be attracted. The Board noted that recruitment of staff to the IoM was an issue across many professions including doctors and nurses in particular, and that this had been raised as a concern when the Unified Scheme was introduced. However, the Board took the view that recruitment to the teaching profession, like other professions, was a vocational choice and in particular, recruitment to the Island inevitably meant both a financial consideration (pay, pension and taxation) as well as a personal one (living standards, quality of life, inflation etc). However, the Board was of the opinion that, whilst pensions play an important part in an individual's overall financial and lifestyle considerations, they were unlikely to be the sole consideration.

Additionally, it was acknowledged by most people that the cost of pension provision is increasing as people live longer. This rate of improvement in longevity has been significant over a very short period of time and therefore all schemes which continue to provide benefits linked to earnings and inflation have and will continue to see an increase in costs.

Whilst the Board were aware that it could be argued that the UK has a greater opportunity to fund public sector schemes via an increase in taxation or by diverting revenue from other areas, these were opportunities which a small nation like the Isle of Man did not have.

The Board were therefore agreed, that introducing contribution increases both in line with equivalent UK schemes (Police and Teachers') as well as for other schemes (the new Unified Scheme) was necessary for the Island to continue to be able to afford to provide high quality, but costly, salary related pensions.

Timing of the consultation

The Board acknowledged that the timing of the consultation, at the end of term and before teachers went on their summer break, had been unfortunate.

However, the Board were also agreed that it was important to consult on the changes as soon as possible and delaying consultation would have been inappropriate. In addition, the Board noted it had met with the trade unions affected, granted an extension to the consultation timescale twice leading to over 250 members expressing their views.

The Board also acknowledged that, whilst many members had queried why they were not written to individually, consulting electronically was seen as an acceptable way of communicating with scheme members.

In addition the Board were aware that the cost of doing so was, in the terms of the limited budget which the PSPA had at its disposal, prohibitive. However, the process had highlighted that some members may not have been aware of the consultation at an early stage and the process will be refined in the future to use head teachers and union representatives to a greater extent to disseminate

information to scheme members.

The PSPA had also now determined to set up a working group for teachers' pensions to include PSPA officers, departmental representatives and union representatives. The formation of the Working Group should ensure that both potential changes to the IoM Teachers' Scheme and other pensions issues in general could be discussed at an early stage, before any changes are introduced or any formal consultation takes place.

Increases in contributions may be acceptable

The Board also noted in the context of the overall responses provided, that as the consultation progressed, there had been an increasing number of members who, whilst small in the context of the overall number of respondents, made it very clear that they wished to remain linked to UK teachers pay and pensions. They were willing to pay the increase in contributions once the legislation was enacted and would consider the backdating of contributions provided payments were spread over a manageable period.

The way forward

The Board were unanimously agreed that employee contributions towards teacher's pensions should be increased in the Isle of Man by the same amount as they had in the UK and in line with the terms of the draft Teachers' Pensions (Amendment) Order 2012.

The Board were also unanimous in agreeing that that the increased contributions should commence as of the November pay date and that they should be backdated to 1st April 2012 and the arrears of contributions collected for this period.

However, the Board, being acutely aware of the very strong opposition and particularly the depth of feeling regarding the backdating of contributions and collection of arrears, were concerned that there was the very real potential for it to escalate into industrial action if it were to go ahead. In addition, the Board were also aware that the risk of industrial action may be disproportionate to the savings were arrears to be collected.

In conclusion the Board determined that they had no alternative but to take further advice on the matter from the Council of Ministers and ensure they had their support, before finally deciding on whether to backdate and collect arrears.

The meeting closed at 15.45 p.m.