

Pensions Member Notice

Managers: Please bring this email to the attention of any colleague who does not have regular access to emails or those who are on long term leave. It is essential that every teacher and lecturer receive a copy of this notice.

Teachers' Superannuation Order 2011(the Scheme)

The purpose of this notice is to update members of the Teachers' Superannuation Order 2011(the Scheme) on the progress made so far to reform their Scheme, the suggested ways in which the Scheme will be reformed and the timescales for consulting on and introducing these changes.

Background

In December 2014 Tynwald tasked the Public Sector Pensions Authority (PSPA) to review all public sector pension schemes, including the Teachers Superannuation Order 2011. The primary reason for this was that the results from an Actuarial Valuation review carried out in 2013 indicated that the cost to the Isle of Man for public sector pension schemes were rising and the long-term liabilities were building up to a level that was simply deemed unsustainable.

Since then, the PSPA have worked with representatives of Tynwald, Treasury, Employing Authorities, Staff Representatives and Scheme Members to make cost saving reforms to two of the three main public sector pension schemes: the Isle of Man Government Unified Scheme 2011 and the Police Pension Regulations 1991 and 2010.

Reform discussions with staff representatives of the Teachers' Superannuation Order 2011 (the Scheme) are now close to being concluded.

Level of Reform

To understand the need for reforming the Scheme, it is best to start to explain how the Scheme is financed. Like all other public sector schemes the PSPA manages, the Scheme is an "unfunded" scheme. There is no pot of money that is ring-fenced from member and employer contributions to pay a pension to each member. Instead, the benefits in payment to all current public service pensioners, including ones from this Scheme, are paid out of the contributions that members and employers pay in now, and are topped up where necessary from the Pension Reserve fund and general revenue (i.e. receipts from tax payers).

For example in 2016-17, the contributions paid into the public service pensions were £59.8m, the amount paid out in pensions and lump sums was £91.1m leaving a shortfall of £31.3m.

Whilst it is acknowledged that scheme members should not be asked to address the funding shortfall brought about by an historic commitment to provide a particular level pension benefits, Tynwald has directed that the cost of providing pension benefits in the future should be reduced for all public sector pension schemes in order to make them more sustainable into the future.

With regard to reform of the Teachers' Superannuation Order, the Unions side reasoned that in view of the fact that the latest actuarial valuation report in 2016 predicted that the cost of providing the future pension for a Teachers' Scheme member had increased by 1% of pensionable pay, then a reduction to match this increase would be a more equitable reform for this scheme.

Therefore, taking this into account and the fact that Teachers and the Department had historically made a higher level of contribution, the PSPA agreed that in order to make justifiable changes, the reforms would be required to make a saving of 1% of pensionable pay.

Proposals for Reform

Over the last two years the PSPA and representatives from all Teaching and Lecturing Unions and the Department of Education, Sport and Culture jointly considered and discussed the reasons why the Scheme should be reformed and if it were to be changed, all groups considered the various options for reform and the potential impact to the existing members and also potential future scheme members.

Currently we are working on a range of proposals that are yet to be agreed, but the broad principles for reform are outlined below.

- Reduction in the rate at which pension accrues in the future;
- Options for members to take a higher lump sum in exchange for a reduced pension;
- Cost Sharing - going forward like all other public sector schemes (including the UK Teachers' Pension Scheme), the Scheme will be subject to cost sharing legislation from 2020 under which any future increases in the cost of providing benefits will be shared between Scheme members and Government.

It is important to say that any changes will only impact of any future benefits that you earn in the Scheme from the date the reforms are introduced. The benefits you have built up so far will not be reduced.

Benefits which you are paying for in full, such as Added Years and Added Pension will not be affected by the reforms.

In brief, the following range of options were considered and rejected as a way to achieve the cost saving of 1% of pensionable pay:

- Adopting all or parts of the UK Teachers Pension Scheme 2015 reforms;
- Transferring the Teachers Scheme into the Unified Scheme;
- Reforming the existing Scheme i.e. by way of increasing normal pension age, linking normal pension age with state pension age, increasing commutation factors and/or increasing member contributions.

Next Steps

It will take another month or so until the PSPA is in a position whereby consultation and if appropriate, negotiations are completed to the satisfaction of all sides. At this stage nothing has been decided or agreed and the recommendations for reform will be subject to consultation in accordance with the Public Sector Pensions Act 2011 with trade unions, staff representative bodies, employers and scheme members. Any changes will then be subject to Tynwald approval.

Timetable for implementing reform changes

Trade unions may also wish to ballot their members at some point in this process. The timetable for making the reforms changes could look like this:

| Task | Date |
|--|-----------------------|
| PSPA provide Unions and Department with reform proposals to the Scheme that equal a 1% saving of pensionable pay | 5 January 2018 |
| Unions consider and meet with PSPA to finalise and approve reforms for consultation | 19 January 2018 |
| PSPA draft amending legislation for approval from the PSPA Board | February 2018 |
| 6 week consultation on amending legislation commences | February – March 2018 |
| Consultation Ends – PSPA consider consultation responses, publish results and subject to responses make the amending Scheme to apply from 1 April 2018 | March - April 2018 |

Further details

Where can I find out more?

There will be a number of ways that we will keep you up to date on the proposals, as follows:

1. As matters progress your Unions and the PSPA will keep you up to date on progress.
2. There will be a dedicated consultation webpage on the Teachers pages of the website at www.pspa.im where once the proposals have been agreed you can refer to for the latest information.

What you need to do?

You don't have to do anything at the moment; we will let you know when the consultation is due to start and how you can give your feedback.

Public Sector Pensions Authority
Department of Education, Sport and Culture

19 December 2017