



PUBLIC SECTOR PENSIONS AUTHORITY

Response to the Consultation relating to the draft Teachers' Superannuation Order (Amendment) Order 2018

16 April 2018

Table of Contents

Part 1 – Foreword.....	1
Part 2 - The Consultation Exercise.....	2
List of respondents to the Consultation.....	5

Part 1 – Foreword

In June 2016 Tynwald considered the recommendations made in 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 from April 2018.

Since that important decision was made, the PSPA have undertaken a programme of negotiation with representatives from the PSPA, Department of Education, Sport and Culture (the Department) and the Teaching and Lecturing Trade Unions (the Unions) with a view to progressing reforms to the Teachers' Superannuation Order 2011(the Scheme), as recommended in the report.

It was originally recommended by the Working Group that the PSPA commence discussions with these and other groups and have in place suitably agreed reforms by April 2016. However, due to delays in implementing changes to the Unified Scheme and the subsequent requirement from the Unions to have sight of the 2016 valuation results for the Teachers Superannuation Order 2011, the timescale for reforming the Scheme was extended.

After due consideration the PSPA and the Unions concluded that the Scheme would be reformed and the cost of future pensions would be reduced by 1%. This would mean that based on the results of 2016 valuation, the overall cost of future service benefits would reduce from 27.1% to 26.1% of pensionable pay.

It was proposed that this 1% saving was to be achieved by changing the accrual rates in the Scheme, thus reducing the pension that existing and new members can build up or accrue in the future.

The proposals for reform are a significant step to put the 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 Scheme.

The Cabinet Office, working with Treasury and the PSPA have 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 Cabinet Office, 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 three years with the PSPA working in collaboration with the Unions and the Department to establish these reform proposals for the Scheme, and the PSPA would like to acknowledge the considerable efforts that have been made by all stakeholders in arriving at this proposal, which has 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.

This consultation response document focuses on the detailed design documentation associated with making an amendment to the Scheme for the majority of the Isle of Man's Teachers and Lecturers.

It is proposed that the benefit changes, if approved, will be retrospectively implemented from 1 April 2018.

Future benefit reduction:

The reduction to pension benefits for future service for both existing and new members will start from 1 April 2018 and will apply to all memberships 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 2018 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 Monday 19 February 2018 and closed at midday on Tuesday 3 April 2018.

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 it included generic examples of how the reform would affect members.

Trade union 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.

The Department, the Treasury and trade unions were invited to comment.

The PSPA carried out four presentations to Scheme members via their unions.

The Responses

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

There were 3 individual responses to the consultation, 2 of which were collective responses from Trade Unions (National Education Union (NUT Section) and NASUWT).

The responses from the Trade Unions made more than one comment and they have been broadly grouped together to give a general indication of the responses made.

In summary:

- No Trade Unions or Scheme Members strongly objected to the proposals. The NUT has agreed to the changes with its members, but did have concerns regarding forthcoming cost sharing issues.
- It was welcomed that there would be no changes made at this time to the contribution rates, as Teachers' are already paying substantially more than in 2010

and substantially higher rates that many Isle of Man Government Unified Scheme members have paid in the same period.

- It was further welcomed that the Normal Pension Ages would remain at age 60 and 65 respectively.
- General comment was made that whilst the changes are in some way superior to the reforms in England and Wales for Teachers, they still represent a detrimental change to Teachers pensions and as such could have a negative impact on the recruitment of new teachers to the Island.
- Both unions stated that whilst they were accepting of the proposed changes, both still had concerns over the potential impact for future changes to benefits and contribution rates following the implementation of future cost sharing regulations. Both Trade Unions also commented that they had reservations over the some of the actuarial assumptions used in the 2016 Scheme Valuation that lead to the proposals for a 1% of pensionable pay saving. In particular to the Discount Rate and the salary growth assumptions used.
- The NASUWT went further to say that as cost sharing was an integral part of the pension scheme arrangements, they were concerned that the consultation for these reforms was premature and should have included cost sharing, even if it meant these reforms been delayed until cost sharing was in place.
- The NASUWT asserted the view that the proposal to increase the amount of maximum lump sum from 25% to 30% of the value of pension will have very little impact on the scheme members and were disappointed that the commutation rate was not increased from 12:1 to 18:1.
- The NASUWT also raised a concern that there was no specific teacher related input on the PSPA Board and this should be rectified by the creation of a specific pension board for the Teachers' scheme or in the absence of this, a dedicated seat on the board for teacher representatives.

Comments and Conclusion

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

These reforms are the result of a lengthy and in depth consultation with trade unions and the Department. Given the relatively small amount of written feedback, from a membership of over 1200 Teachers and Lecturers, the PSPA are of the view that members, their trade unions and the employing authority are broadly supportive of the changes.

During the consultation a broad range of reform options were considered in detail, with the current proposals considerably less extensive than originally proposed and therefore representing a lesser reduction to member's benefits than the PSPA's initial proposals.

The PSPA are of the view that the Scheme, if these reforms are applied, would still offer a more attractive scheme to new teacher recruits than is currently available in England and Wales. For example, it has remained final salary, there has been no move increase the normal retirement age or link the pension age with state pension age and contributions have not increased.

The contribution rates for Teachers are tiered based on salary and have increased in range from 6.4% to 12.4% since November 2012. The contribution rates in the Unified Scheme have increased in range by 1% per year from 2.5% up to 13.5% since 2012, with the minimum contribution rate now at 6%. From April 2018 the contribution rate for a majority of members will range from 6% to 8.5% increasing by 2% to 7.5% and 10.25% by April 2020.

As such, the PSPA are of the view that some teachers may be paying more than Unified Scheme members, if they are high earners, but there are Unified Scheme members who have paid a similar or a higher rate than Teachers regardless of their salary.

The PSPA takes the view that Teachers like all other public servants should not be immune to pension reforms and these reforms represent a fair compromise and make the Scheme more sustainable in the future.

The PSPA and the Treasury consider the assumptions made in the actuarial valuations to be appropriate and in line with recognised actuarial practice and assumptions appropriate for the Isle of Man. In particular, the long term salary growth assumption for Teachers has been proved historically correct for the Isle of Man teaching profession when annual awards, spine point increases and responsibility allowances are taken into account. The examples quoted in the feedback relate to experience in England and Wales and as such have little relevance to the Isle of Man situation.

The PSPA take the view that the option to allow members to take a higher lump sum which is tax free would benefit those who chose to take it. Furthermore, changing the commutation rate to 18:1 would have cancelled out the 1% saving made by reducing the future accrual rates and as such, would necessitated a larger reduction in the accrual rate.

The PSPA constitution via the Public Sector Pensions Act 2011 does not allow for specific teachers representative to be nominated to sit on the Board. The Union appointments to the Board are made by the Council of Ministers from all trade unions affiliated to all public sector scheme members. Union representatives on the Board are expected to consider the needs of all groups of public servants and not just the groups they represent. However, the PSPA have agreed that formal input to the PSPA Board can be via a Teachers Advisory Board chaired by a PSPA Board member and therefore there will now be direct teacher related input to the Board.

Next Steps

The PSPA and the Treasury have had a clear remit from Tynwald to reduce the future 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.

In its meeting of 14 February 2018, Treasury noted the draft Teachers' Superannuation Order (Amendment) Order 2018 and approved the proposed reforms for consultation and approved its progression.

The PSPA considers that the proposed Amendment Scheme is one of a number of measures that have already been implemented across all schemes, which aim to make the Island's Public Sector Pension Schemes more sustainable. Given the feedback to the formal consultation, the PSPA will make the Teachers' Superannuation Order (Amendment) Order 2018 as consulted upon, effective from 1 April 2018, and will pass the Order through to June 2018 sitting of Tynwald for approval.

As part of the next steps the PSPA will introduce, via legislation, a formal Cost Sharing mechanism in the near future and representatives of the teaching unions, along with other unions, will in due course be given a draft of the Cost Sharing legislation for review and comment.

List of respondents to the Consultation

Treasury

NASUWT

National Education Union (NUT Section)

Mr MacGregor