PUBLIC SECTOR PENSIONS AUTHORITY

Response to the Consultation on Cost Sharing for Public Sector Pension Schemes

13 November 2019

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PART 1 – FOREWORD

The Public Sector Pensions Authority (PSPA) recently carried out a consultation exercise in relation to Cost Sharing for Public Sector Pension Schemes. The consultation period started on Wednesday 24 April 2019 and closed on Friday 24 May 2019.

The purpose of the consultation was to obtain views in relation to the principles of cost sharing that will be applied across all public sector pension schemes for which the PSPA has responsibility, with a view to finalising proposals to be included in the underpinning legislation.

It has always been recognised that cost sharing will form part of Public Sector Pensions, however, to date the PSPA hasn't established exactly how those provisions might work in practice.

Over the past two years the PSPA has been working closely with the Pensions Advisers from a number of Trade Unions including Unite, Prospect, the Royal Collage of Nurses and the British Medical Association and other key Stakeholders including Employing Authorities and Treasury.

From these discussions three possible options have been developed as to how cost sharing might work in practice. The purpose of the consultation exercise was to seek views on the three possible designs before finalising the detailed legislation which will underpin cost sharing for each Public Sector Pension Scheme.

The consultation closed on 24 May 2019.

In total 76 responses were received.

PART 2 - THE CONSULTATION EXERCISE

The consultation period started on Wednesday 24 April 2019 and closed on Friday 24 May 2019.

On the advice of the Cabinet Office Communications Team, detailed information was provided via internal consultation on the Isle of Man Government Consultation Hub, with a link to the consultation contained in the Chief Secretary's weekly notice to all staff. A reminder was sent to all staff on Friday 17 May 2019.

In addition the PSPA published a summary of the consultation on its website, which included a link to the Consultation Hub and trade union representatives and Tynwald Members were given advance notice of the consultation.

The consultation sought views upon:

- Three possible options for introducing cost sharing across all pension schemes, namely:
  - Option 1: the "2% of pay buffer" option – similar to the UK public sector pension cost sharing basis
  - Option 2: the "75% and 25% split of costs" –this option is essentially maintaining the status quo given it has formed part of the Unified Scheme, (Rule 83) since the scheme was introduced in 2012;
  - Option 3: Similar to Option 2, but with a small buffer built in, to offset any small changes in cost, therefore a combination of Options 1 and 2;

and

- The length of the Recovery Period that should be applied to "making good" any deficit or surplus on the cost of benefits earned to date based upon actual experience between cost sharing valuations.

The Responses

In all there were 76 responses in relation to the proposed options, with 8 being via e-mail and 67 via the consultation hub and one via letter.

Use of the Consultation Hub

In addition a significant level of feedback was received in relation to the use of the Consultation Hub. This was the first time the PSPA had used the Government's consultation Hub, having been encouraged to do so by the Cabinet Office Communications Team. This was as opposed to the Executive's previous consultation exercises based upon a Member Notice being issued via a separate "All Staff Bulletin". Comments included:

- The use of the weekly 'Message from Will' to alert Scheme Members about a consultation on such an important issues was in some people's view very poor, with a number of individuals stating they had missed the consultation notice as "they didn't bother reading the weekly bulletin".
- The content of the entry regarding cost sharing within the weekly notice was insufficient and did not reflect the importance of this issue.
- The link within the weekly bulletin wasn't very well highlighted.

Comments upon proposals

Of the responses received via the Consultation Hub there were 8 which stated that the individual had only chosen an option so that they had the opportunity to state that they did not agree with any of the options.

Having removed the general comments, received via e-mail and also the 8 responses via the consultation hub, the breakdown of responses was as follows:

- Option 1: "2% of pay buffer" option - 19 (31.1%)
- Option 2: the "75% and 25% split - 4 (6.6%)
- Option 3: "75/25 with small buffer" - 38 (62.3%).

Of the responses those in relation to Options 2 and 3 were from individuals. In relation to the responses regarding option 1, one was from the Isle of Man Trade's Council on behalf of their affiliated trade union members (including some TAG Group members), and two were from Teaching Unions, also on behalf of their members.

PSPA Comments

The PSPA wishes to thank all participants who engaged with the consultation and confirm that all of the contributions have been given full consideration

The PSPA has noted the adverse feedback received regarding the way in which people had been informed of the consultation which had primarily been via the weekly Internal Mail "A word from Will". The PSPA has determined that the next phase on consultation upon the final draft legislation will be carried out through following its established consultation methodology.

The PSPA reviewed each of the options set out in the consultation documentation and noted the feedback received. The PSPA has noted that despite working closely with the Trade Unions over a period of two years, that there appeared to be very little communication from the Unions to their members, and there were a number of individuals, including local Union Representatives – e.g. RCN) who were completely unaware that their Unions had been involved in discussions regarding Cost Sharing. The PSPA was concerned by this, and considered that in the next phase of consultation every effort must be made to encourage Trade unions to inform their members of the discussions that have taken place.

The PSPA is aware that the option which had been developed in conjunction with the Trade Unions was the 2% buffer with an 8 year recovery period.

However, despite this the PSPA has noted that of the responses received the largest number of individual responses favoured the 75%/25% with small buffer option. The PSPA also noted that this option was favoured by Treasury.

Whilst it could be argued that the responses received from all of the trade unions represent the views of the Members they represent, i.e. - several thousand members – given the general lack of awareness that Unions had been involved in the development of the 2% buffer option, the PSPA determined that it needed to consider the matter further before finalising Cost Sharing legislation. This would include:

- further dialogue at officer level with Treasury; and
- further discussions with the Trade Union Technical Advisory Group;

These were concluded in October 2019.

PART 3 - DECISION

The PSPA having concluded its deliberations has concluded that it will progress the option of the 75%:25% split with a small 0.5% of pay buffer. In reaching its decision the PSPA considered example cost variations under the two approaches so that they could study the potential impact of the 2% buffer option compared with the 75%/25% split option.

The table below demonstrates what some possible outcomes of a cost sharing valuation would be for:

- An example member at AO (Administrative Officer) grade on a salary of £28,556 showing the monthly increase in pension contributions relating to the percentage cost variation examples;
- Assuming total pensionable pay for all scheme members is currently around £273 million pa – examples showing the annual cash cost increase in today's terms if Government were to apply the percentage cost variation examples.

Cost variation (% of pay)	1%	1.5%	1.98%	2%	2.02%	5%	8%	10%
2% Buffer option								
Cost(or saving) to an AO member	0%	0%	0%	2% or £48 per month	2.02% or £48 per month	5% or £119 per month	8% or £190 per month	10% or £238 per month
Cost (or saving) to Govt.	1% =£2.73 million pa	1.5% =£4.10 million pa	1.98% =£5.41 million pa	0%	0%	0%	0%	0%
75%/25% split option								
Cost(or saving) to an AO member	0.75% or £18 per month	1.125% or £27 per month	1.485% or £35 per month	1.5% or £36 per month	1.515% or £36 per month	3.75% or £89 per month	6% or £143 per month	7.5% or £178 per month
Cost(or saving) to Govt.	0.25% =£0.68 million pa	0.375% =£1.02 million pa	0.495% =£1.35 million pa	0.5% =£1.36 million pa	0.505% =£1.38 million pa	1.25% =£3.41 million pa	2% =£5.46 million pa	2.5% =£6.82 million pa

As set out above, having carefully considered all the comments received as a consequence of the consultation and following the further discussions and consideration of the possible impacts the PSPA has determined that it will progress the 75%:25% split with a small 0.5% of pay buffer.

The PSPA has reached this decision based upon the following:

(a) The PSPA was of the view that the 75%/25% split option was true cost sharing within the meaning of the term and that any cost increases or savings would be shared on this basis between scheme members and employers/Government.
(b) In relation to the 2% buffer basis, the PSPA noted that if costs went above 2%, all of this cost change was placed on the scheme members, then this was not in fact cost sharing as Government would not be sharing any of the cost increase or saving.
(c) The PSPA concluded that the 75%/25% split basis is fairer on scheme members as the impact of any large cost increases (as demonstrated in the table above) would not fall entirely upon members and would therefore be lessened because employers/ Government were taking a 25% share of the cost change. If there was a significant

cost increase and all of this fell on members, the PSPA is concerned that members would not willingly bear all of the increase without Government accepting some of the share;

(d) The PSPA considers that the six year rather than three year cost sharing valuation period under the 75%/25% split option would give time for any required benefit or contribution changes to bed-in. It considered that a three year valuation period would mean almost continual discussions around possible changes and that one valuation would merge into the next.

In addition the PSPA has determined:

i. That the Recovery Period should remain at 8 years but should be tested by the actuaries at each cost sharing valuation to ascertain whether the average future working lifetime of scheme members remained at 8 years;

PART 4 - NEXT STEPS

The PSPA will now formalise the Cost Sharing Scheme legislation and carry out a three month consultation period with stakeholders.

The PSPA will seek to ensure as far as possible that all members, including those without access to email, receive notification of the consultation.

Taking account of the feedback received from the previous consultation process it is proposed that use will be made of the all government email; posters; provision of accessibility to hard copy versions; and the Government Internal Newsletter.

The PSPA will also seek to ensure that the message is distributed collectively to Trade Unions, and explore the possibility of notification of the consultation being included in payslips.

List of respondents to the Consultation

The Isle of Man Trades Council

2 Teaching Unions

58 Individual Responses