Consultation on the Public Sector Pensions (Cost Sharing) Scheme 2019

Commencement Date: 2 December 2019
Closing Date: 2 March 2020
CONSULTATION DOCUMENT

This Consultation Document is issued by the Public Sector Pensions Authority (the PSPA).

The (PSPA) was established under the Public Sector Pensions Act 2011 and is responsible for the Management and Administration of the majority of Public Sector Pension Schemes in the Island.

The purpose of the consultation is to obtain views in relation to the Public Sector Pensions (Cost Sharing) Scheme 2019 (the Cost Sharing Scheme) at Appendix 1 of this document.

This consultation document focuses on the detailed design of the Cost Sharing Scheme that is intended to implement the cost sharing mechanism to the Isle of Man Government Unified Scheme 2011 (The Unified Scheme).

The consultation period starts on Monday 2nd December 2019 and will close at midday on Monday 2 March 2020 when feedback will be considered by the PSPA and then the Council of Ministers before finalising the statutory documents for Tynwald approval soon after.

How to respond

This consultation exercise is designed to invite comments on the draft documentation which will need to be considered by Tynwald in order to make the Public Sector Pensions (Cost Sharing) Scheme 2019.

The PSPA would welcome your views.

Comments should be submitted by midday Monday 2 March 2020 in writing and preferably by email to:

Email: Feedback.PSPA@gov.im

Or in writing to:
Mrs Jane Mooney
Public Sector Pensions Authority
3rd Floor, Prospect House
27-29 Prospect Hill
Douglas ISLE OF MAN IM1 1ET

When submitting your views please indicate whether you are responding on behalf of an organisation or in a personal capacity. To ensure that the process is open and honest responses can only be accepted if you provide your name with your response. Unless specifically requested otherwise, any responses received may be published either in part or in entirety. Please mark your response clearly if you wish your response and name to be kept confidential. Confidential responses will be included in any statistical summary and numbers of comments received.

Electronic copies of this document are available on the Cost Sharing page of www.pspa.im
A summary of the responses received will be published after the closing date for this consultation and will be available on the PSPA website or by contacting the PSPA at the address or email above.

The purpose of this consultation is to gather views in order for the PSPA to finalise the Cost Sharing Scheme. As in any consultation exercise the responses received do not guarantee changes will be made to what has been proposed.

Any responses that the PSPA deem to be offensive or rude will be discounted.

**List of Consultees**

List of people and organisations consulted:

- Contributing pension scheme members
- Tynwald Members
- Attorney General’s Chambers
- Departments, Statutory Boards and Offices
- Public Services Commission
- Recognised registered Trade Union bodies representing IOM public sector staff

This consultation has been carried out in accordance with the Government’s Code of Practice on Consultation.

**Confidentiality and Data Protection**

The information you send may be published in full or in a summary of responses. All information in responses, including personal data, may be subject to publication or disclosure in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2015 and the Data Protection Act 2018).

If you want your response to remain confidential, you should explain why confidentiality is necessary. Your request will be acceded to only if it is appropriate in the circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding. The Authority is registered with the Information Commissioner as a data controller under Isle of Man data protection legislation.

The Authority collects and processes personal data to carry out its functions under relevant legislation and may share personal data with other parties where there is a legal basis for doing so. Further information on how the Authority collects and processes personal data can be found in the Privacy Policy on the Authority’s website.
1. **INTRODUCTION**

**Overview – what is cost sharing?**

1.1 The PSPA manages and administers the unfunded public sector pension schemes (the "pension schemes") in the Isle of Man, including the Isle of Man Government Unified Pension Scheme, The Police Pension Regulations 1991 and 2010, Teachers’ Superannuation Order 2011 and the Judicial Pension Scheme 2004. As part of the ongoing programme of ensuring that these pension schemes remain sustainable into the future, the PSPA is establishing a cost sharing mechanism for all schemes. This is a way of assessing on a regular basis how the costs of a scheme have changed over time. If costs have increased (or decreased), the cost sharing mechanism will then allow those cost increases (or decreases) to be shared between contributing active scheme members and the Government.

1.2 The future sustainability of public sector pensions is improved by putting in place a long term plan to identify and then manage future cost changes to the pension schemes. Therefore any cost changes will be identified and action taken at regular intervals to address them in a way that has not previously been in place. In the future, both contributing pension scheme members and Government will share the responsibility of ensuring the ongoing sustainability of the pension schemes.

**Is the introduction of cost sharing an option that can be rejected?**

1.3 This consultation does not cover the question of whether or not cost sharing should be introduced to our pension schemes. The introduction of cost sharing from 2020 has already been agreed and widely publicised to pension scheme members, as a way of ensuring the future sustainability of our schemes and has the support of the trade unions and Tynwald. This consultation is to inform you, as a contributing scheme member, how cost sharing will be applied to the Unified Scheme and not whether it will be introduced.

**Which Schemes does the Public Sector Pensions (Cost Sharing) Scheme 2019 (the Cost Sharing Scheme) apply to?**

1.4 Initially, the Cost Sharing Scheme legislation will apply only to the Isle of Man Government Unified Scheme 2011 and the Teachers Superannuation Order 2011. Given the structure and nature of the Police Pension Regulations 1991 and 2010 and also the Judicial Pension Scheme 2004, the PSPA will be conducting discussions with employee representative groups in the near future.

**Does cost sharing exist at the moment?**

1.5 There is already broad provision in the Unified Scheme rules for cost sharing to be applied but there is currently no detail as to how this will work in practice. The PSPA has therefore prepared this legislation, which provides the relevant detail and clarification for the Unified Scheme.
1.6 In the UK, unfunded public sector pension schemes have cost sharing provisions in order to improve sustainability and therefore the PSPA wishes to introduce similar provisions in the Isle of Man. The PSPA has always maintained that this would happen and cost sharing has formed part of the ongoing reform discussions with you and the local and UK union representatives. Therefore your union representatives in particular should be well aware that cost sharing is coming along and that it is required to ensure the ongoing sustainability of the current pension schemes. If they are not aware then they should consult with their union’s national HR and Pensions Advisors across who have already entered into previous discussions with the PSPA on cost sharing.

Will cost sharing apply to me?

1.7 Yes, if you are a contributing member of the Unified Scheme then the provisions of cost sharing as outlined in the Cost Sharing Scheme will apply to you once it is made. Government has always maintained that cost sharing will apply from 2020 and you may have already seen this date mentioned when other pension changes have been discussed.

How will cost sharing work?

1.8 The PSPA will work with its actuaries to assess on a regular basis (every six years and further details are provided later in this document) how the costs of pension schemes have changed. If a cost increase has, or is projected to, emerge then these increases will be shared between contributing pension scheme members and Government. The effect on scheme members will either be that future benefits are reduced or pension contributions are increased to take account of cost sharing.

1.9 It is important to note that the pension benefits that have been earned or built up to date will not be affected in any way. It is only the future benefits that will be reduced if a cost increase is determined.

1.10 Similarly, if a cost saving emerges; this will also be shared with scheme members either by a benefit improvement or a contribution decrease.

1.11 Which of these options will be taken forward will be determined by consultation between the PSPA, Government and employee representative organisations at the appropriate time.
2. WHAT IS THE PURPOSE OF THIS CONSULTATION DOCUMENT?

2.1 The PSPA has been working constructively with a group of your trade union pension specialists over a two year period to develop cost sharing proposals. In April and May 2019 the PSPA consulted on three possible options for a cost sharing mechanism and asked for comments from stakeholders on the three options. The consultation feedback document can be seen [here].

2.2 From the three options consulted upon, the trade unions favoured Option 1 (called the “2% of pay buffer” option) which was based on the cost sharing mechanism introduced for the UK unfunded public sector schemes with three-yearly reviews. However, feedback from individual scheme members and other stakeholders favoured Option 3 (called the “75% and 25% split of costs including a small buffer” option) with cost sharing reviews taking place every six years.

After very careful consideration and further discussions with the trade unions (who still favour option 1), the PSPA selected Option 3 as being the preferred cost sharing basis to be applied to all the Isle of Man public sector pension schemes.

The reasons for this decision are highlighted in the consultation feedback document.

2.3 As such, the PSPA will now introduce cost sharing in 2020, as planned and across all pension schemes managed by the PSPA.

The purpose of this further consultation document is to seek your feedback on the “Option 3” basis proposed by the PSPA as to how cost sharing will work in practice. The PSPA is also consulting upon the length of the “Recovery Period” for past service surpluses or deficits and this is explained later in this document.

The Public Sector Pensions (Cost Sharing) Scheme 2019 is attached to this document. It has been drafted by the PSPA, assisted by the Attorney General’s Chambers, and details the proposed final cost sharing legislation.

The PSPA is undertaking a 3 month consultation on these details of the Cost Sharing Scheme before cost sharing becomes fully operable via Tynwald approval.

Who may be affected by this Consultation Document?

2.4 This Consultation is relevant to:

- Contributing members of the Public Sector Pension Schemes which are managed and administered by the Public Sector Pensions Authority i.e. the Unified Scheme;
- Departments, Boards and Offices of Isle of Man Government and other Public Sector Employing Authorities;
- Members of Tynwald.
3. PROPOSAL

Summary

3.1 The PSPA is introducing cost sharing across all of the pension schemes it administers and manages. It therefore wishes to consult you on the proposed final design of a cost sharing mechanism in respect of the Unified Scheme before finalising the mechanism which will be put forward to Tynwald for approval later in 2020. A summary of the cost sharing proposal is as follows:

Cost Sharing – The “75% and 25% split of costs” proposal

3.2 Currently there is a cost sharing rule within the Unified Scheme. Within this existing rule (Rule 83), there is a provision that emerging cost variations as a result of a cost sharing valuation would be shared between scheme members and Government on a 75/25 split basis (75% members and 25% Government). This was consulted upon with members and other stakeholders and approved by Tynwald as part of the inception of the Unified Scheme in April 2012. Therefore, building upon what is already in the Unified Scheme rule cost sharing would work as follows:

a) A cost sharing valuation will be undertaken by the PSPA’s Actuaries every six years, the first full valuation being due in April 2022;
b) If costs are assessed by the Actuary at each cost sharing valuation as having risen, the cost increases will be shared 75% by scheme members and 25% by Government;
c) Similarly, any cost savings will be shared in the same 75%/25% proportion between scheme members and Government;
d) This effectively means that any cost increase or saving will be shared following each cost sharing valuation;
e) Cost sharing will mean either changes to member contribution rates or future benefits in line with a 75% share of the cost variation. Therefore, members would share 75% of any cost increase as well as 75% of any cost savings;
f) No changes to benefits or contributions as a result of a cost sharing valuation will be made without further consultation with scheme members and trade union representatives and then only after an amending scheme has been made, fully consulted upon by the PSPA and approved by Tynwald;
g) The requirement to follow this process is written into the Public Sector Pensions (Cost Sharing) Scheme 2019 and as such ensures that the Government and other stakeholders are obligated to review the results of the cost sharing valuation before any amending action is taken.
Two cost sharing examples are provided below:

**Example 1** – a cost sharing valuation shows a cost increase of 1.6% of pay. This is shared 75% with scheme members and 25% with Government. This means that scheme members would bear a cost increase of 1.2% of pay and Government would bear a cost increase of 0.4% of pay. The cost increase born by scheme members would take the form of a contribution increase equal to 1.2% of pay or, alternatively, a reduction to future benefits equivalent to the value of 1.2% of pay as calculated by the PSPA actuaries. Please note that it could also be a combination of adjustments to both contributions and future benefits;

**Example 2** - a cost sharing valuation shows a cost saving of 2.3% of pay. This is shared 75% with scheme members and 25% with Government. This means that scheme members would have a cost saving of 1.72% of pay and Government would have a cost saving of 0.58% of pay. The cost saving born by scheme members would take the form of a contribution reduction equal to 1.72% of pay or, alternatively, an improvement to future benefits equivalent to the value of 1.72% of pay as calculated by the PSPA actuaries. Please note that it could also be a combination of adjustments to contributions and future benefits.

**Important:** No reductions will be made to pension benefits accrue (built up) before cost sharing changes are made. Additionally, before any amendments are made there would be a full consultation with all relevant stakeholders by the PSPA.

On the above basis, cost sharing valuations will be undertaken every six years to recognise that changes to benefits and/or contributions are likely to arise which are costly to administer and difficult for members to absorb and plan for retirement. Also, this option follows the principles for cost sharing already established in the Unified Scheme rules and approved already by Tynwald.

**But what about very small cost changes – how would they be dealt with?**

3.3 To guard against very small cost changes being shared 75% with scheme members and 25% with Government, a small “buffer” of 0.5% of pay is contained in the Cost Sharing Scheme. Therefore, any cost variation which fell within a 0.5% of pay buffer would be absorbed by Government. Outside of the 0.5% buffer, the other provisions of cost sharing described in paragraph 3.2 above would then apply.
Other features of cost sharing - the “Recovery Period”

What is the Recovery period?

3.4 When the Actuaries perform a cost sharing valuation they will assess the expectation of cost changes for both future benefits as well as cost changes for those benefits already earned to date based on a set of assumptions. Both of these factors are taken into account for a cost sharing valuation. The cost of benefits earned to date is measured by the past service benefit liability i.e. broadly the value of pensions earned to date for active members of the schemes. Based upon actual experience between cost sharing valuations, there may be an increase or decrease in the past service benefit liability (called a past service deficit or surplus in actuarial terms). This may occur if, for example, pension scheme members are living longer than expected or if there have been more or less ill health retirements than expected. Any past service deficit which arises has to be recovered or “made good” over an agreed period as part of the cost sharing mechanism by increasing future member contributions or reducing future benefits (members’ benefits earned to date are not changed). Similarly any past service surplus which arises also has to be addressed by reducing member contribution rates or increasing future benefits.

Why is the Recovery Period important?

3.5 The period over which any deficit or surplus is recovered under the cost sharing mechanism is called the Recovery Period and this is expressed as a time period, usually a number of years. This is important as the length of the Recovery Period determines how quickly any deficit or surplus is recovered. A short Recovery Period generally means that the surplus or deficit is recovered more quickly which means that a greater change is required to member contributions or future benefits compared to a longer Recovery Period, where the surplus or deficit is recovered at a slower rate.

3.6 In order for cost sharing to work as envisaged, which is primarily to ensure the future sustainability of the pension schemes, the Recovery Period must be set at such a level that any significant deficits in particular are recovered relatively quickly and shared appropriately between Government and members. If this doesn’t occur and deficits are spread over a long period such that Government continues to bear a significant proportion of cost variations, then the PSPA is concerned that the cost sharing mechanism will not work properly with the result that the pension schemes will not be sustainable for the Government to continue to provide.

What is the proposal for the Recovery Period within the Public Sector Pensions (Cost Sharing) Scheme 2019?

3.7 The initial proposal put forward by the PSPA was for a Recovery Period of 3 years for past service deficits (or surpluses). Within the UK public sector schemes the Recovery Period for the cost sharing mechanism is 15 years. In UK
private sector schemes the cost sharing Recovery Period is generally between 7 and 8 years.

3.8 After due consideration the PSPA decided to set a Recovery Period which would reflect the average future working lifetime of its pension scheme members. This approach is so that anyone who had been in a scheme which had given rise to a deficit (or surplus), should be accountable for its recovery (or should be able to benefit if a surplus is revealed) whilst they are still contributing members of the scheme, and this should not be passed onto future scheme members.

3.9 The PSPA wishes to implement a Recovery Period of 8 years across all pension schemes, as this reflects the current average future working lifetime of pension scheme members. This is a significant improvement for pension scheme members from the original 3 years proposed. The PSPA wishes to introduce a viable cost sharing mechanism and believes that an 8 year Recovery Period is appropriate for both the members and Government. However, the length of the Recovery Period will be reviewed as part of each cost sharing valuation to establish if the actual experience of our schemes has changed in between valuations.

3.10 To try and illustrate the impact of the choice of a Recovery Period on a cost sharing exercise, two very simplistic examples are set out below:

**Example 1** – a cost sharing valuation of a pension scheme with a payroll of £250 million shows a deficit in costs of £25 million. This is to be recovered over an 8 year period. The cost to recover the deficit over an 8 year period is equivalent to 1.3% of pay. This means the cost of the scheme would rise by 1.3% of pay.

**Example 2** – a cost sharing valuation of a pension scheme with a payroll of £250 million shows a surplus in costs of £40 million. This is to be distributed over an 8 year period. The cost to distribute the surplus over an 8 year period is equivalent to 2.0% of pay. This means the cost of the scheme would fall by 2.0% of pay.

3.11 The above examples are sensitive not only to the Recovery Period but also to the size of any deficit/surplus and the total pension scheme payroll. The payroll used in these examples is close to the pension scheme’s total payroll at the 2016 formal valuation. To help put the example deficit/surplus figures into context, the past service liabilities in respect of active members of the pension schemes at the 2016 formal valuation were equal to around £1,100 million. A further actuarial valuation of schemes will take place as at April 2019.

4. **NEXT STEPS**

4.1 The PSPA would welcome your views on the Public Sector Pensions (Cost Sharing) Scheme 2019.
4.2 Following closure of the consultation period, the PSPA will review the responses received and publish a Consultation Response document on the Authority’s website. The PSPA will then finalise a Cost Sharing Scheme for consideration by the Council of Ministers and subject to its approval, progression to Tynwald for its approval, probably in April or May 2020.
PUBLIC SECTOR PENSIONS (COST SHARING) SCHEME 2019
# PUBLIC SECTOR PENSIONS (COST SHARING) SCHEME 2019

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Public Sector Pensions Act 2011

PUBLIC SECTOR PENSIONS (COST SHARING) SCHEME 2019

Approved by Tynwald: xx xxxxx xxxxx
Coming into operation in accordance with article 2

The Public Sector Pensions Authority makes the following Order under section 6(1)(c) and (d) of the Public Sector Pensions Act 2011.

1 Title
This Scheme is the Public Sector Pensions (Cost Sharing) Scheme 2019.

2 Commencement
If approved by Tynwald, this Scheme comes into operation on [xxxxx].

3 Interpretation
(1) In this Scheme “the relevant Schemes” means the pension schemes constituted, in respect of the Island, by —
(a) the Isle of Man Government Unified Scheme 2011; and
(b) the Teachers’ Superannuation Order 2011.

(2) In this Scheme —
“active member” has the meaning given in section 124(1) of the Pensions Act 1995;
“cost cap” has the meaning given in article 7(1);
“cost cap accrual adjustment” means the adjustment to be applied to all active members’ future benefit accrual rate after the cost sharing valuation;
“cost cap assumptions” means the assumptions approved by the PSPA on the recommendation of the Scheme Actuary for the purpose of the cost sharing valuation;

1 Any changes to member benefits that arise from the cost sharing valuation (see articles 4 and 6) will be designed to bring the employer cost of the scheme back into line with the cost cap;
“cost cap contribution rate” means the cost cap future service rate plus the cost cap past service cost;

“cost cap employer contributions” means the notional contributions payable by an employing authority equal to the cost cap.

“cost cap fund” means the notional asset value against which future costs of the scheme is to be assessed for cost sharing purposes, determined —
(a) for the period commencing on 1 April 2016 by reference to the initial cost cap liabilities at the effective date; and
(b) for each subsequent three-year period, by reference to the cost cap liabilities at the end of the immediately preceding period.

“cost cap future service rate” means the cost of benefits accruing over the 1 year period (using the projected unit method) from the cost sharing valuation date on the assumption that all active members accrue benefits in the standard section of the scheme.

“cost cap leaver liabilities” means liabilities relating to an active member who—
(a) retires; or
(b) ceases to be an active member during the period following the previous cost sharing valuation, determined on the cost cap assumptions applying to that valuation;

“cost cap liabilities” means the value of the past service liabilities (using the projected unit method) at the cost sharing valuation date, assessed on the assumption that all active members have been in the standard section of the scheme;

“cost cap margin” means the margin of ±0.5% of pensionable pay either side of the cost cap.

“cost cap member contributions” means contributions payable by members, assuming all active members participate in the standard section of the Scheme.

“cost cap notional investment returns” means the assumed notional return on the notional cost cap fund, expressed as a monetary amount and determined using a return assumption equal to the discount rate in the cost cap assumptions at the previous cost sharing valuation, adjusted to allow for —
(a) cost cap total contributions,
(b) cost cap transfer payments, and
(c) cost cap leaver liabilities.

“cost cap past service cost” means the annual contribution, expressed as a percentage of pensionable pay, required to eliminate the cost cap surplus or deficit over an eight year period. [ “cost cap surplus or deficit ”
means the difference between the value of the cost cap fund and the cost cap liabilities at the cost sharing valuation date.

“cost cap total contributions” means the sum of the cost cap employer contributions and cost cap member contributions.

“cost cap transfer payments” means past service liabilities relating to any active member who transfers service into the Scheme from another scheme or who is able to (under the Rules of their Scheme), and chooses to, amalgamate a prior period of Scheme service to a current record. The liabilities will be determined on the cost cap assumptions as at the previous cost sharing valuation.

“cost change amount” means the difference between the cost cap contribution rate and the cost cap.

“cost sharing membership data” means membership data provided by the PSPA to the Scheme Actuary for the purpose of the cost sharing valuation.

“cost sharing valuation” means the valuation carried out to measure the changes in cost for the purpose of the Scheme’s cost sharing mechanism;

“cost sharing valuation date” means the calculation date of the cost sharing valuation;

“effective date” means the 31 March 2016;

“employing authority” means:
(a) the employer of a public sector employee; or,
(b) if the Scheme member is the holder of a public office, means the person for the time being paying the remuneration of the member; or
(c) if the employee is a person whose employment has been transferred under the terms of an admission agreement means the organisation which has entered into the admission agreement with the PSPA.

“reform date” means —
(a) in relation to the Isle of Man Government Unified Scheme 2011, 1 April 2012; and
(b) in relation to the Scheme provided by the Teachers’ Superannuation Order 2011, 1 January 2007;

“Scheme” means the relevant Scheme, which is subject to the cost sharing valuation being carried out in accordance with this Scheme.

“Scheme Actuary” means the Actuary appointed by the PSPA for the time being to provide a consulting service on actuarial matters relevant to the Scheme;
“standard section” means the section of the Scheme which applies to new joiners.

4 Actuarial Cost Sharing Valuation

(1) The PSPA must, at least once every six years, instruct the Scheme Actuary to carry out an actuarial valuation of the Scheme for cost sharing purposes.

(2) The cost sharing valuation date for the first cost sharing valuation is to be the effective date.

(3) The valuation is to be based upon actuarial assumptions approved by the PSPA, having taken the advice of the Scheme Actuary and following consultation with Treasury, as set out in Schedule 1 to this Scheme.

(4) The cost sharing valuation date of each subsequent cost sharing valuation is to be determined by the PSPA, but must be no later than six years after the valuation date of the previous cost sharing valuation.

5 The first cost sharing valuation

(1) The first cost sharing valuation is to be determined on the basis of cost sharing membership data at the effective date.

(2) The initial value of the cost cap liabilities is the value of the past service liabilities for active members in force as at the effective date, determined using the cost cap assumptions.

In addition—

(a) all service accrued on or before the effective date is to be taken into account in the calculation;

(b) all active members are to be assumed to have accrued service in the standard section of the Scheme in force after the reform date.

(3) The initial value of the cost cap fund must equal the initial value of the cost cap liabilities as at the effective date.

(4) The cost cap must equal the cost cap future service rate assessed at the effective date.

6 Second and subsequent cost sharing valuations

(1) This article applies to the second and subsequent cost sharing valuations.

(2) The valuations to which this article relates must take place based on cost sharing membership data as at the cost sharing valuation date.

(3) For each of the valuations to which this article relates, the cost cap liabilities are equal to the value of the past service liabilities for those members who are active at the cost sharing valuation date, determined using the cost cap assumptions.
In addition,

(a) all past service accrued on or before the cost sharing valuation date is to be taken into account in the calculation;
(b) all past service of active members at the valuation date is to be assumed to have accrued in the standard section of the Scheme in force after the reform date.

(4) The cost cap fund at the date of a cost sharing valuation (other than the first) is the sum of —

(a) the value of the cost cap fund at the previous cost sharing valuation;
(b) the cost cap notional investment returns;
(c) the cost cap total contributions; and
(d) the cost cap transfer payments;

less the cost cap leaver liabilities.

(5) The cost cap surplus or deficit (as the case requires) is the difference between the value of the cost cap fund and the cost cap liabilities at the cost sharing valuation date.

(6) The cost cap contribution rate is to be assessed at the valuation date as the following—

(a) the cost cap future service rate, plus
(b) the cost cap past service rate.

The cost cap contribution rate must be adjusted in accordance with the requirements set out in paragraph 3 of Schedule 1 to this Scheme.

(7) If the cost cap contribution rate is higher than the cost cap plus the cost cap margin, then the cost change amount must be set equal to the difference between the cost cap contribution rate and the cost cap.

(8) If paragraph (7) applies, the cost cap accrual adjustment is equal to the percentage adjustment to be applied to the future benefit accrual rate to bring the cost cap contribution rate back into line with the cost cap.

(9) If the cost cap contribution rate is lower than the cost cap minus the cost cap margin, then the cost change amount rate must be set equal to the difference between the cost cap contribution rate and the cost cap.

(10) If paragraph (9) applies, the cost cap accrual adjustment is the percentage adjustment to be applied to the future benefit accrual rate to bring the cost cap contribution rate back into line with the cost cap.

(11) If the PSPA determine to implement the cost cap accrual adjustment, the accrual rate for benefits accrued from the date coinciding with two years following the cost sharing valuation date is to be adjusted in line with the cost cap accrual adjustment.
7 Reporting

(1) The cost cap for each scheme is to be determined by the Scheme Actuary as a percentage of the pensionable pay of members of the scheme.

(2) The Scheme Actuary must provide the results of each cost sharing valuation in a report to the PSPA, which must —
   (a) outline the cost sharing valuation results in the way set out in this rule,
   (b) include an analysis of the reasons for any change in the cost cap contribution rate since the previous cost sharing valuation; and
   (c) include a statement to that effect if the cost sharing valuation shows that the cost change amount is outside the cost cap margin.

8 Action required by the PSPA following each cost sharing valuation

(1) After each cost sharing valuation the PSPA must take the steps required by paragraphs (2) to (6).

(2) The PSPA must determine whether any of the costs identified in the Scheme Actuary’s report should not be shared between the active members and the employing authorities.

(3) Any costs that are to be shared shall be apportioned as follows —
   (a) 75% being payable by Active Members; and
   (b) 25% being payable by Employing Authorities

(4) If a statement under rule 7(2)(c) is included in the Scheme Actuary’s report the PSPA must form a committee under paragraph 4(1) of Schedule 2 to the Statutory Boards Act 1987, comprising representatives of Scheme active members and the officers of the PSPA and chaired by a member of the PSPA —
   (a) to consider the matter; and
   (b) report to the PSPA on how the cost change amount apportioned to Active Members is to be met.

(5) The PSPA must consider the report and determine the means by which the cost change amount apportioned to Active Members is to be met, and before doing so must, so far as possible, seek the agreement of the committee constituted under paragraph (3).

(6) In acting under paragraphs (4) and (5), the PSPA must specify the date before which —
   (a) the advice must be provided; and
   (b) agreement must be reached.

9 No agreement reached

(1) This rule applies if no agreement is reached as mentioned in rule 8.
(2) If the cost cap contribution rate is above the cost cap plus the cost cap margins the PSPA must adjust the accrual rate for future service so as to achieve the cost cap.

(3) If the cost cap contribution rate is below the cost cap plus the cost cap margins, following consultation with Treasury and having taken advice from the Scheme Actuary, the PSPA may reduce member contributions by an amount that brings the cost cap contribution rate in line with the cost.

10 Approval mechanism

(1) Following the determination of the cost change amount —

(a) the PSPA must consider options for addressing the cost change amount either —

(i) under an agreement under Rule 8 or
(ii) an adjustment under Rule 9.

(b) after consultation with the Scheme Actuary, the Treasury, scheme members and their representative organisations, the PSPA must prepare amending legislation which requires one or more scheme changes to be made to eliminate the Cost Change Amount;

(c) subject to paragraph (e) any change to Member contribution levels arising from the Cost Change Amount and included in the amending legislation in sub-paragraph (b) must be implemented over a period of no more than eight years;

(d) subject to paragraph (e) any changes identified in (c) is to be restricted to an increase of 1% of pensionable payroll per year, until the revised contribution level is reached within the eight year period;

(e) if there is an increase in contribution levels arising from (c) above which in the opinion of the PSPA is significant and cannot be addressed by a 1% increase per annum over the eight year period, the increases will be apportioned equally over the eight year period.

(2) An agreement under Rule 8 or an adjustment under Rule 9 may not be implemented unless—

(a) the Scheme Actuary certifies that the agreement or adjustment (as the case may be) will have the effect of enabling the scheme to meet the Cost Cap; and

(b) Tynwald approves amending legislation prepared under paragraph (1)(b) of this Rule.
11 Schedules 2 and 3

(1) Schedule 2, which contains minor and consequential amendments, has effect.

(2) Schedule 3, which contains the new Schedule 2A to be inserted into the Teachers Pensions Regulations 2010 (of Parliament) as applied to the Island, has effect.
SCHEDULE 1

ACTUARIAL ASSUMPTIONS

[Rule 4]

1 Assumptions

(1) All assumptions used for the purpose of the cost sharing valuation must—
   (a) be determined by the PSPA, having taken advice from the Scheme Actuary;
   (b) be determined following such consultation with the Treasury as the PSPA considers appropriate;
   (c) represent the PSPA’s best estimates and not deliberately include margins for prudence or optimism;
   (d) be determined with regard to—
       (i) assumptions used in previous triennial valuations and cost sharing valuations;
       (ii) the analysis of demographic experience prepared in accordance with paragraph 2 of this Schedule;
       (iii) relevant data from any other source (including relevant data that becomes available after the effective date);
       (iv) any emerging evidence about historic long term trends; and
       (v) any emerging evidence that may illustrate long term trends expected in the future.
   (e) include assumptions about—
       (i) the rate of future income growth of the IoM Government;
       (ii) the rate of future IoM Government staff inflationary pay increases;
       (iii) rate of future IoM Government staff promotional pay increases;
       (iv) rate of future benefit revaluation;
       (v) rate of future pension increases;
       (vi) new entrant profiles;
       (vii) mortality rates (both baseline and future improvements);
       (viii) age retirement rates;
       (ix) commutation;
       (x) rates of early and late retirements;
(xi) rates and severity of ill health retirements;
(xii) members’ dependants; and
(xiii) withdrawals.

(2) Before it determines the assumptions to be used for purpose of the cost sharing valuation, the PSPA must consult the representatives of Scheme Members about the proposed assumptions.

2 Analysis of demographic experience

(1) Where Scheme membership data is sufficient for the Scheme Actuary to carry out a robust analysis of the demographic experience of the scheme, then the valuation report must include a summary of that analysis of the demographic experience up to the effective date (for the first cost sharing valuation) and the inter-valuation period (for the second and subsequent cost sharing valuations) covering the following aspects—

(i) promotional pay increases;
(ii) new entrant profiles;
(iii) mortality rates;
(iv) age retirement rates;
(v) take up of commutation options;
(vi) rates of early and late retirements;
(vii) rates and severity of ill health retirements;
(viii) members’ dependants;
(ix) withdrawals; and
(x) any other aspects that the Scheme Actuary considers to be relevant.

(2) Where the scheme membership data is not sufficient for the Scheme Actuary to carry out a robust analysis of any aspect, then the valuation report must include a statement to that effect.

3 Sources of cost differences

(1) The cost sharing valuation report must include an analysis of any noticeable differences between actual and assumed experience or a change in assumptions relating to:

(a) average age of members;
(b) expected member contribution yield;
(c) inflationary pay increases;
(d) promotional pay increases;
(e) new entrant profiles;
(f) mortality rates;
(g) age retirement rates;
(h) take up of commutation options;
(i) rates of early and late retirements;
(j) rates and severity of ill health retirements;
(k) members’ dependants;
(l) withdrawals; and

(m) any other reason which appears to the Scheme Actuary to be relevant.

(2) Any change to the cost cap contribution rate attributable to the above items must be reflected in the cost cap change amount.

(3) Any differences between actual and assumed experience or a change in assumptions relating to any other factor are not to be included in the cost cap change amount.
SCHEDULE 2

CONSEQUENTIAL AND MINOR AMENDMENTS

[Article 11(1)]

PART 1 — THE ISLE OF MAN GOVERNMENT UNIFIED SCHEME 2011

1 Amendments to the Isle of Man Government Unified Scheme 2011

The Isle of Man Government Unified Scheme 2011 is amended as follows, and in this Part of this Schedule a reference to a numbered Rule is a reference to the Rule in the Schedule to that Scheme which is so numbered.

2 Title of the Scheme: article 1 amended

For the text of article 1 substitute—

«This Scheme is the Isle of Man Government Unified Scheme 2011.».

3 Employing authorities’ contributions: rule 24 amended

(1) In rule 24(1) for “Rule 83 (Cost Sharing) substitute «the Public Sector Pensions (Cost Sharing) Scheme 2019».

(2) For rule 83 substitute—

«83 Cost Sharing

83.1 The provisions of the Public Sector (Cost Sharing) Scheme 2019 apply to all Members of this Scheme or Members of a Section or Sections of this Scheme.

83.2 After making a determination under the Public Sector (Cost Sharing) Scheme 2019, the Public Sector Pensions Authority must amend this Scheme in respect of one or more of the following—

(a) member contributions payable under Rule 26;

(b) employing authority contributions payable under Rule 24; and

(c) the level of Benefits paid under Rule 31.».».
PART 2 — THE TEACHERS’ SUPERANNUATION ORDER 2011

4 Further amendment of the Teachers’ Superannuation Order 2011

The Teacher’s Superannuation Order 2011 (”the 2011 Order”) is further amended as follows.

5 Amendment of Article 4

In article 4 for “Schedule 2” substitute «Schedules 2 and 2A».

6 Particular modifications of the Teachers’ Pensions Regulations (SI 2010/990): Part 2 of Schedule 2 to the 2011 Order

(1) In Schedule 2, after paragraph 38 insert —

«38A. For regulation 128 (actuarial review)² substitute —

“128 Cost sharing valuation

The PSPA must from time to time instruct the Scheme Actuary to carry out a Cost Sharing Valuation in accordance with the Public Sector (Cost Sharing) Scheme 2019.”.

(2) After paragraph 43 insert —

«43A. For Schedule 3 substitute the Schedule set out as Schedule 2A to this Order.».

(3) After Schedule 2 insert (as Schedule 2A) the Schedule contained in Schedule 3 to this Scheme.

² Regulation 128 was revoked in the UK with effect from 1 April 2013 by regulation 4 of S.I. 2013/275, but formed part of the applied regulations at the time of their application to the Island.
Schedule 3

SCHEDULE 2A TO BE INSERTED INTO THE 2011 ORDER

[Article 11(2)]

«SCHEDULE 2A

SCHEDULE TO BE SUBSTITUTED FOR SCHEDULE 3 TO THE APPLIED REGULATIONS

[Article 4]

“SCHEDULE 3

EMPLOYEES’ AND EMPLOYERS’ CONTRIBUTIONS

1 Interpretation

In this Schedule—

(a) “the 2019 Scheme” means the Public Sector (Cost Sharing) Scheme 2019.

(b) “contribution period” is—

(i) in the case of the initial contribution period, the period beginning on 1 April 2016 and ending on 31 March 2019; and

(ii) in the case of a subsequent contribution period, a period of three years beginning on 1 April in one year and ending on the day preceding the commencement of the next period, so that all periods (including the initial contribution period) run consecutively;

(c) “the initial contribution period” means the contribution period which is current when the 2019 Scheme came into operation;

(d) “the contribution rate” for any contribution period is the percentage specified by the PSPA for that period under paragraphs 2 or 3 of this Schedule.

2 Employees’ contributions

(1) The percentage rate of employees’ contributions is determined in accordance with this paragraph unless paragraph 3 applies.

(2) The percentage rate for an employee’s contribution under regulation 18 (teachers’ ordinary contributions) is—
(a) for each month during which the employee is in full-time pensionable employment, the rate set out in the table which is applicable to the employee’s annual contributable salary for that month; and

(b) for each month during which the employee is in part-time pensionable employment, the rate set out in the table which is applicable to the full-time equivalent of the employee’s annual contributable salary for that month.

<table>
<thead>
<tr>
<th>Annual contributable salary</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below £15,000</td>
<td>6.4%</td>
</tr>
<tr>
<td>£15,000 to £25,999</td>
<td>7.2%</td>
</tr>
<tr>
<td>£26,000 to £31,999</td>
<td>8.3%</td>
</tr>
<tr>
<td>£32,000 to £39,999</td>
<td>9.5%</td>
</tr>
<tr>
<td>£40,000 to £44,999</td>
<td>9.9%</td>
</tr>
<tr>
<td>£45,000 to £74,999</td>
<td>11.0%</td>
</tr>
<tr>
<td>£75,000 to £99,000</td>
<td>11.6%</td>
</tr>
<tr>
<td>£100,000 and above</td>
<td>12.4%</td>
</tr>
</tbody>
</table>

(3) The percentage rate for each subsequent contribution period is the contribution rate for that period determined by the PSPA under the 2019 Scheme.

3. Employees’ contributions after cost sharing determination

This paragraph applies, in relation to each contribution period after the initial contribution period, where the PSPA has made a determination under the 2019 Scheme and where this paragraph applies the percentage rate of employees’ contributions shall be determined in accordance with the 2019 Scheme.

4. Percentage rate for employers’ contributions

(1) This paragraph specifies the percentage rate of employers’ contributions.

(2) The percentage rate for the initial contribution period is 15.0%.

(3) The percentage rate for subsequent contribution periods must be determined by the PSPA [before the commencement of each such period]

(4) Before making a determination under subparagraph (3) the PSPA must—

(a) seek the advice of the Scheme Actuary and

(b) consult the Treasury.”
EXPLANATORY NOTE

(This note is not part of the Scheme)

This Scheme sets out the mechanisms and procedures which the Public Sector Pensions Authority (“the PSPA”) will apply to secure a better balance between contributors and beneficiaries. The Scheme does not, of itself, effect any changes to the entitlements of either existing or prospective beneficiaries, but provides the means for the PSPA to check whether changes may be necessary. Any such changes will be effected by separate legislation subject to the approval of Tynwald.

Articles 1 to 3 deal with citation, commencement and interpretation.

Article 4 and Schedule 1 deal with the actuarial assumptions to be applied for the purposes of computing the various amounts which are relevant for the purposes of making cost sharing valuations. Articles 5 and 6 contain rules about the first and subsequent cost sharing valuations.

Article 7 deals with the Scheme Actuary’s duty to report on the state of the assets and liabilities of the two relevant pension schemes, namely the Isle of Man Government Unified Scheme 2011 and the Teachers’ Pensions Regulations 2010 (as applied to the Island in 2011 by the Teachers Superannuation Order 2011). Articles 8 to 10 deal with the steps which need to be taken following the completion of cost sharing valuation under article 7.

Article 11 gives effect to Schedule 2, which makes consequential and minor amendments to the two Schemes mentioned in the preceding paragraph (in the case of the Teachers’ Pension Scheme 2010 in its application to the Island by virtue of the 2011 Order) while Schedule 3 inserts a new Schedule 2A into the 2011 Order. Schedule 2A inserts a new Schedule 3 into the 2010 Scheme in its application to the Isle of Man.