

Isle of Man Public Sector Pensions FAQ

Last month the Public Sector Pensions Authority (PSPA) issued an update to scheme members to advise them of developments in relation to public sector pension reform.

The update contained links to two reports that Tynwald will consider this month: one from the Public Sector Pensions Authority (PSPA) on the fairness and sustainability of current arrangements and one from the Cabinet Office on addressing historical liabilities built up in the past.

If these reports are accepted by Tynwald, further work on reform will be undertaken with scheme changes anticipated from April 2017.

As members would expect, Prospect engaged fully in the consultation process established after the 'Fairness and Sustainability' report was published in December 2014. A lot of progress has been made and the framework outlined in the reports to be considered by Tynwald has the potential to put public sector pensions on a sustainable footing.

However Prospect could not recommend the detail of the final changes to members because we feel that the member contribution increases and benefit reductions impose too great a share of the burden of achieving long-term sustainability on scheme members.

Many members have raised questions about the detail of the proposals, the process that will be undertaken and Prospect's position. This FAQ document addresses the main questions raised to date. Please email gus@prospect.org.uk if you have other questions not covered here.

The Isle of Man Government Unified Scheme (GUS) was only established in 2012. How can it need radical reform already?

The establishment of GUS did not put public sector pension provision on a long-term sustainable footing. This was pointed out by Prospect at the time. The Island's financial position means these issues cannot be ducked or fudged any longer. Independent reports by the Government Actuary's Department and First Actuarial have verified the underlying funding position. Prospect's Pension Officer is satisfied that the situation requires action to rectify the position. The failure of the previous reform to resolve the issues it should have addressed makes it all the more necessary that members are given confidence that the current process will do so.

Will these reforms put public sector pensions on a sustainable footing?

The principles underpinning the reforms have the potential to put public sector pension provision on a long-term sustainable footing. This is because (1) there will be a mechanism to ensure the cost of ongoing pension accrual remains at a level agreed to be sustainable (2) there is a plan to deal with historical liabilities built up in the past for the first time (3) the scheme will remain attractive to current and future members ensuring there is a future source of contributions to pay benefits. No plan is fool-proof and circumstances can change but at least the principles underpinning the latest proposals aim for a sustainable future.

What is Prospect's position?

As a democratic organisation it will be for Prospect members to decide whether to accept the proposals or not and what to do in the event that unacceptable proposals are imposed. To date Prospect's elected representatives felt unable to recommend the detail of the proposals to members. This is because, despite the progress achieved so far, they felt that the member contribution increases and benefit reductions impose too great a share of the burden of achieving long-term sustainability on scheme members.

What will be the impact of the proposals be on members?

The changes will impact members of GUS in two main ways: (1) member contributions will eventually be 2.5% of pay higher after a phasing-in period and (2) benefits accrued in the future will be worth approximately 6% than the current arrangements.

Can you provide an illustration of how the benefit changes will impact my pension in retirement?

No. There is no detail on what benefit changes will be made. Different changes would impact members in different ways. When there is further detail available Prospect will be able to illustrate what the impact will be on members. It is important to note that the pension already built up is protected; the reduction applies to future service only. Someone with, for example, 39 years' service in the current arrangements and 1 year of service post change would only see a 6% reduction on the value of the pension built up in that last year and no change in the value of the service built up in the previous 39 years; overall an average reduction in benefits of just 0.15% compared to current levels would be expected for someone in this position. Someone with 20 years' service before the changes and 20 years' service afterwards would see an expected reduction in total benefits (all else being equal) of about 3%.

Should I leave the pension scheme?

Prospect cannot offer financial advice but this would appear to be a very counterproductive step. There are no concrete changes being proposed that leaving the scheme or drawing a pension would appear to protect members from. While some of the suggestions mentioned by the PSPA may impact on pension already built up through the commutation rate or the definition of final pensionable pay these are only suggestions and they may not feature in the final detailed proposals. Leaving the scheme would mean losing out on valuable benefits.

Are the proposed changes legal?

As with the introduction of GUS in April 2012 it is unlikely that there will be legal grounds to challenge the final proposals.

Prospect described the proposals as "worse than proposed in the 'Fairness and Sustainability' report". What did you mean by that?

While a lot of progress has been made in the process undertaken since that report was published, looked at in the narrow terms of the value of benefits accrued, the current proposals are actually worse than those underpinning 'Fairness and Sustainability' because the overall "cost envelope" (the value of benefits being accrued expressed as a percentage of pensionable pay) is lower. Prospect's expectation was that the "cost envelope" underpinning 'Fairness and Sustainability' would be a starting point for negotiation and that the final proposals would represent an improvement.

What is Prospect looking for?

In the first instance, Prospect wants to negotiate the detail of changes to members' pensions.

The current proposals emerged from a technical advisory group. Prospect does not dispute that the proposals have the potential to put public sector pensions on a long-term, sustainable footing but Prospect wants to negotiate on the detail of the proposals to achieve improvements that would allow us to recommend changes to members.

The types of improvement to the proposals that Prospect is looking for are:

- A commitment to negotiating final proposals that involve an initial "cost envelope" that is at least the same as that underpinning 'Fairness and Sustainability'.
- Protecting important elements of pension scheme design such as pension ages and commutation rates by focusing benefit changes on accrual rates.
- Fair transition and protection arrangements to minimise the impact of increases in member contribution rates – particularly to protect the lowest earners.
- Future "cost-sharing" on the basis of the 1:2 cost ratio underpinning the proposals in the PSPA report with a commitment for no further changes outside this mechanism for 25 years.

Has Prospect's Pension Officer agreed these changes?

No. Prospect's Pension Officer was part of the technical group that produced the proposals. For the reasons outlined above he believes that the principles underpinning the proposals have the potential to produce a long-term sustainable solution. It was not the technical group's role to agree changes or to even make an assessment of whether proposals would be acceptable to members or not. In Prospect's case it fell to elected representatives to form a view on whether they felt they could recommend the proposals to members. They felt they could not because they viewed the changes as being weighted too far towards member contribution increases and benefit reductions. Ultimately it will be for Prospect's members to decide its position on this issue.

Can existing members be protected from changes?

The scale of the challenge means "no change" is not an option and it is difficult to devise a solution that exempts large groups from aspects of the proposals. There is a form of protection in

that benefits already built up will not be changed and those in the scheme longest will benefit most from this. Prospect will push for the maximum possible mitigation of detrimental changes.

Will contribution increases be across the board or pro-rata to current levels?

The proposal is for a 2.5% increase across the board (after phasing-in arrangements are completed).

I opted to pay higher contributions to protect the level of benefits I received. What happens to this protection now?

The higher contributions still qualify members paying them for higher benefits. In most cases the expected level of extra benefit is higher than the extra contribution paid by the member.

Will this extra contribution for protection cease after the changes are brought in?

No, the extra contribution will still qualify members for additional benefits and hence will remain. Members can opt to pay at the lower level but anyone considering this should take financial advice because the impact on benefits could well be greater than any savings in contributions.

What does "cost envelope" mean?

This is a relatively simple concept to put the value of pension scheme membership into context. The "cost envelope" is the average value of pension accrued by a member in a given year expressed as a percentage of salary. So if the "cost envelope" is 20% this means that the value of the pension accrued that year is equivalent to 20% of salary. Of course the actual value of the pension will depend on longevity and other factors so the "cost envelope" is an estimate based on assumptions.

What does Prospect want members to do?

You are Prospect. If you want to secure improvements to the proposals you will have to take action. Prospect officials will inform members and undertake lobbying efforts but these efforts will not have any impact if they are not backed up by the actions of members. At this stage Prospect is calling on members to:

- Recruit a colleague; there is strength in numbers, the more members we have the louder our voice will be.

- Get informed and help us dispel myths about public sector pensions (see our [myth buster](#)).
- Give your feedback on the proposals to the PSPA (Feedback.PSPA@gov.im).
- Write to your MHK about the proposals and the impact they will have on your finances and plans for the future. In particular ask your MHK to review and improve the cost envelope which is fairer to workers, and ensures the Island stays competitive