Isle of Man Government

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The Treasury
Yn Tashtey

The Future Manx State Pension Treasury Proposals

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To: The Hon Clare Margaret Christian BSc, President of Tynwald, and the Honourable Council and Keys in Tynwald assembled.

The Future Manx State Pension – Treasury Proposals

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1. Introduction

The Treasury Minister, Hon. Eddie Teare, MHK, said in July 2015 that he would report back to Tynwald in July 2016 with a set of proposals for the future of the Manx State Pension following the decision of Tynwald in July 2015 to support the recommendations contained in the document "Social Security and National Insurance Reform, Treasury Proposals, July 2015" [GD 2015/0036].

2. New Bi-lateral Agreement with the United Kingdom

Following on from Tynwald's approval of Treasury's proposal document negotiations commenced with the United Kingdom (UK) for a new bi-lateral agreement that would accommodate the fact that the two countries would no longer operate the same State Pension scheme. The new agreement was ratified by the UK in February 2016 and by Tynwald in March 2016 [SD 2016/0063].

3. Future Manx State Pension

In January 2016 Treasury held a number of workshops with Tynwald Members to garner their opinions about the future of the Manx State Pension and what options there are to ensure the ongoing viability of the Manx National Insurance Fund (MNIF) for future generations.

As a result of those workshops Treasury commissioned the UK Government Actuary's Department (GAD), to do additional modelling on the MNIF and these results were published in May.

After examining the various options Treasury wish to propose a number of recommendations which, if approved by Tynwald, will form the basis of a new Manx State Pension that will be introduced from 6th April 2019 (the implementation date).

4. Manx Single Tier State Pension

The foundation for the future of the Manx State Pension will be the introduction of a Manx Single Tier State Pension. This pension will be less complex than the existing scheme making it easier – over time - for individuals to know how much they will receive and will ensure the long term sustainability of the MNIF for future generations.

In relation to the Single Tier State Pension, Treasury proposes to:

- introduce a single tier State Pension in the Island set at the rate of £170 per week (today's value);

- end the "Triple Lock" increase and base the future uprating of state pensions in their entirety on earnings in the Isle of Man (note: this does not apply to the Manx Pension Supplement – see below);
- end the State Second Pension scheme;
- end the Retirement Pension Premium Scheme for new claimants from 6th April 2019
- require 35 qualifying years of National Insurance contributions or credits for the full amount. There will also be a minimum qualifying period of 10 qualifying years. Those persons with fewer than 35 qualifying years but with more than the minimum 10 qualifying years will receive a proportion of the full amount;
- review the number of qualifying years required for a full pension every 10 years to ensure payments represent a fair contribution to the Manx National Insurance Fund (MNIF);
- continue with the current range of credits that enable those who cannot contribute to the new single tier pension to still build up entitlement;
- ensure that the UK/IOM Social Security agreement allows UK contributions/credits to counts towards the minimum qualifying period.

5. Transition to the Manx Single Tier Pension

Protecting the rights that individuals have already built up under the existing basic State Pension and Additional State Pension schemes is fundamental in ensuring that those individuals who are close to State Pension Age (SPA) at the time the new Manx State Pension is introduced do not see a reduction in the value of their State Pension. The transitional arrangements being proposed for the State Pension are shown below while those for the Manx Pension Supplement are dealt with in section 7.

Treasury will calculate the value of an individual's State Pension under the current rules and compare this with the amount they have accrued under the proposed new scheme at the implementation date. Under these transitional arrangements we have identified four groups:

- **Individuals with an entitlement under the current rules that is more than the amount of the Manx Single Tier Pension**. These will be individuals close to SPA when the new scheme is introduced who have built up significant amounts of Additional State Pension. These individuals will therefore receive the amount that would otherwise have been due under the current rules when they claim their pension.
- **Individuals with an entitlement under the current rules that is less than the Manx Single Tier Pension, but who have at least 35 qualifying years**. These will include individuals who are close to SPA who have very little Additional State Pension, persons who have been self-employed for many years and individuals who have not worked for long periods but have been credited with National Insurance contributions.

These individuals will receive the full amount of the Manx Single Tier when they claim their pension.

- **Individuals with an entitlement under the current rules that is less than the Manx Single Tier Pension and who have less than 35 qualifying years**. These will be individuals who are either relatively young at the implementation date or older individuals who have been contracted-out of the additional state pension scheme for many years. These individuals will be able to earn extra pension at the rate of 1/35th of the Manx Single Tier pension for each year up to their state pension age (SPA).
- **Individuals with no entitlement under the current rules**. These individuals will start to accrue entitlement to the new Manx Single Tier Pension for every qualifying year they have.

In relation to the transitional arrangements, Treasury will:

- ensure that a transitional process recognises individuals' entitlements accrued under the current rules.

Examples of how the transitional arrangements would work are shown in Appendix 1.

6. State Pension Age

It was clear from the additional work that was completed by GAD that increases in the State Pension Age (SPA) have a significant positive impact on the long term sustainability of the MNIF and therefore future increases in the SPA are expected to continue.

Treasury did not adopt the increases in SPA brought in by the UK in 2014 as part of the 2014 Pensions Act. Treasury do not feel that it is appropriate at this time to have a different SPA from the UK and therefore propose to bring an order to Tynwald in the next session to bring the SPA in the Island back into line with the UK. This change would see the SPA increase to 67 between 2026 and 2028.

In relation to the SPA, Treasury propose to:

- review future SPA increases after the UK have published their review into future increases in 2017;
- introduce legislation that will increase the SPA in the Island to 67 between 2026 and 2028;
- investigate the feasibility of introducing a flexible claim date for the State Pension for those individuals whose SPA is increased to 67 between 2026 and 2028.

7. Manx Pension Supplement

The Manx Pension Supplement (MPS) was introduced in 1993 and was originally paid at the weekly rate of £5.00 when the basic State Pension was £56.70. If the MPS had remained in line with the basic State Pension, which is now £119.30 per week, it would only be £10.50 per week as opposed to its current value of £53.75.

While the payment of the MPS has helped significant numbers of Island residents in retirement, funding cannot be sustained in the long-term, the scheme is complex to operate and the rules around what NI contributions count towards the scheme are difficult to understand. With the introduction of the new Manx State Pension Treasury believe it would be appropriate to phase out the MPS for all new pensioners from 6th April 2019. Pensioners in receipt of the MPS prior to that date would continue to receive it, subject to the existing scheme rules.

It is proposed that the MPS would be phased out over a 20-year period with the amount reduced by 5% each year. Therefore, anyone reaching SPA after 5th April 2039 would not be entitled to any MPS.

Treasury also proposes that future increases in the MPS should only be made if they are affordable in the long term.

So, in relation to the MPS, Treasury proposes to:

- phase out the MPS for new claimants over a 20 year period starting in 2019;
- reduce the value of the MPS for new claimants from 2019 by 5% each year;
- maintain the current residency conditions for payment of the MPS;
- only uprate the MPS when it is affordable to do so.

8. Contracting-out

The introduction of a new Manx State Pension will mean the closure of the Additional State Pension scheme and therefore contracting-out will also cease from that date.

Ending contracting-out will have implications for employers, employees and scheme administrators. Good communication with these three parties will be essential to ensure that everyone is aware of what the changes to the Manx State Pension mean. Ending contracting-out will require Treasury to work closely with all scheme administrators of both current and previously contracted-out schemes, so that schemes can reconcile periods of membership for past and present members.

The reconciling of these periods of contracted-out employment will take time and, based on the experiences of the UK, will also involve a considerable amount of administrative work.

In relation to contracting-out, Treasury will:

- issue a detailed consultation on the impact of ending contracting-out.

9. Appendix 1 – Examples

Example 1

Male aged 60 as at 6th April 2019
Current SPA 66*

Has 35 IOM Qualifying Years and has earned £75 Additional State Pension at the implementation date.

At 6th April 2019 he has accrued a pension under the current rules worth £119.30 (100% basic pension) + £75.00 Additional State Pension - totalling £194.30 per week.

This is higher than the Manx Single Tier Pension of £170 per week and therefore he would be awarded £194.30 revalued up to his SPA of 66.

As he has more than 30 IOM qualifying years under the current rules he is entitled to the maximum rate of the MPS (£53.75 pw). However, this would be reduced by 5% for each year after 6th April 2019, so he would get 70% of the value when he reaches SPA - £53.75 x 70% = £37.62.

His total pension at SPA, including MPS, would therefore be £231.92

Example 2

Male aged 55 as at 6th April 2019
Current SPA 66*

Has 39 IOM Qualifying Years and has earned £10 Additional State Pension at the implementation date.

At 6th April 2019 he has accrued a pension under the current rules worth £119.30 (100% basic pension) + £10.00 Additional State Pension - totalling £129.30 per week.

Under the new rules his single tier pension at implementation would be £170 (as he has more than 35 qualifying years), as this is the higher amount this will be the starting amount.

As he has more than 30 IOM qualifying years he is entitled to the full MPS. This is reduced by 5% for each year after 6th April 2019 so he would get 45% of the value when he reaches SPA-£53.75 x 45% = £24.18.

Total pension at SPA would therefore be £194.18.

Example 3

Female aged 50 as at 6th April 2019
Current SPA 67*

Has 25 IOM Qualifying Years and has earned £20 Additional State Pension at the implementation date.

At 6th April 2019 she has accrued a pension under the current rules worth £99.42 (25/30ths of basic pension) + £20 Additional State Pension totalling £119.42 per week.

Under the new rules her single tier amount at implementation would be £121.42 (25/35ths of single tier pension).

As this is the higher amount this would be used as the starting balance for her single tier pension.

If she accrues a further 10 qualify years before she reaches SPA she would get a single tier pension of £170 per week.

As she has at least 10 IOM qualifying years she would under the current rules also be entitled to the MPS. The value of her MPS at 6th April 2019 is £44.79 (25/30ths of the full amount), this is reduced by 5% for each year after 6th April 2019 until she reaches SPA and so will be reduced to 15%. So she would therefore get £44.79 x 15% = £6.72.

Total pension at SPA would therefore be £176.72.

Example 4

Female aged 30 as at 6th April 2019
Current SPA 68*

Has 12 IOM Qualifying Years and has earned £10 Additional State Pension at the implementation date.

As at 6th April 2019 she has accrued a pension under the current rules worth £47.72 (12/30ths of the basic State Pension) + £10 Additional State Pension totalling £57.72 per week.

Under the new rules her single tier amount at implementation would be £58.28 (12/35ths of the single tier amount).

As the single tier amount is higher this would be used as her starting balance for her single tier pension.

If she accrues a further 23 qualifying years in the IOM before she reaches SPA she would get the full single tier pension of £170 per week.

As she will reach SPA after 5th April 2039 she would not be entitled to any MPS.

At SPA her pension would therefore be £170 per week.

*The SPA ages used in the above examples are those that currently appear in existing legislation.