

Explanatory Memorandum to Tynwald Members

Issued by the Public Sector Pensions Authority (PSPA).

To the Hon Clare Christian, President of Tynwald and the Hon Council and Keys in Tynwald assembled

1. Title of measure

Isle of Man Government Unified Scheme (Amendment) Scheme 2016

2. Changes in policy

There are no changes in policy.

3. Effects of the measure

The purpose of this Amendment Scheme is to amend the Isle of Man Government Unified Scheme 2011 so as to create a new section of the Unified Scheme specifically for Tynwald Members to join.

4. Reasons for the measure

In accordance with the recommendations made in the Public Sector Joint Working Group Report – “Fairness and Sustainability”, the PSPA commenced a programme of negotiation and consultation with the Tynwald Emoluments Committee (the Emoluments Committee) and the members of the Tynwald Membership Pension Scheme 1995 (the Scheme) with a view to progressing the implementation of the proposed changes recommended in the report.

Prior to any to any formal negotiation and consultation taking place, the PSPA was asked to set out its proposals for reforming the Scheme for consideration by the Emoluments Committee and Scheme members, with a view to collating their feedback and reaching agreement in principle to the reforms by the end of July 2015.

Consequently, the Emoluments Committee and the PSPA concluded that pension scheme arrangements for Members of Tynwald should be reformed and that any reforms should be in place by October 2016.

The proposed reforms have been progressed in two parts:

Part One - To make legislative changes that would transfer the responsibility for the management of the Scheme from the Emoluments Committee to the PSPA and put the Scheme on a statutory footing in line with other public pension schemes.

Part Two – Thereafter, to close the Scheme and transfer the membership to the Unified Scheme and introduce a range of reforms to put the pension arrangements for Tynwald Members on a more affordable and sustainable footing in line with other public sector schemes.

Part One was completed with the making and subsequent approval by Tynwald in May 2016 of the Public Sector Pensions (Admission) Regulations 2016 and the Tynwald Membership Pension Scheme (Amendment) Scheme 2016.

5. Consultation

This paper relates to Part Two, the closure of the Scheme and transfer of its membership to the Unified Scheme and the introduction of a range of reforms to put the pension arrangements for Tynwald Members on a more affordable and sustainable footing in line with other public sector schemes. In order to do so, a new section of the Unified Scheme is required for Tynwald Members and the Isle of Man Government Unified Scheme (Amendment) Scheme 2016 is the vehicle by which this is created.

Isle of Man Government Unified (Amendment) Scheme 2016

This amendment scheme creates a new Section 8 and sub Sections 8(a) and 8(b) in the Unified Scheme, to accommodate the benefit provisions of current members and new members.

For clarification, the proposed changes to existing pension benefit provisions are as suggested under Option 1 in the Proposals for Tynwald Membership Pension Scheme Reforms 2015, which in summary are:

- Member Contributions will be increased to 10% of the annual sum;
- The rate at which pension will be built up will be 2% of the annual sum;
- Normal Pension Age will be extended from age 60 to 65;
- Existing Members will be given the opportunity to protect the current rate of pension accrual of 2.5% of annual sum and a Normal Pension Age of 60 in return for a higher contribution of 10%, increasing to 15% via increases of no more than 2% a year from October 2016;
- Minimum Age of Retirement will be raised to age 55;
- Reduction in the amount of widows' and widowers' for future pension accrued after October 2016, from 75% of pension to 50% of pension.

By joining the Isle of Man Government Unified Scheme 2011 members will also benefit from:

- Tax relief on their contributions and any pension benefit lump sum;
- Members will be able to take a lump sum, or a higher lump sum than their existing Scheme, of up to 30% of the value of their pension;
- Members will get tax-free lump sum for each £1 of annual pension they give up. This is currently £18 of lump sum for each £1 of annual pension permanently given up;
- The definition of Widow or Widower will be broadened to include civil or nominated partners and a pension will be payable for the lifetime of the recipient;
- The death grant will be increased to 3 x the annual sum from 2 x the annual sum;
- The final salary that their pension benefits will be based on will change to include averaging of the last 13 year's annual sum, revalued by the increase in inflation;
- ill Health retirement benefits will be available for all members, including enhancements for those found permanently unable to carry out any gainful employment.

In addition to making the, Isle of Man Government Unified (Amendment) Scheme 2016 the PSPA is seeking to make the Tynwald Members Pension Scheme Bulk Transfer Regulations 2016.

In summary the Tynwald Membership Pension Scheme Bulk Transfer Regulations 2016 permit the bulk transfer of all members' pension liabilities (active, deferred and pensioner) from the Tynwald Membership Pension Scheme 1995 into the Unified Scheme and as such discharges all the liabilities owed to members under the Tynwald Membership Pension Scheme 1995.

Following this the PSPA will take steps to revoke the Tynwald Membership Pension Scheme 1995.

Treasury concurred with the plans subject to Council of Ministers view (Treasury Minute 493/15 refers).

The Council of Ministers concurred with the proposals and for the PSPA to formally consult on these proposals. Council also agreed that the proposals for reforming the Scheme were not a matter for Council and were instead a Parliamentary issue.

The Consultation ran from 12 April 2016 to noon on 24 May 2016. There were no requests for this period to be extended.

6. Consultation feedback

There were 3 responses to the consultation.

- (i) Two respondents agreed with the proposals.
- (ii) A third sought clarification in relation to the commencement date, transitional arrangements and the calculation of Final Pensionable Pay.

Having given consideration to the comments received the PSPA has made minor amendments to the Scheme, in particular relating to the effective date of the legislation.

7. Legal Powers or Legal Advice obtained

The PSPA has made this Scheme under Section 6(1)(c) of the Public Sector Pensions Act 2011 which states:

"The PSPA must make schemes providing for the superannuation of public sector employees, subject to the approval of Tynwald;"

8. Resource implications

These changes will increase income into the Isle of Man Government Unified Scheme via increased employee and employer contributions.

Tynwald Members who participate in the scheme will be required to contribute a minimum of 10% or 15% of their annual sum should they chose to retain the current pension accrual rate for their future service benefits. This represents a 100% increase in contributions and brings this membership in line with other benefits accrued by public servants, who have been paying a similar rate of contribution towards the cost of securing their pension entitlements.

Furthermore, Government will begin to allocate an Employer Contribution of 15% of the annual sum (rising to 20% by 2021) to the Isle of Man Government Unified Scheme 2011 in respect of all participating Tynwald Members.

In addition to the other reforms, these changes will put the pension arrangements for Tynwald Members on a more affordable and sustainable footing in line with other public sector schemes.

Treasury has urged the PSPA to secure formal Tynwald approval to the proposed scheme changes before the General Election.

The PSPA will be required to amend its administration system in order to accommodate Tynwald Members in the Unified Scheme and this will involve a cost from its software provider, Equiniti.

9. Tynwald procedure

This Scheme is required to be moved before Tynwald for approval under section 15(1) of the Public Sector Pensions Act 2011.