

MEMO



To Prospect Members in Isle of Man 30 November 2009

cc

From Neil Walsh (Pensions Officer)

BRIEFING ON REPORT ON PUBLIC SECTOR PENSION PROPOSALS

Introduction

Today the Isle of Man government briefed trade union representatives on the contents of the latest report by their pension consultants, Hymans Robertson, on public sector pension reform.

The report is titled, "Unified Pension Scheme Design for Public Servants – The Way Forward" and a link to an online version of the report will be circulated to members when available. This note is intended to summarise the key points of the report for members and outline the next steps that Prospect will be taking.

Background

It is worth repeating that Prospect has never been opposed to public sector pension reform in general. As taxpayers and contributors to the schemes our members have a vital interest in ensuring that public sector schemes are sustainable. Indeed, even if the government took no action on public sector pensions there would be a series of reforms applicable to schemes on the Isle of Man as changes initiated in the UK (eg new schemes for new entrants, risk sharing) were implemented here. Hence no change at all to public sector pensions on the island was never an option.

However our members have had significant concerns with the type of reforms discussed to date and the manner in which the government proposed implementing them and these concerns were reflected in previous notes on this issue and, ultimately, in our detailed response to the consultation. Indeed a significant number of members responded to the consultation on an individual basis outlining their own concerns with the process.

Consultation Process

The proposals in the report published today are significantly different to those previously consulted upon. We welcome the fact that the weight of consultation responses have clearly had an impact on the government's plans and that the consultation process has resulted in some meaningful change to the proposals.

There can be no doubt that any improvements that have been secured are, to a significant degree, due to the strength of feeling shown by Prospect members on this issue and their willingness to take action to ensure that any reform to their schemes are fair and sustainable. The time taken by members to attend meetings, write to politicians and respond to the consultation has had a direct impact on the proposals emerging now.

Proposals - summary

While the report published today describes reforms that are different from those previously consulted on, the effect on members can still be described in largely the same terms: a reformed scheme would involve many current members paying higher contributions to receive benefits that would be lower than they could currently draw at normal pension age.

The latest proposals do allow for a degree of protection for certain groups of members from most of the impact of the changes.

The main difference between the latest proposals and those previously consulted on is that instead of a two tier scheme with "core" and "supplementary" levels of benefits (costing 1.5% and 7.5% in contributions respectively) the proposed unified scheme has a single tier of benefits with a member contribution rate of 5%. The benefits for the latest proposed scheme are at a level between the old "core" and "supplementary" proposals (as the contribution rate would suggest).

It is important to point out that the main thrust of the revision to the proposals, replacing two tiers of benefits with a single tier, is, as far as our preliminary calculations show, largely cost neutral. That is to say, this revision does not make the proposals more or less generous to members overall, it simply repackages them.

As mentioned above, however, there are practical protections in the new proposals that will be of significant benefit to the members who enjoy them. Principally this involves extra protection for those within seven years of normal pension age (who should be largely unaffected by the proposals) and a phasing in of the required increases to member contribution rates.

Proposals – details

The following table summarises some of the main aspects of the proposed unified scheme. Obviously members would like to have precise information on the exact impact the proposals would have on their own benefits but this level of detail is not yet available. Appendix E to the latest report contains illustrations of the effect of the changes on sample individuals. While it may be difficult to estimate the precise effect the proposals will have on members it is probably important to retain a focus on the very broad message summarising the effect on the membership as a whole: many members will pay higher contributions to receive benefits that are lower than they can currently draw at their normal pension age of 60.

Member Contribution Rate	5% (increases phased in over short period)
Pension Benefit	1.5% of pensionable pay for each year of service from 65 (ie accrual rate of 1/66.67 th) Effective actuarial increase if taken later or decrease if taken earlier
Lump Sum	No automatic lump sum but can take up to 30% of pension pot as a tax-free lump sum Rate of 18:1 for every £1 pension given up which is more generous than current terms
Survivor's Benefits	1/160 th of pensionable pay for each year of service (enhanced if death in service) Payable to husband, wife, civil partner or nominated partner
Ill-Health Benefits	Two tier system depending on degree of incapacity with larger pension payable to those with greater incapacity
Past Service	Past service in existing schemes will be converted to service in the proposed new scheme on terms (overseen by the Government Actuary's Department) that protect their value
Protection (1)	Members within 7 years of normal pension age at 1 January 2012 will have their past and future service protected and will continue to earn the level of benefits they were expecting. To be clear the increased contribution rate of up to 5% will apply to them.
Protection (2)	Other members will have a one-off option to pay higher contributions to maintain the level of benefits they were expecting (the higher contributions will be phased in). These contributions could be between 2.25 and 4% i.e. a total overall contribution rate of 7.25% - 9% - this however is only an estimate at this stage.
Risk-sharing	Target is to achieve 1/3 : 2/3, member : employer share of costs in the long-term

Proposals – impact

Clearly this process is extremely important to Prospect members as any reform to public sector pension schemes will have a significant impact on their retirement plans.

As outlined above, the effect of the detailed proposals in this latest report will be for members to pay higher contributions to receive benefits that would be lower than they

can currently take from their normal pension age of 60. The latest proposals do allow for better transitional protections than originally envisaged.

Prospect remains concerned that the government is unable to show that its proposals meet the criteria laid down by Tynwald. In particular there seems to have been no detailed work to show that the proposals meet the 'total remuneration' criteria. Indeed the greater impact of the proposals on large groups of civil service members suggest that no account has been taken of this principle at all. Similarly there is no evidence that the proposals meet the 'simplicity' criteria and no attempt to even define the basis against which the 'affordability' criteria is assessed.

Next Steps

The most important step is to help members understand what the proposals outlined today mean for them. In a number of cases this will require clarification from the government where aspects of the report released today are unclear.

Prospect will then start the process of gauging members' reactions to these latest proposals.

Whatever the exact nature of members' views Prospect will continue to seek to influence the decision-making process to ensure that any reforms result in the fairest and most sustainable pension arrangements possible.