



Dear [Name of MHK or MLC],

Public Sector Pensions – Legacy Funding Update and Motion to Tynwald

We are writing on behalf of thousands of our members, about the public sector pension legacy funding update and the related motion and potential amendments that will be debated by Tynwald next week.

We have taken the unusual step of writing to you jointly because of the huge importance of this issue for the future of our members and their families, for the public finances of the Isle of Man and for industrial relations on the island.

Background

It is important to put the report on the legacy funding gap in the context of the significant reforms that have already been made to public sector pension schemes.

Over a number of years, and successive administrations, our members have voted for a series of difficult reforms that were required to put public sector pensions on a fair and affordable footing.

Many members have endured many successive years of increases to member contributions, by the time these increases have been fully implemented some members will be paying 8.75% of pay in additional contributions to their pension scheme.

Over this period pension benefits have also been significantly reduced.

However our members voted for these detrimental changes because they understood the importance of ensuring their pension provision was affordable. It is important to note that these reforms have been successful.

Our members also voted to accept the concept of a cost sharing arrangement to ensure that public sector pensions remained sustainable in the future. We have been making good progress on implementing cost sharing rules in discussions with officials.

Reports on the legacy funding gap

The June 2018 report on the legacy funding gap explained that it arose over many decades because of the decisions of past administrations not to establish a fund to meet

the cost of pensions being accrued but instead to meet the cost of these pensions when they fell due (the “pay-as-you-go” funding model).

The February 2019 report is absolutely correct to point out that there is no miraculous fix for the legacy funding gap.

The February 2019 report also comprehensively sets out the difficulties with many of the proposed options for dealing with the legacy funding gap that Tynwald has debated in the past, including in July 2018.

Our main concern with many of the proposed options that Tynwald previously debated is that they would go even further than the, already very difficult, detrimental changes that members have voted for. This would, in effect, invalidate those agreements and this would endanger the significant progress those agreements delivered and have serious potential consequences for industrial relations.

Motion to Tynwald

We broadly welcome the February 2019 report on the legacy funding gap and the accompanying motion to Tynwald.

However we have two reservations that we would like MHKs and MLCs to consider.

- Approve the establishment of a voluntary defined contribution pension scheme
A voluntary defined contribution pension scheme will either attract a material number of members or it will not.

If it attracts a material number of members, then it will worsen rather than resolve the legacy funding gap because the defined benefit schemes will lose the benefit of the relevant member contributions and employer contributions to the defined contribution schemes will have to be found up front as well. It does not make sense to adopt a proposal that could worsen the problem you are seeking to resolve.

If it does not attract a material number of members then it will be hard to justify the cost and other resources required to establish the defined contribution scheme and run it in the future.

Finally a defined contribution scheme is simply a less efficient form of pension provision and it is a mistake to promote it over an affordable and sustainable defined benefit alternative.

- Review the operation of the annual Pensions Increase Order

This proposal is very unsettling because it potentially goes further than the detrimental changes that public sector pension scheme members have already agreed to. It is also concerning because it would potentially impact on people who have already retired and who are therefore unlikely to be able to respond to the proposed changes.

Potential amendments

At the time of writing we are aware of two potential amendments to the above motion. These amendments are hugely concerning to us and it is extremely important that all MHKs and MLCs consider their implications before any vote is taken on them.

- Close defined benefit pension schemes to new entrants

The fundamental problem with this proposal is that it is guaranteed to exacerbate the legacy funding gap for many decades to come. It is simply illogical to proceed with a proposal that makes the problem we are trying to deal with worse.

This proposal would also cause recruitment difficulties in many areas of our public services where we rely on attracting staff from the United Kingdom where defined benefit pension schemes remain open to public sector workers.

It is also the case that the option of closing the defined benefit pension schemes to new entrants was not included in the July 2018 motion passed by Tynwald and hence not covered in the report on the legacy funding gap or in the workshops for MHKs and MLCs. It is not appropriate to introduce a new option that was not subject to the scrutiny given to other proposals with less than a week's notice.

- Link pension age for future service to State Pension Age

This proposal would have minimal impact on the legacy funding gap. It would have particular issues for certain groups of members (eg police and fire service) that would be difficult to resolve.

Another problem is that it could lead to the immediate loss of a significant number of key public sector workers. If Tynwald approved an amendment to link pension age to State Pension Age from a future date, then experience shows that there will be a reaction from scheme members as they bring forward retirement to avoid being impacted.

The fundamental problem with this proposal is that it would amount to the unilateral imposition of a detrimental change beyond those agreed by scheme members in past ballots. This is not a responsible approach to industrial relations and would, as a matter of principle, invite the strongest possible response from our members. It is hard to understand how the limited benefits of this option could be thought to be worth the substantial likely costs it would involve.

Summary

Our members have engaged seriously with the issue of public sector pension scheme reform over many years and will continue to do so, no-one has a greater interest in ensuring that these schemes remain sustainable than them.

They will be dismayed to hear about proposals for reforming their pension schemes that are outside the reform process that they have been engaged with for many years. The proposals to close defined benefit pension schemes to new entrants and to link pension age to State Pension Age in particular, will lead to recruitment and retention problems and will cause resentment.

Our members have agreed to a number of detrimental changes to contribution rates and benefits in order to put these schemes on a fair, affordable and sustainable footing. These reforms have achieved their stated aims.

Now it is up to Tynwald to agree a plan for dealing with the legacy funding gap that has arisen over many decades. In doing so Tynwald should acknowledge successes of the reforms that have already been implemented and respect the agreements with scheme members that have delivered them.

Yours Sincerely

Collective Trade Union Heads

