A) Introduction

Positive Action Group (P A G) considers that a core principle of government is that it should aim for “a fairer society for all” (1).

This is also a sentiment incorporated in the Government’s strategic vision; “To protect and promote the well-being of the family and provide for the economic and social inclusion of all the Island’s community” (2).

Awareness of the need for pension provision for everyone has increased in recent years and it is logical that IOM government examines public service pension arrangements for its 7500 public servants. This total is about 18% of the resident working population.

In the current financial year, the cost of public sector pensions is £44m. (3) We estimate approximately £9m of this comes from public sector employees with the balance of £35m coming from the taxpayer. (4)

It is estimated that the shortfall liability will increase by 10% per annum. (3)

In view of this P A G feels justified in contributing to the consultation process about the recommendations made in the government commissioned Report ‘Design for a unified pension scheme for public servants’ (Hymans Robertson)

Such consultation is restricted to all stakeholders - which the Council of Ministers (CoMin) narrowly defined as ‘all staff organisations and Union representatives’

Given the high annual contribution being made to the existing schemes by the wider working public, P A G asserts that it is only proper for that sector to express an opinion. We maintain the issue to be one of the most challenging financial issues facing the taxpayer and society in general.

Further it is only one element in the need to assess universal provision for old age, with the aim of developing a coherent strategy. Without this, future generations, our children and grandchildren, will suffer financially from having to fund our failure to act now.

This is not a matter of ‘public sector envy’ (a most unfortunate description used within the Report). It is about equality and fairness for society as a whole.
B) Background

On June 22nd 2009 P A G held an open public meeting entitled `Public sector Pensions – What are the Options’?

The speaker was one of the Report’s authors, Douglas Anderson, who confirmed that this was the first time the wider public had been given the opportunity to be involved in the issue.

This submission is a distillation of many of the concerns and viewpoints expressed at the public meeting.

C) Report Terms of Reference

Council of Ministers seeks the rationalisation and reform of public service pension arrangements, with one of the overarching principles being Affordability.

At the same time CoMin considered that the most cost effective delivery, in terms of administration, is via a unified final salary scheme. [Suggested in an earlier Hymans Robertson Report, an ‘Independent Review of Public Servants Pensions’, published May 2008]

CoMin was requested by Tynwald, in May 2008, to progress an action plan for a Unified Public Service Pension Scheme, but nowhere was it stated that it should be a final salary scheme. (5)

It is regrettable that the consultants, limited by the CoMin terms of reference, were not able to consider any other proposal because of `administrative convenience’.

No reference to the advantages or disadvantages of this condition is discussed in the Report and we strongly believe that it should be challenged.

Many companies in recent times have taken the decision to close final salary pension schemes because, in the long term, they cannot continue to sustain them.

D) Report assumptions

i) Annual growth in GDP of 7.5%
This is highly ambitious and wider economic indicators suggest much more modest growth.

It is likely that the forecast figure of 7.5% p.a. may have been confidently predicted some 18 months ago, but it is no longer realistic. For some time we have had a successful growth treadmill economy which may now be reined in owing to circumstances outside our control.

PAG recommends that government reviews estimated GDP and applies a range of parameters to assess the effect on pension support for the long term. It seems essential for several ‘What if’ calculations to be applied - to calculate what funding gap emerges at lower growth levels.
Such sensitivity analysis should be published, as it is a requirement under the terms of reference that ‘assumptions and sensitivities’ should be clearly identified.

ii) Comparison of benefits with the private sector. (Appendix C)
The “broadly comparable” private sector evidence allegedly based on “a good cross section of the IOM employment market” is based on just 3 companies submitting data about their remuneration packages. All 3 companies appear to have extremely generous share option schemes, bonus payments and company cars and paid gym memberships.

P A G maintains this not representative of the private sector. Many (particularly smaller) companies lack a pension scheme of any type. The “added benefits” packages are certainly not universal and average salaries are not as generous as those in the public sector (8).

Much broader analysis is required to make a reasoned comparison - especially as the Report states ‘It is more appropriate to consider comparable employments in the Isle of Man’

iii) A Unified Final (not average) Salary scheme
Some 50 years or so ago, most pension schemes were of the “Final Salary” defined benefits type (whether private or public sector).

At that time, there were 6-7 workers for every pensioner – and pensioners typically survived only into their early/ mid 70’s (and thus only in receipt of a pension for 10-15 years). Thus there were lots of workers generating tax revenues, but with pensions payable to relatively small numbers and for relatively short time scales.

Contrast that with 2050, when it is forecast that there will be only 2 workers for every 65+year old – and those 2 workers will pay taxes from which ever greater expectations for Health care, Pensions and other government services must be paid.

In society generally, there is a growing recognition that matters cannot continue unchanged.

Many individuals with Personal Pensions have suffered massively in the “credit crunch” of 2008. The value of personal savings and investments is reckoned to have fallen 17.5% in a year (6).

Most private sector pensions have converted to “Money Purchase” schemes in an acknowledgment that Final Salary schemes have become unaffordable and unsustainable (7).

The Report’s proposals on public sector pension reform make no acknowledgement of this new economic reality. The proposals merely assume that a run-down of the current pensions reserve over the next twenty years will suffice.

The Report fails to address such key questions as:

- What then?
- Who will pay and how much?
- What about the rest of society?
iv) Affordable and sustainable
The cost of public sector pensions will increase at 10% per year for the next 20 years, with the funding gap being met from the rundown of the current £200 million pension reserve.

Is it fair and equitable for the taxpayer to be paying the vast bulk of the cost of a final salary pension scheme for the public sector - whilst at the same time being told that such schemes are unaffordable and unavailable to them?

v) Good governance
The formation of a statutory authority, solely, to take control of the operation of a new scheme is recommended. Noticeably absent from the 7 suggested members is any representative from the public, or a specialist in pensions administration (the latter nowadays considered vital given the legal standing of Pension Trustees).

In view of our comments about the huge financial support the scheme will continue to receive from the Taxpayer, this is an anomaly that needs rectifying.

Unlike Hymans Robertson, P A G strongly believes that the general public is a major Stakeholder in the scheme and should be represented on the governing body.

E) P A G Recommendations

1) Consider closing all “Final Salary” pension schemes to new entrants in the public sector. This would have no impact upon existing employees, who would continue to enjoy the new unified pension proposal. The argument that this is divisive for employees is no different from that facing virtually all private sector schemes, which have had to negotiate exactly the same argument.

2) New entrants to the public sector would then enter a “Money Purchase” pension scheme, which would require funding with employer and employee contributions, and would have an obvious impact upon government expenditure (in that the contributions will be accrued in a Pension Reserve Fund set aside from annual tax revenues, not incurred as a future pension liability). The revenue impact will clearly grow as new entrants are employed, but the impact will be minimised as the numbers involved will initially be small. Longer term, a “Money Purchase” scheme provides a cap on future pension liabilities - a very different situation to the current unlimited liability of Final Salary pensions schemes.

3) The existing Final Salary employee core contribution of 1.5% should be progressively increased over a period of (say) 10 years to 9.0%.
If actioned, for example, with a progressive increase in contributions of 0.75% of salary per year, the impact on the employee would be minor as it would also qualify for income tax relief. This would have a major impact upon the growing deficit funded by taxpayer contributions from annual tax revenue. It would also re-balance the very unfair
weighting of employee / employer contributions (currently 3.3% versus 24.3%) to something approaching the private sector norm.

4) Consider a change from a "Final Salary” to an “Average Career Earnings” scheme. This would still generate a substantial public sector pension, but reduce the overall payout cost and the cost to the taxpayer.

5) As the state pension has now been delayed to age 68 (in 2044) for the wider public, the government must also address publicly associated questions, such as:
   - Why is it considered acceptable for the public sector to have the option to retire from age 55 onwards?
   - For fairness, is it not socially necessary that we standardise the retirement age for everyone at 68 years of age?
   - And is delayed retirement not a natural concomitant of our increased life expectancy?
   - Also, given the increase in life expectancy, should we not “think the unthinkable” with a retirement age for both private and public sectors of 70 by the year 2050?

6) Examine a range of assumed GDP growth factors, as suggested in D) i) above

7) Undertake a broader, in-depth, comparative analysis with private sector provision in the IOM, as suggested in D) ii) above.

8) Ensure that there is both a tax payer (non public servant) and a wholly independent pension specialist representative on any trustee body established to administer a new scheme, as suggested in D) v) above.

9) We recommend that the trustee body seek an independent Actuarial Report every 3 years with a view to establishing compliance with the government’s declared objective of ensuring that the scheme continues to be affordable and sustainable.

10) Government must lead a debate about “Pensions” in general and the measures required to ensure adequate pensions provision for all members of our society, so that people have an understanding of the need to provide funding during their working lives. There is no doubt that the current situation is very serious and that in general, we need to make greater provision in our society for old age – with far greater self-reliance. As future pensioner numbers are potentially overwhelming, the state will become unable to simply provide such extra resources from tax revenues. All individuals (whether in the public or private sector) must be persuaded to make a greater contribution during working life towards a self-reliant old age.

That means that government might consider:

a) Encourage later retirement for all [as in E 5) above]

b) Encourage savings for pensions or retirement (perhaps with favourable tax incentives, or interest rates)

c) Consider offering health insurance schemes to reduce the costs of healthcare for an ageing society.
References

(1) P A G Charter
(2) IOM Government Strategic Plan 2007 – 2011 – Introduction
(3) Tynwald, July 2009 – Question 6 Answer by Chief Minister
(4) Estimated adjustment to figures given in (3) above
(6) 2009 OECD UK Country Report
(7) PricewaterhouseCoopers – June 2009
   - Daily Telegraph 28.06.09 – Liam Halligan article & Edmund Truell article

Positive Action Group – July 2009