Public Service Pension Reform: Taking forward the recommendations of the Independent Public Service Pensions Commission

The Chief Secretary of the Treasury tabled a discussion paper at the last negotiating meeting between the government and the Trade Unions. It sets out ideas for discussion and it was stressed that it does not necessarily represent the government's final position.

TU pension experts are about to meet treasury officials to seek clarification on exactly what the paper is saying before the TU negotiators go forward and discuss the paper as part of the ongoing negotiations.

What is the government saying in the paper?

The paper repeats the government belief that public service pensions should

- Ensure dignity in retirement
- There should be no race to the bottom and the schemes should remain gold standard high quality defined benefit, index linked, schemes
- Must be fair and affordable to taxpayer
- The 27 recommendations in the IPSPC final report should be basis for consultation with no cherry picking on either side.

The cost of the schemes

IPSPC did not set out what the schemes should cost or the level of benefits. The discussion paper does not mention any cost envelope but instead says the cost ceiling will be set once the scheme design has been determined. Most public service schemes have a cost envelope of between 19% and 21% of combined employer/employee contributions for future service benefits. If the scheme design is based on lower benefits the cost ceiling could be significantly below current cost envelopes.

Scheme Design

The paper repeats the government's commitment to protect all benefits earned up to the date of change in the schemes.

Maintain the final salary link for all past service for current members so at retirement members will be able to draw their final salary pension benefits based on their pay near to when they retire.

The paper sets out the government's belief that apart from protecting all past service, the basis for discussion should be that no one should have any transitional protection. So all service after the start of the new schemes for all members would be the same, with the higher retirement ages for future service based on the State Pension Age (the exception should be the police, fire and armed services).

The government believes that in future retirement ages in the schemes should be linked to changes to the SPA. Members could continue to able to retire before their normal retirement age but suffer an early payment reduction. For example a member of the 1995 section of the NHSPS could retire at 60 with unreduced benefits earned in an old scheme up to say 2015 when the new scheme comes in but would suffer around 36% reduction on benefits earned after that date based on a normal retirement age of 66.

The paper supports the IPSPC recommendation that the new schemes should be Career Average Revalued Earnings instead of Final Salary. The government believes that CARE earnings should be revalued in line with National Average Earnings up to retirement but wants more discussion about an appropriate measure of NAE.

The paper confirms the government is still committed to increasing pensions in payment by the CPI

What is the proposed level of benefit?

The paper sets out that when looking at the level of benefits the government wants scheme benefits to at least match Turner income replacement rates that were set out in the original Turner report. The recently up rated bands used in the paper are set out below.

Gross Income	Benchmark Gross Replacement Rate %
Less than £11000	80
£11000 - £20000	70
£20000- £29000	67
£29000- £58000	60
£58000 and above	50

The paper does not suggest what the level should be but the modelling is based on a nurse starting on £21,176 pa and Local Government worker starting on £16,456. It appears to assume that the member's career progression over a full career to SPA would be in the region of 30% increase in real terms over a working life in the public service scheme. The paper regards this as 'typical career' paths.

The replacement rates are based on % of NHSPS and LGPS pension before any cash lump sum is taken, added to the state pension (current full single person's rate of £102.15 per week has been used).

The modelling shows that on this basis the examples would only need a scheme that provided a 1/100th build up i.e. 1% a year would match the benchmark. Two other options are shown 1/90th and 1/80th but not the current rate of 1/60th or 1.67% a year.

If a 1/100th was used instead of 1/60th a nurse retiring on final pensionable earnings of £26,971pa which is based on a CARE scheme revaluing in line with average earnings. The pension after 40 years service would be 40/100th X £26,971 = £10788.4 as opposed to what the member would get in the 2008 section of the NHSPS of 40/60th X £26971 = £17980pa about 26% less.

UNSION has already pointed out shortcomings in the replacement rates and the fact that very few members have a career for 40 let alone 48 years.

The paper goes further than the IPSPC in stating that the government would wish the value of any cash sum taken at retirement to count towards the replacement rates. This ignores the fact that many low paid workers take a cash sum to pay off debts when they retire. Not to do so would mean they would have to continue to pay interest from their pension.

Other recommendations

The paper broadly endorses all the other recommendations of the IPSPC

On cost ceiling it does repeat that the Government would bear the increased costs in 'relation to financial factors' this suggests the government would bear the cost of changing the discount rate although this seems to run counter to the Chancellor saying in the budget that the increased cost caused by changing the Discount Rate justifies the proposed increase of 3%+ for members by 2014/15.

On tiered contributions the paper seems to quote new figures suggesting that if those for example under £15,000 a year were 'protected' the average for those earning above this figure would be 3.3% that seems unlikely based on what we are hearing from the schemes.

On the future of fair deal the paper suggests the government has still an open mind waiting for the end of the consultation.

The IPSPC said the primary purpose of schemes is to ensure adequate levels of retirement income for public service workers in the paper the government would welcome TU views.

On scheme Governance, Administration and Information the paper suggest the government would like further consultation may be 'preferable' to decouple theses issues from the central key principals in June

On governance the paper states that the government believes it is a complex issue and wants further detailed discussions with schemes especially on legal responsibilities and welcome TU views.

Similarly the government wants an assessment of administration by autumn before deciding on what overseeing body might be appropriate.

Regarding the relationship between central and scheme negotiations the paper says the government believes the basis for discussion should be that is a common framework for the main public service schemes but recognise the specific circumstances of fire police and armed forces and the funded nature of the LGPS.

In summary

There is a lot that needs clarification and the paper seems to suggest the government is still running with the IPSPC recommendations.

The big issues are

- **No transitional protection for existing members**
- **No cost envelope so possibly lesser cheaper schemes for the future. That is lesser for members and cheaper for government.**
- **The benchmark examples suggest strongly that the government is looking at a scheme that provides a range of options that goes from 1% to 1.25% instead of 1.67% a year. A drop in value of between 33% and 25% for an average increase in cost to the member above 'low pay' of 50%+ in increased contributions**

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