Public Service Pensions - the 2015 reforms

Summary
1 Background
2 Taking the reforms forward
3 The reforms
4 Impact of the 2011-2015 reforms
Disclaimer
The Commons Library does not intend the information in our research publications and briefings to address the specific circumstances of any particular individual. We have published it to support the work of MPs. You should not rely upon it as legal or professional advice, or as a substitute for it. We do not accept any liability whatsoever for any errors, omissions or misstatements contained herein. You should consult a suitably qualified professional if you require specific advice or information. Read our briefing ‘Legal help: where to go and how to pay’ for further information about sources of legal advice and help. This information is provided subject to the conditions of the Open Parliament Licence.

Feedback
Every effort is made to ensure that the information contained in these publicly available briefings is correct at the time of publication. Readers should be aware however that briefings are not necessarily updated to reflect subsequent changes.

If you have any comments on our briefings please email papers@parliament.uk. Please note that authors are not always able to engage in discussions with members of the public who express opinions about the content of our research, although we will carefully consider and correct any factual errors.

You can read our feedback and complaints policy and our editorial policy at commonslibrary.parliament.uk. If you have general questions about the work of the House of Commons email hcenquiries@parliament.uk.
# Contents

**Summary**

1  **Background**  7

1.1  The Labour Government’s reforms  7

1.2  Independent Public Service Pensions Commission  8

2  **Taking the reforms forward**  12

2.1  Negotiations with the trade unions  12

2.2  Scheme by scheme negotiations  16

2.3  Public Service Pensions Act 2013  21

3  **The reforms**  24

3.1  CARE schemes  24

3.2  Normal pension age  26

3.3  Transitional arrangements  27

4  **Impact of the 2011-2015 reforms**  29

4.1  Expectations in 2012-13  29

4.2  NAO report – March 2021  30
Summary

Reforms to public service pensions introduced under the Labour Government had the aim of improving financial sustainability and reflecting changes in life expectancy, working practices and the private sector, including increases in the pension age for new entrants only.

The 2011-15 reforms

In June 2010, the Coalition Government established an Independent Public Service Pensions Commission, chaired by former Labour Secretary of State for Work and Pensions, Lord Hutton of Furness, to look at “the long-term affordability of public sector pensions, while protecting accrued rights.” It also announced its intention to switch from the RPI to the CPI as the measure of prices for increasing public service pensions in payment (June 2010 Budget, para 1.42-3).

The Commission’s interim report published in October 2010 recommended an increase in member contribution rates as the most effective way to make short-term savings and said there was a strong case for doing so - “to better meet the real costs of providing these pensions, the value of which has risen in recent years with most of these extra costs falling to taxpayers” (chapter 8). In response, the Government announced that it would increase member contribution rates by an average of 3.2 per cent across public service schemes by 2014/15, except for the armed forces. (HM Treasury, Spending Review 2010, October 2010, para 1.94)

In its final report, published in March 2011, the Commission recommended replacing the existing schemes with new ones, with pension entitlement based on career average earnings rather than final salary, and increases in the pension age: i.e. linking the normal pension age to the State Pension age in all schemes except those for the ‘uniformed services’ (armed forces, police and firefighters), which would have a pension age of 60.

The Government accepted the Commission’s recommendations as the basis for negotiation with the trade unions. It announced final proposed agreements for reform of most public service schemes over the period March to October 2012. It then legislated in the Public Service Pensions Act 2013 for a framework for the new schemes to be introduced for future service from 2015 (2014 for local government). Key features of the new schemes are that they provide pension benefits based on career average revalued earnings rather than final salary, and that individuals have a normal pension age linked to their State Pension age, except for the schemes for firefighters, police and armed forces, which are to have a normal pension age of 60.
Impact of the 2011-2015 reforms

A report published by the National Audit Office in March 2021 said gross expenditure on public service pensions was expected to fall from a peak of 2.1% of GDP in 2022-23, to around 1.5% of GDP from 2064-65 onwards, reflecting both the 2011-2015 reforms and reductions in the public sector workforce. However, uncertainty around these projections had been increased by both COVID and Brexit (NAO, Public service pensions, HC 1242, March 2021, para 2.2-3).

In terms of how the costs were met, the NAO found that:

- Public service employees were contributing substantially more – both individually and in total - to their pensions as a result of the 2011-2015 reforms. There was some evidence to suggest that those in lower age and income groups were more likely to opt out as they viewed contributions as unaffordable (Ibid, para 19).
- While the taxpayer’s proportion of total pension funding remained similar to 10 years ago, employer contributions had risen significantly in 2019-20, largely as a result of a change to the discount rate the government used to estimate the current cost of future benefits to be paid out (Ibid, para 14).

McCloud

There was protection for accrued rights and transitional protection arrangements to enable those ‘closest to retirement’ to remain in their existing schemes either until retirement, or for a limited period, depending on their date of birth. In December 2018, the Court of Appeal ruled in McCloud v Ministry of Justice that the ‘transitional protection’ offered to some members as part of the reforms amounted to unlawful discrimination.

In July 2019, having been denied leave to appeal, the Government accepted that the difference in treatment would be remedied across public service pension schemes, regardless of whether individuals had made a claim (HCWS 1275 15 July 2019).

In July 2020, the Government launched consultation on its proposal to remedy the McCloud discrimination. In its response in February 2021, the Government said that:

- ‘Eligible members’ (those in service on 1 April 2021 and 1 April 2015, or with a gap of service of less than five years) will be given a choice of legacy or reformed pension scheme benefits in respect of their service during the period between 1 April 2015 and 31 March 2022 (the remedy period). This choice would be made at retirement, or just before benefits come into payment. In the meantime, members will be deemed to have accrued benefits in their legacy schemes for the remedy period. From April 2022, all active scheme members would be transferred to the reformed schemes for future service. This was because the Government
remained of the view that the reformed schemes offered “generous pension provision and address the objectives of affordability and sustainability.” Although the transitional arrangements had been found to be discriminatory, the schemes themselves had not.

The Government intends to bring forward new primary legislation for these purposes when parliamentary time allows. The Queen’s Speech on 11 May 2021 included a Public Service Pensions and Judicial Offices Bill.

This briefing paper discusses the background to the 2015 reforms, including the negotiations and the legislation to implement them. The consultation on the remedy to the discrimination identified in McCloud and the decision to move all active scheme members to the 2015 schemes from 2022 is discussed in more detail in Public service pensions: response to McCloud, Commons Library Briefing Paper CBP 9177, July 2021. Also relevant are: Public service pensions - facts and figures, Commons Library Briefing Paper 8478 (May 2021); Public service pensions: employer contributions, Commons Library Briefing Paper CBP 7539.
1 Background

1.1 The Labour Government’s reforms

The Labour Government negotiated reforms to the main public service pension schemes. These had the aim of improving financial sustainability and reflecting changes in life expectancy, working practices and the private sector. They included:

limited increases in pension age for groups such as the uniformed services, mostly for new entrants. In the civil service, NHS and teachers schemes existing members were allowed to keep a pension age of 60 if they wished, but new entrants have a pension age of 65 and pension ages lower than 65 will be phased out by 2020 in the Local Government Pension Scheme.

Opinion was divided on whether these reforms went far enough. The TUC, for example, argued that they put the schemes on a sustainable footing. The Institute of Directors (IoD), on the other hand, described them as “inadequate” and argued for further reforms, including further increases in the pension age. The Confederation of British Industry (CBI) agreed that the position was “not sustainable” and reform was needed.

In December 2010, the National Audit Office published its assessment of changes made to Teachers’, NHS and civil service schemes in 2007-08. It concluded that the reforms were on course to deliver substantial savings by making changes in 2007-08 to pension schemes for civil servants, NHS staff and teachers, the Treasury and departments overseeing the schemes acted to tackle potential future growth in costs to taxpayers. As a result of the changes, which are on course to deliver substantial savings, long-term costs are projected to stabilise around their current levels as a proportion of GDP. The changes are also set to manage one of the most significant risks to those costs, by transferring from taxpayers to employees additional costs arising if pensioners live longer than is currently projected.

---

1 Department of Trade Industry, Pensions Update – October 2005,
2 Independent Public Service Pensions Commission: Interim Report, 7 October 2010, p9
3 TUC, Exploding Public Sector Pensions Myths: A Briefing for Trade Union Members, July 2009
4 TUC, Exploding Public Sector Pensions Myths: A Briefing for Trade Union Members, July 2009, page 5
5 CBI, Clearing the pensions fog, December 2008
6 NAO, The impact of the 2007-08 changes to public service pensions, HC 662, 2010-11
In the run-up to the 2010 election, the Conservative Party had said it would set up an independent Commission to conduct a full review of public sector pensions. The Liberal Democrats had also called for a radical review, arguing that more transparency is needed about the costs of public sector pensions.

For more detail, see Public service pensions: the Labour Government’s reforms, CBP 2209, November 2018.

1.2 Independent Public Service Pensions Commission

In June 2010 Budget, the Coalition Government announced the establishment of the Independent Public Service Pensions Commission, to be chaired by former Labour Work and Pensions Secretary of State, Lord Hutton of Furness. It would “undertake a fundamental, structural review of public service pension provision by Budget 2011.”

Also in Budget 2010, the Government announced a switch in the measure of prices used for pension increases – from Retail Prices Index (RPI) to Consumer Prices Index (CPI). This was controversial because the CPI tends to produce lower increases – see Library Briefing Paper CBP 5434.

The Commission’s Interim Report was published on 7 October 2010. It recommended that the most effective way of making savings in the short-term was to increase member contribution rates and that there was a case for doing so. In response, the Government announced that it would increase member contribution rates by an average of 3.2 per cent across public service schemes, except for the armed forces. The increases were phased-in over the period 2012/13 to 2014/15.

Lord Hutton also said longer term structural reform was needed:

> It is my clear view that the figures in this report make it plain that the status quo is not tenable. I believe we need to adopt a more prudent approach to meeting the cost of public service pensions in order to strike a fairer balance not just between current taxpayers and public

---

7 Conservative Party website, Where we stand – pensions and older people
8 Philip Webster, ‘Liberal Democrats plan to freeze public sector pay and scrap Trident’, The Times, 17 September 2009; See also Liberal Democrat Press Release, Action needed to tackle fat cat public sector pensions, says Webb’, 2 December 2009; See also, Liberal Democrat Policy Briefing, A fair deal for older people’
9 HM Treasury, Budget 2010, HC 61, June 2010
10 Ibid., p2
11 HM Treasury, Spending Review 2010, October 2010, para 1.94; Library Note SN 6137 Public service pension contributions (April 2012)
In its final report, published in March 2011, the Commission said its aim was to design a structure that would share the risks and costs of public service pensions between employees and government fairly. It said that moving to schemes providing pension benefits based on career average revalued earnings, rather than final salary, would remove much of the salary risk associated with public service pensions. \[13\] However, it said the greatest risk facing public service schemes – rising longevity – should be addressed through increases in the Normal Pension Age (NPA). \[14\]

The reforms introduced by the Labour Government had generally involved increases in the NPA for new entrants only. The Commission recommended that in its proposed new schemes (to which all existing members of the current schemes would be moved) members’ NPA should be linked to their State Pension age:

The Government should increase the member’s Normal Pension Age in the new schemes so that it is in line with their State Pension Age. The link between the State Pension Age and Normal Pension Age should be regularly reviewed, to make sure it is still appropriate, with a preference for keeping the two pension ages linked. \[15\]

In the case of the schemes for the police, firefighters and armed forces, the Commission recommended that the NPA should reflect the unique characteristics of the work involved:

The Government should consider setting a new NPA of 60 across the uniformed services, where the NPA is currently below this level in these schemes, and keep this under regular review. \[16\]

In addition, the Commission recommended that the Government give consideration to an overriding mechanism – a cost control mechanism - to ensure that public service pensions remain affordable and sustainable. \[17\]
Initial responses

A number of organisations welcomed the approach taken by the report. The Pension and Lifetime Savings Association argued that it struck the “right balance between fairness and cost, and have avoided a race to the bottom.”

The Confederation of British Industry described the report as a “big step forward towards making public sector pensions affordable and sustainable in the long-term.”

The Pensions Policy Institute said the proposals on the pension age meant that in future most public sector workers would need to work longer than under the current schemes before receiving their pension.

The Institute for Fiscal Studies thought there were good arguments in favour of increasing the pension age:

The proposal to set the NPA equal to the SPA for most public sector workers does reduce the generosity of the schemes: those affected would typically have to contribute for longer to receive the same pension for fewer years. There are at least two good arguments in favour of such an increase. First, many new members of public service pension schemes already have an NPA of 65 while those who were members of such schemes before the last set of reforms came into force often have an NPA of 60. Aligning these would mean that individuals who were doing the same job, with the same pay, also accrued the same pension regardless of whether they happened to have joined the pension scheme before or after the cut-off date set out in the previous reforms. Second, rising longevity led Lord Turner's Pensions Commission to recommend that the SPA should increase in future from 65 to 68 and this proposal was accepted with cross party support. Increasing the NPA in public service pension schemes would seem consistent with this decision, and there is also an attraction in aligning the ages at which an individual can start to receive their state pension and the age at which a full public service pension is available. In addition a formal link between the NPA in public service pension schemes and the SPA would mean that were future Governments to decide to increase the SPA further (presumably in the light of further increases in longevity) then the default would be that this led to an increase in the NPA in public service pensions.

Those in the uniformed services - the armed forces, police and fire fighters - are to have an NPA of 60 for future accrual rather than an NPA equal to the SPA. In some cases, this also represents a

---

18 'NAPF reacts to Hutton review of public sector pensions, 10 March 2011' NAPF says its membership covers around four million people with public sector pensions.


20 Pensions Policy Institute press release, 10 March 2011A career average scheme is likely to be fairer for public sector employees with different career paths’, says Pensions Policy Institute.
substantial reduction in the generosity of these schemes (although not in the case of recent entrants to the fire fighters scheme who already face an NPA of 60) although significantly less than had their NPA been increased to the SPA. The desire to provide generous support to these individuals after they leave these careers - in particular where these careers typically can only be pursued up to a relatively young age - is understandable. What is less clear is whether more generous pensions, presumably with an expectation of early retirement, is the best way to provide such support. An alternative that might be more attractive would be to increase the NPA to the SPA for all public sector workers including those in the uniformed services and instead offer some of those leaving the uniformed services specific payments to support a transition into alternative careers. Careful targeting of such payments - for example for retraining and relocation - could offer better value for money for the taxpayer than using universally more generous pension arrangements, and were it deemed appropriate would also allow the payments to some individuals to be significantly more generous.21

However, TUC General Secretary, Brendan Barber, said that even without further changes, public sector workers were being asked to “pay much more for substantially less.” He said imposing changes without agreement could lead to real industrial tensions and getting the decisions wrong could leave future pensioners in poverty.22 UNISON General Secretary, Dave Prentis, said industrial action was “now one big step closer.”23

---

21 IFS website, Public service pension reforms: an improved structure, but impact on generosity and cost as yet unknown
22 TUC, Imposing harsh changes to public sector pensions could leave future pensioners in poverty, 10th March 2011
23 UNISON press release, 10 March 2011, “Hutton pensions report brings industrial action closer”
2

Taking the reforms forward

2.1

Negotiations with the trade unions

In its 2011 Budget, the Government said it had accepted Lord Hutton’s recommendations as a basis for consultation:

The Government accepts Lord Hutton’s recommendations as a basis for consultation with public sector workers, trades unions and others, recognising that the position of the uniformed services will require particularly careful consideration. The Government will set out proposals in the autumn that are affordable, sustainable and fair to both the public sector workforce and the taxpayer.24

The then Chancellor of the Exchequer, George Osborne, said there should be no “cherry-picking”:

I confirm today that the Government accept Hutton’s recommendations as a basis for consultation with public sector workers, unions and others. There should be no cherry-picking on either side. I believe that this House should also recommend similar changes to the pensions of MPs.25

On 17 June, the then Chief Secretary to the Treasury, Danny Alexander, said the case for reform was clear and compelling:

Under the current system, as we live longer, current levels of contributions are unfairly balanced between the employee and taxpayer. Under the current system, the final salary scheme is unfairly biased towards the higher earners. The case for reform is clear and compelling.26

On 19 July 2011, Mr Alexander, announced the establishment of scheme level discussions, to report by the end of October.27

On 14 September, the TUC announced its intention to hold a day of action on 30 November:

24 HM Treasury, Budget 2011, para 1.132
25 HC Deb, 23 March 2011, c961
26 Danny Alexander, Speech to IPPR, 17 June 2011
27 HC Deb, 19 July 2011, c91-4; Letter from the Chief Secretary to the Treasury to TUC General Secretary, Brendan Barber, 18 July 2011
The TUC and unions are committed to continuing the talks with the government, and with the relevant employers in each of the separate major public service pensions schemes, but the government is urged to bring new proposals to the table urgently to make progress possible. Today's meeting also agreed, however, given the failure of the government to engage properly in the negotiations, to step up the campaign and to hold a first day of action on Wednesday 30 November. The then Shadow Chief Secretary, Angela Eagle, said strikes should always be a last resort:

Strikes should always be last resort and are usually a sign of failure - failure the country cannot afford. The Government needs to convince people it is not trying to create such failure. Ministers must show a willingness to conduct proper and meaningful negotiations rather than pursuing a path of deliberate confrontation. But unions should also demonstrate they intend to exhaust every option of reaching a settlement before considering strike action.

George Osborne, said strike action would be “totally irresponsible”:

And we’re reforming public sector pensions so they are generous to public servants and also fair to taxpayers. Let me say this to the unions: to go on strike in economic times like this, when you’re being offered pensions far more generous than most other people could ever afford, will hit growth, will cost jobs. It is totally irresponsible.

On 25 October, the Financial Times reported that the latest round of negotiations had “ended in an impasse.”

**November 2011 offer**

On 2 November 2011, the Chief Secretary to the Treasury announced a new offer to the unions, including:

- **A more generous accrual rate.** In October it had proposed “cost ceilings based on Lord Hutton’s recommendations that generate an accruals rate of 1/65th for the new schemes.” It was now proposing a cost ceiling of 1/60th of average salary accruing for each year worked. This represented an 8% improvement in the Government’s offer.

---

28 TUC Statement on pensions – 14 September 2011; BBC News, 14 September 2011, ‘Unions call national day of action over pensions.’
29 Labour Party Press Release, Strike should always be last resort and are usually a sign of failure, 14 September 2011; See also Ed Miliband’s speech to Party Conference 13 September 2011
30 Speech to Conservative Party Conference – 3 October 2011; See also speech to Francis Maude to Party Conference – 3 October 2011
• **Transitional protection.** Scheme negotiations would be given the flexibility outside the cost ceiling, to ensure that anyone with 10 years or less to their pension age on 1 April 2012 would see no change in when they retire, nor any decrease in the amount of pension they receive at their current normal pension age.\(^{32}\)

He said the reforms could endure for 25 years or longer:

> Yes, we are asking public service workers to contribute more. Yes, we are asking them to work longer, along with the rest of society, but we are offering the chance of a significantly better pension at the end of it for many low and middle income earners. It will be a fairer pension, so that low income workers stop subsidising pensions for the highest earners. It will be a sustainable deal that will endure for at least 25 years, and an affordable deal that will ensure that taxpayers are asked to make a sensible contribution, but will keep costs sustainable and under proper control.\(^{33}\)

The offer was conditional on agreement being reached - “an agreement by the end of the year on the heads of terms on a scheme-by-scheme basis.”\(^{34}\)

The details of the Government’s preferred design for the new public service schemes included the proposed pension age increases. In recognition of the fact that different designs might suit different workforces, the Government set out cost ceilings within which alternatives could be considered.\(^{35}\)

**December 2011 – Heads of Agreement**

On 20 December, the Chief Secretary to Treasury confirmed that the member contribution increases would go ahead. He also gave an update on progress in negotiating the longer-term reforms:

• “Heads of agreement” had been established with most unions in the local government, health, civil service and teachers’ schemes. This meant the offer made in November had been “secured.” Key aspects of the agreement were that in future, scheme pension ages would match the State Pension ages and schemes would be on a career average basis. Those within 10 years of retirement would see no change in their normal pension age nor any decrease in the amount they receive at that age. The schemes would have a higher accrual rate than had been announced in November, but each year’s earnings factor would be revalued in line with prices rather than earnings, so that there was no increase in cost compared to the November offer.

---

\(^{32}\) HC Deb, 2 November 2011 c928  
\(^{33}\) HC Deb 2 November 2011 c930  
\(^{34}\) Ibid, c928 and c935  
\(^{35}\) HM Treasury, *Public Service Pensions: good pensions that last*, Cm 8214, November 2011
• The Government had recognised that the Local Government Pension Scheme (LGPS) should be treated differently because it was funded. The Local Government Association and the trade unions have agreed that the pension age in the new scheme will be linked to the state pension age, and their preference is to deliver a career average scheme. Discussions would continue on the detail.

• Discussions on police, armed forces, judiciary and fire service schemes have been a separate process from the start, and proposals would be brought forward in due course.

• The Government had made a commitment that the reforms would be “sustained for at least 25 years. It intended to include provisions on the face of the forthcoming Bill to ensure that a “high bar is set for future Governments to change the design of the schemes.”

• Because agreement had been reached, the Government had also agreed to “retain the fair deal provision and extend access for transferring staff.”

Responding to the statement, the then Shadow Chief Secretary to the Treasury, Rachel Reeves, said Labour had been “clear from the beginning that the Government and public service employees would need to find ways of adjusting to the welcome fact that people are living longer.” It had been clear that any resolution to the dispute needed to be fair to taxpayers and public service employees and genuinely sustainable for the long term:

The vast majority of public sector workers, including dinner ladies, community nurses and police community support officers, retire on very modest pensions; moreover, they are already being hit hard by a pay freeze and worried about mounting redundancies. It was clear to us that tearing up decent public service pension schemes or imposing punitive and unaffordable contribution increases would be entirely counter-productive if it resulted in lower savings and inadequate retirement incomes that only left more people retiring into poverty, dependent on state benefits in their old age. We will be looking at the detail of these proposals on the basis of the tests that we have set out.

The TUC said that progress varied between the sectors but that in most cases the emphasis was now on “giving active consideration to the new proposals that have emerged rather than considering the prospect of further industrial action”:

Since the day of action we have seen a new atmosphere in the negotiations. The state of play varies between sectors. Progress has been made in health and local government where key principles for further negotiation in heads of agreement will provide the basis for

---

36 HC Deb, 20 December 2011, c120
37 HC Deb, 20 December 2011, c1204
further talks in the New Year. It’s important to stress that no agreements have been reached, but unions now have proposals to put to their executives and members. We have reached a stage where the emphasis in most cases is in giving active consideration to the new proposals that have emerged rather than considering the prospect of further industrial action.

We have been talking for many months but since the day of action that involved millions and with the intensive discussions over recent days we now see change. Accrual rates are more favourable then were originally proposed, there is enhanced protection for those nearing retirement, Fair Deal protection for those whose jobs transfer out of the public sector and there will be no adverse changes to pensions for 25 years.\(^{38}\)

Dave Prentis of UNISON said its members had agreed to more talks but that if these failed, it still had the option of taking strike action:

> The NHS scheme discussions are due to end in late January, and the local government pensions scheme negotiations will continue until April 2012. At this point, we will put the final offer for both schemes to all our members.\(^ {39}\)

Further detail was provided in Written Statements relating to the scheme in question.\(^ {40}\)

### 2.2 Scheme by scheme negotiations

#### The unfunded schemes

On 9 March 2012, the Government published Proposed Final Agreements for the Teachers, NHS and Civil Service schemes. It said these delivered its “key objectives on linking Normal Pension Age to State Pension age and moving to schemes based on career average salary, while protecting those closest to retirement.” The cost ceilings set on 2 November 2011 remained unchanged, with no additional money made available:

> Discussions have now concluded with health, education and civil service unions on details for new public service pension schemes to be introduced from 2015.

> Heads of Agreement on the main elements of scheme design were reached on 20 December 2011 for the NHS Pension Scheme, the Principal Civil Service Pension Scheme and the Teachers’ Pension

---

38 TUC press release, Statement after TUC PSLG meeting, 19 December 2011
39 UNISON website – homepage (viewed 12 January 2012)
40 HC Deb, 20 December 2011, c150WS (civil service); ibid, c152WS (local government); c157WS (teachers); c159WS (health)
Scheme. Further work on the remaining details has taken place between departments and trades unions. Discussions have now concluded for these schemes and Proposed Final Agreements, based on the Heads of Agreement reached on 20 December, have been published today by departments.

These Proposed Final Agreements remain in line with the approach set out in Lord Hutton’s report and will mean that public service pensions remain among the very best available. The agreements also continue to deliver the Government’s key objectives on linking Normal Pensions Age to State Pension Age and moving to schemes based on career average salary, while protecting those closest to retirement. While most workers will be asked to retire later and pay more towards their pension, at the same time, most low and middle earners working a full career will receive pension benefits at least as good, if not better, than they get now. Those less than ten years from their Normal Pension Age on 1 April 2012 will continue to be protected from these changes.

Details agreed include, a process with trades unions for assessing the equalities impacts of these reforms; clarification on death in service and other ancillary benefits, such as the treatment of members who leave active service but rejoin within five years; and options for members to contribute more in order to top up their pension if they choose to retire early. The enhanced cost ceilings set on 2 November 2011 remain unchanged, with no additional money made available.

The majority of unions have agreed to take these Proposed Final Agreements to their Executives as the outcome of negotiations. In parallel with this process, the Government has begun working on the implementation of these scheme designs and will introduce legislation as soon as parliamentary time allows, so that new schemes can be in place by 2015.41

---

41 HM Treasury press release, Discussions concluded on public service pension details, 9 March 2012
Further details were in written statements and on scheme websites and are now in regulations:

<table>
<thead>
<tr>
<th>Scheme</th>
<th>Proposed final agreement – written statement</th>
<th>Scheme website</th>
<th>Regulations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Teachers’ Pension Scheme</td>
<td>HC Deb 12 March 2012 c4WS</td>
<td>TPS E&amp;W Proposed Final Agreement Consultation on the TPS Scotland</td>
<td>Teachers’ Pension Scheme Regulations 2014 (SI 2014/512) Teachers’ Pension Scheme (Scotland) Regulations 2015</td>
</tr>
<tr>
<td>NHS Pension Scheme</td>
<td>HC Deb 12 March 2012 c7WS</td>
<td>NHS E&amp;W proposed Final Agreement NHS Pension Scheme Scotland Regulations</td>
<td>NHS Pension Scheme Regulations 2015 (SI 2015/94) NHS Pension Scheme Scotland Regulations</td>
</tr>
<tr>
<td>Civil Service Pension Scheme</td>
<td>HC Deb 20 December 2011 c150-1WS</td>
<td>Civil Service Pension Scheme – Proposed Final Agreement</td>
<td>The Public Service (Civil Servants and Others) Pensions Regulations 2014 (SI 2014/1964)</td>
</tr>
<tr>
<td>Firefighters Pension Scheme</td>
<td>HC Deb 9 February 2012 c33WS</td>
<td>FPS England: proposed final agreement FPS Scotland consultation FPS Wales circular</td>
<td>Firefighters’ Pension Scheme (England) Regulations 2014 (SI 2014/2848) Firefighters Pension Scheme (Wales) Regulations 2015 (SI 2015/622) Firefighters Pension Scheme (Scotland) Regulations 2015 (SI 2015/19)</td>
</tr>
</tbody>
</table>
There is an overview of main features of the four largest pay-as-you-go public service pension schemes (armed forces, civil service, NHS and teachers) over time in National Audit Office, Public Service Pensions, March 2021.

Response of the trade unions

The Government’s proposals for reform of the NHS Pension Scheme were rejected by the BMA, UNITE and the GMB. Organisations such as the Royal College of Midwives and the Chartered Society of Physiotherapists announced their “reluctant” acceptance of the Government’s final offer. UNISON announced on 30 April 2012 it that a combination of a low turn-out and a close vote on a ballot of its members meant there was “no mandate to endorse the pensions proposals, but equally no mandate to take further industrial action.” In February 2012, RCN members voted to reject the proposals, although on a low turn-out.

The Government’s announcement for proposed reform of the Teachers’ Pension Scheme in England and Wales was accepted by the Association of Teachers and Lecturers. In March, the National Association of Head Teachers said it had no further plans for action.

---

42 UNITE to ballot members on NHS pensions offer, 9 February 2012; Unite NHS members to stage protest after emphatic rejection of pension proposals, 20 March 2012; GMB Press Release, NHS GMB Members Vote No On Pensions, 22 May 2012; see also GMB newsletter, April 2012/04; BMA Briefing, June 2012; The ballot results can be seen on its website; BMA – Public sector pension reform – challenging unfairness (viewed October 2012)

43 RCM press release, 3 May 2012, ‘Government pensions offer accepted’; Chartered Society of Physiotherapy press release, 1 May 2012, NHS members reluctantly accept changes to their pension scheme

44 ‘UNISON health workers to decide on final pension proposals, 9 March 2012’ UNISON press release, 30 April 2012, UNISON NHS pension ballot result. A ballot UNISON health members in England, Wales and Northern Ireland on changes to the NHS scheme returned a turnout of 14.8% of those eligible to vote. Of that, 14.8%, the result was close with 50.4% voting to reject and 49.5% to accept

45 Results of RCN member vote on pensions, 28 February 2012. 65,759 votes were cast, a turn-out of 16.17%; 41,009 members (62.36%) voted to reject the Government’s proposals, while 24,533 members (37.30%) voted to accept the proposals; NHS Employers, ‘Industrial action roundup’, 23 April 2012

46 ‘Teaching unions accept pensions deal’. The Guardian January 2012

47 NAHT comments on government announcement that pensions talks have concluded
Union of Teachers, NASUWT (the Teachers’ Union), University College Union and UCAC (the Teachers’ Union in Wales) said they would campaign for further changes.48

Members of the FDA and Prospect voted to accept the Governments proposed new scheme for civil servants, although the unions stressed that this should not be seen as an endorsement of the new scheme - increases in pension contributions and the switch to the CPI, in particular, had “generated both anger and resentment” among its members.49 Members of the PCS, UNITE, the Immigration Services Union and the Prison Officers’ Association voted to reject the Government’s proposed reforms.50

Fire Brigades Union (FBU) described the proposals for the Firefighters Pension Scheme as “unacceptable” on the grounds that they included “unaffordable and unfair contribution rates” and a “totally unrealistic retirement age for firefighters.”51 A key concern was the position of firefighters aged 55 and over who could not retain the required levels of fitness to age 60 but do not have a permanent medical condition such that they qualify for an ill-health pension. 52

Local Government Pension Scheme

Unlike the other main public service pension schemes which operate on a Pay-As-You-Go basis (meaning contributions are paid to the sponsoring government department, which meets the costs of pensions in payment) the Local Government Pension Scheme (LGPS) is funded (meaning that contributions are paid to a fund, which is invested and used to pay pension benefits at retirement).53

49 FDA website – Pensions 2015 – comment of May 2012 (viewed October 2012); Prospect press release, Members vote for 2015 pension scheme but battle for fairness continues, 14 May 2012
50 PCS website 21 March 2012 – next steps in the national campaign (viewed 4 July 2012); Unite Ministry of Defence staff to strike over pensions’ proposals on 10 May, 26 April 2012; ISU Union for Borders Immigration and Customs Strike Action on 10 May (viewed October 2012)
52 For more detail, see Library Briefing Paper CBP-6585 Firefighters’ Pension Scheme – current reforms (February 2015)
53 This is discussed in more detail in Library Briefing Paper CBP 8478 Public service pensions – facts and figures (May 2021)
When the Coalition Government announced its intention to increase member contributions, employer and employee representatives expressed concerns about the impact on the LGPS, given the high proportion of members who were lower paid.54 The Local Government Group55 argued that alternative ways of making the savings should be investigated.56 The Government agreed to take forward discussions on alternative ways to deliver some or all of the savings.57 In June 2012, the Local Government Association (LGA), UNISON, Unite and the GMB announced that they had agreed proposals for reform of the LGPS in England and Wales.58 For LGPS members, transitional protection would be provided by means of an ‘underpin’: with pension benefits earned before and after introduction of the new scheme calculated separately. Benefits earned before the date of change would be calculated on the basis of final pensionable pay at the point the pension is drawn or the member leaves service.59 The Department for Communities and Local Government (CLG) launched its consultation on Local Government Pension Scheme 2013 in June 2013 and responded in September 2013.60 New schemes were introduced in April 2014 in England and Wales and April 2015 in Scotland. For more detail, see Local Government Pension Scheme: response to McCloud, CBP 9257, June 2021.

2.3 Public Service Pensions Act 2013

The Public Service Pensions Bill 2012-13 was introduced to the House of Commons on 13 September 2012. Primary legislation was needed to “create the framework necessary to enable changes to service pensions” in line its objectives and the recommendations of the Independent Public Service Pensions Commission.

The Library Briefing Paper for 2nd Reading in the Commons on 29 October 2012 is RP 12-57 Public Service Pensions Bill [Bill 70 of 2012/13] (October 2012). The debates at Commons Committee stage are discussed in RP 12-72 Public Service Pensions Bill: Committee Stage Report (November 2012) and the debates in the Lords in CBP-6572 (April 2013).

54  ‘£1bn pension raid on council works is wrong and unsustainable’, GMB press release, 26 October 2010
55  The Local Government Group includes the Local Government Association which is a “politically-led, cross-party organisation that works on behalf of councils to ensure local government has a strong, credible voice with national government”
56  Letter to Chancellor from Local Government Group, 16 February 2011
57  HC Deb, 19 July 2011, c91-4; Letter from the Chief Secretary to the Treasury to TUC General Secretary, Brendan Barber, 18 July 2011
58  LGA media release 31 May 2012, Pension reform proposals agreed with unions; LGPS 2014 Joint Statement, 30 August 2012
59  LGPS 2014 - protection
The Public Service Pension Act 2013 received Royal Assent on 25 April 2013. The detailed rules of the new scheme are in regulations made under the Act.

The devolved administrations

In its October 2010 interim report, the Independent Public Service Pensions Commission noted that the devolved administrations had slightly different arrangements for administering public service pensions, although in practice the schemes mirrored each other closely:

The devolved administrations have slightly different arrangements for administering public service pensions. For instance, Scottish Ministers have the power to make secondary legislation affecting how the five public service pension schemes operate (including, for example, the benefits the schemes provide and contributions made by scheme members). In practice the schemes have tended to mirror each other closely and they face similar structural issues."61

It recommended that the key design features of the new public service pensions should be part of a UK-wide policy framework:

5.26 Although pensions policy, including public service pensions policy, is set at a national level, a number of the public service pension schemes are the responsibility of the Devolved Administrations rather than the UK Government. There has been scope for some variations in terms to meet local circumstances, but the resulting pension schemes have essentially been the same as those established by the UK Government. That has, for example, helped to prevent pension terms becoming an obstacle to transfers of staff and skills within a sector of the public service. It seems reasonable to continue with this approach.

5.27 The key design features should be part of a UK-wide policy framework that extends to Scotland, Wales and Northern Ireland, with limited adaptations of other features to meet local circumstances.62

The Public Service Pensions Act 2013 extends to England and Wales, Scotland.63 The Northern Ireland Executive agreed the introduction of reforms in line with those for Great Britain and legislated for them in the Public Service Pensions Act (Northern Ireland) 2014.

Section 2 and Schedule 2 of the Act provide that scheme regulations are to be made by the “responsibility authority” for the scheme (i.e. where regulation-making power is devolved, the Minister in the devolved administration). Scottish Minister have regulation-making powers for the schemes for: local

---

61 Independent Public Service Pensions Commission: Interim Report, 7 October 2010, p23-4
63 In the case of Northern Ireland, legislative competence for pensions for the armed forces and senior judiciary sits with Westminster - Public Service Pensions Act 2013 – Explanatory Notes, para 13
government, teachers, NHS, firefighters and the police. Welsh Ministers have regulation-making power with respect to firefighters in Wales.64

Under section 3, responsible authorities have the power to make regulations including provision for any of the matters specified in Schedule 3. These include provision for death and injury benefits, employer and employee contribution rates. Regulations must be in accordance with the framework set by the Act. Examples of limitations this sets are:

- **Section 8** which set constraints on the design of schemes, including requiring schemes that are Defined Benefit schemes to provide those benefits through a “career average revalued earnings scheme” (or CARE scheme) or such other description of defined benefits scheme as the Treasury may specify in regulations (but not a final salary scheme);
- **Section 10** which required that members of the new schemes should have a normal pension age linked to their State Pension, except for the schemes for firefighters, police and armed forces which must have a normal pension age of 60;
- **Sections 11 and 12** required the new schemes to contain a mechanism for regular valuations of the scheme and to provide for a cap on the costs to employers of public service schemes;
- **Section 18** required the closure of the existing schemes from 31 March 2015 (2014 for local government). The effect was to bring to an end benefit accrual under the existing schemes, except for those covered by transitional arrangements for those ‘closest to retirement’ (see below).

For more detail, see section 5.2 of Library Research Paper RP 12/57 Public Service Pensions Bill [Bill 70 – 2012-13].

---

64 Public Service Pensions Act 2013, Sch 2
3 The reforms

3.1 CARE schemes

Before the 2015 reforms, most of the existing public service schemes provided benefits based on final salary. 65

The Independent Public Service Pensions Commission concluded that final salary schemes unfairly benefited high-fliers and exposed taxpayers to salary risk (as higher than expected salary rises increased the cost of providing pensions). Having looked at a range of alternative structures, the Commission recommended that a new career average revalued earnings (CARE) scheme should be adopted for general use in the public service schemes:

Ex.14 The Commission’s view is that defined benefit should continue to be the core design for public service pensions as an efficient design for a large employer to share risk with employees. But as set out in the interim report, and expanded further in this report, final salary does not provide the right design for future public service schemes. Final salary schemes unfairly benefit high flyers who can receive up to twice as much in pension payments per £100 of contributions. It exposes taxpayers to salary risk (the risk that higher than expected salary rises increase the cost of providing pensions), which should be borne by the scheme member who benefits from the salary rise. And final salary creates a barrier to employees moving from the public to private sector. These inherent problems of final salary schemes impact on fairness and sustainability and have led the Commission to conclude that an alternative model should be chosen for the future.

Ex.15 Career average schemes allow pension to be accrued on the basis of earnings in each year of service. In these schemes future earnings do not affect past years’ pension accrual so mobility between sectors is easier, salary risk remains with members and the unfairness of big benefits to high flyers is removed.

Ex.16 So both career average and cash balance schemes could provide a good match against the Commission’s principles and in terms of the distribution of risks between member and taxpayer. On balance, the Commission has decided to recommend career average as the option that provides more certainty for members, is better

65 With the exception of the nuvo section of the Civil Service Pension Scheme introduced in 2007 and the section of the NHS Pension Scheme for dental and medical practitioner members (SI 1995/300)
understood and will be more practical to implement. The
Commission is not recommending specific levels for accrual rates,
indexation and employee contributions as these determine cost,
which is a matter for the Government. The Government will need to
make a decision about these parameters after consultation with
scheme members.66

Section 8 of the Public Service Pension Schemes Act 2013 provided a “broad
power to create pension and benefit schemes of different designs”, including
DB schemes, DC schemes and “schemes of any other description.” Any DB
scheme must be a CARE scheme, or another type of DB scheme specified in
regulations made by the Treasury. However, Treasury regulations may not
specify a final salary scheme.67

The detail in each case was left for individual schemes to negotiate, in
recognition of the fact that individual workforces had different requirements
from their pension scheme. The Government set ‘cost ceilings’ within which
alternatives to its preferred design (an accrual rate of 1/60th with benefits
revalued annually in line with earnings) could be considered.68

In a CARE scheme, the proportion of pensionable pay an individual earns for a
particular year of service needs to be revalued each year during active
membership. The final pension is worked out by adding each year’s revalued
pension amounts together.69 The rate at which pension benefits are revalued
has a significant impact on the value of pension benefits at retirement.
However, the rate at which benefits accrue each year is also important. The
Commission explained that there is a trade-off between the two:

3.45 For a given cost, accrual rates will be more generous if a less
generous indexation method is adopted, and visa versa. For
example, earnings indexation will generally be more generous than
prices indexation (since earnings typically outpace inflation over the
medium to long term) and so the accrual rate will need to be lower in
a CARE scheme with earnings indexation. Affordability for the new
scheme design can therefore be achieved by the balancing of
indexation method and accrual rates.70

Different accrual and indexation arrangements were agreed for each scheme.
The details are now in scheme regulations.

---

66  Independent Public Service Pensions Commission: Final Report, 10 March 2011, p10; See also
67  Explanatory notes – para 53-7
68  Ibid, para 3.45
69  RP 12/57 Public Service Pensions Bill (October 2012), section 5.4
70  Independent Public Service Pensions Commission: Final Report, 10 March 2011; HM Treasury, Public
Service Pensions: good pensions that last, Cm 8214, Nov 2011, Box 3C
3.2 Normal pension age

In its interim report in October 2010, the Commission said reforms to date had not gone far enough in responding to demographic change and did not significantly reduce current costs to taxpayers.

The Commission’s final report in March 2011 recommended replacing the existing public service pension schemes with new ones by 2015. In most of these new schemes, members’ normal pension age in the new schemes would be linked to their State Pension age (SPA). It said this link should be regularly reviewed, to make sure it is still appropriate, with a preference for keeping the two pension ages linked. For the uniformed services, the Commission recommended a normal pension age of 60, to be kept under review.

The Government accepted the Commission’s recommendations as the basis for negotiation with the trade unions. It announced final proposed agreements for reform of most public service schemes over the period March to October 2012. It then legislated in the Public Service Pensions Act 2013 for a framework for the new schemes to be introduced for future service from 2015 (2014 for local government). Section 10 provided for normal pension age linked to the State Pension age, except for the schemes for firefighters, police and armed forces, which are to have a normal pension age of 60. There was protection for accrued rights and transitional protection arrangements to enable those ‘closest to retirement’ to remain in their existing schemes either until retirement, or for a limited period, depending on their date of birth.

The link to the State Pension age caused widespread concern among public sector unions, some of whom launched a ‘68 is too late’ campaign. An area of particular debate was the impact on certain groups – such as paramedics, prison officers and MoD police and firefighters – given the demands of those roles.

There has also been disquiet about the impact of a pension age of 60 on some in the ‘uniformed services.’ The Fire Brigades Union has been campaigning for improved protection – particularly in England - for those firefighters unable to meet the demands of the role to age 60 but who do not qualify for an ill-health pension.71

For more detail, see Library Briefing Paper CBP-6581 Public service pension age (December 2019).

---

71 Library Briefing Paper CBP 6585 Firefighters pension schemes – 2015 reforms
3.3 Transitional arrangements

Under its terms of reference, the Commission was asked to ensure that its recommendations protected accrued rights. Its final report said this was a “prerequisite for reform both to build trust and confidence and to protect current workers from a sudden change in their pension benefits or pension age. It is also right that those closest to retirement will be least affected by any changes to scheme design.” It recommended “maintaining the final salary link for past service for current members.”

In combination with its recommendation that pension age changes would apply to future service only, this would mean existing members in their 50s should experience limited change to the benefit they would expect to accrue. It said that this meant “special protections for members over a certain age should not be necessary.” Furthermore, “age discrimination legislation also means that it is not possible in practice to provide protection from change for members who are already above a certain age.”

However, in a statement to Parliament on 2 November 2011, the Chief Secretary to the Treasury said that he had listened to arguments that those closest to retirement should not have to face any change at all. It decided that those closest to retirement should not suffer any detriment, either as to when they can retire, or any decrease in the amount of pension they receive at NPA. The protection was provided to those who were within ten years of NPA on 1 April 2012 and there was also scope for tapering for three to four more years. The cost of the transitional protections was outside the costs ceiling and therefore did not need to be offset by reductions elsewhere in the pension schemes. This was legislated for in the Public Service Pensions Act 2013, s18, with the details in the regulations relating to individual schemes. Section 20 and Sch 7 provided for benefits built up in the existing final salary schemes to be calculated by reference to the member’s final salary at the point they retired or left pensionable service in the new scheme (not the point at which the final salary scheme was closed).

McCloud

In December 2018, the Court of Appeal ruled in McCloud v Ministry of Justice that the ‘transitional protection’ offered to some members as part of the reforms amounted to unlawful discrimination. Having been denied leave to

---

74 Ibid, para 7.34
75 HC Deb 2 November 2011 c927WS HM Treasury, Public Service Pensions – good pensions that last, November 2011
76 Lord Chancellor and Secretary of State for Justice v McCloud and Mostyn. Home Secretary and Welsh Ministers v Sargeant. 2018 EWCA Civ 2844
appeal, the Government accepted that the discrimination would need to be addressed across public service pension schemes.\textsuperscript{77}

It proposed giving eligible members a choice as to whether they accrue benefits in the relevant reform or legacy scheme for the ‘remedy period’ (1 April 2015 to 31 March 2022). The main question for the consultation was when that choice would be made. There were two options:

- **an immediate choice exercise**, where the choice would be made as soon as possible after the policy is implemented; or
- **a deferred choice underpin**, where the choice would be made at retirement, or when benefits are drawn and, up until that point, members would be treated as having been in their legacy scheme during the remedy period.

The choice would be offered to all eligible members, i.e. those in service on or before 31 March 2012 and still serving on or after 1 April 2015, including those who are currently active, deferred or retired, and those with a qualifying break in service of less than 5 years.\textsuperscript{78}

In its response to the consultation in February 2021, the Government said it would proceed with the **deferred choice underpin**. This meant that members would make a decision, shortly before their benefits came into payment, about whether to have built up benefits in the relevant legacy or reformed scheme for the ‘remedy period’ (1 April 2015 to 1 April 2022). In the meantime, they would be deemed to have built up benefits for that period in the relevant legacy scheme. Most respondents to the consultation had supported this option, primarily because members would have greater certainty on their benefit entitlements at the point that they made the decision.

This is discussed in more detail in **Public Service Pensions: response to McCloud**, Commons Library Briefing Paper CBP 9177, July 2021.

\textsuperscript{77} HCWS 1275 15 July 2019

\textsuperscript{78} HM Treasury, **Public service pensions – response to consultation**, Feb 202
4 Impact of the 2011-2015 reforms

4.1 Expectations in 2012-13

In its impact assessment for the Public Service Pensions Bill 2012-13, the Government estimated that Exchequer expenditure on unfunded public service pensions would fall:

as a percentage of GDP from 2 per cent of GDP in 2015-16 to 1.3 per cent in 2060-61. This is 0.1 per cent lower than without the reforms resulting from this Bill. These costs would continue to marginally fall thereafter, until steady state is reached around 2090. 79

In its 2012 Green Budget., the Institute for Fiscal Studies said that the reforms would “significantly reduce the generosity of these pensions for many public sector workers.” They would “improve the structure of public service pensions” and that public sector workers would “continue to accrue pensions that are dramatically more generous than those accrued, on average, by private sector employees, few of whom have access to a defined benefit pension.”80

On 23 October 2012, the Pensions Policy Institute (PPI) published a report on the impact of the reforms (the increase in member contributions, the switch to a Career Average Revalued Earnings Scheme and the linking of the normal pension age with the State Pension age) on the schemes for NHS, teachers, civil service and local government schemes.81 It said they would reduce the average value of benefits offered across all scheme members by more than a third: from 23% of a scheme member’s salary to 15%. It said the schemes would still be worth more on average than a private sector Defined Contribution scheme, about the same as a typical private sector DB scheme linked to the CPI, but less than one linked to the RPI.82

80   Carl Emmerson and Wenchao Jin, Public sector pensions and pay, IFS Green Budget, February 2012
81    PPI, The implications of the Coalition Government’s reforms for members of the public service pension schemes, October 2012
82    Ibid, p4; The switch to the CPI is discussed in more detail in Library Standard Note CBP 5656 Occupational pension increases (November 2018)
4.2 NAO report – March 2021

The Government estimates that in combination with other changes made by the Coalition Government (the switch from the RPI to the CPI for annual increases and increases in member contribution rates) the 2013 Act reforms have reduced “the forecast cost of public service pensions to the taxpayer by approximately £400 billion over 50 years.” It also argues the change from final salary to career average design has “made schemes fairer for most workers on low and middle incomes” and that the change to normal pension age “reflected improvements in life expectancy and the need to rebalance working lives with the average number of years spent in retirement.”

In a March 2021 report, the National Audit Office said the latest projections indicated that while gross benefit expenditure was expected to fall as a percentage of GDP from a peak of 2.1% in 2022-23, to around 1.5% of GDP from 2064-65 onwards, reflecting both the 2011-2015 reforms and reductions in the public sector workforce:

2.22 The OBR’s latest projections published as a part of its 2018 Fiscal sustainability report indicate that while gross benefit expenditure will continue to rise in cash terms over the long term, it will fall as a percentage of GDP over the medium and long term (Figure 11 overleaf). Gross benefit expenditure is expected to increase from 2.0% of GDP in 2019-20 to a peak of 2.1% in 2022-23, before reducing over time to around 1.5% of GDP from 2064-65 onwards. These projections are based on assumptions and will differ from the actual outcomes of the schemes. For example, the supporting analysis behind these projections shows that a 0.5% annual increase in the earnings growth assumption would increase pension costs by £14.9 billion in 2067-68 (0.1% of GDP). The projections were made before the COVID-19 pandemic and any impact of EU Exit, both of which have increased the uncertainty around GDP forecasts. The economic impact of climate change also increases the uncertainty of these forecasts.

---

HM Treasury consultation, July 2020, para 1.9
2.23 The OBR attributes the fall in pension costs over the long term as partly reflecting the 2011–2015 reforms to public service pensions introduced since 2010. Over time, an increasing proportion of retiring scheme members will draw on the (cheaper to the taxpayer) reformed pension schemes introduced in 2015, rather than the higher-cost legacy schemes. The OBR also attributes these changes to the reductions in the public sector workforce associated with cuts to departmental spending since 2010. However, this workforce trend has reversed since 2016 owing to the impact of preparing for EU Exit and, more recently, responding to the COVID-19 pandemic.84

In terms of who was meeting the cost, the NAO employees were contributing substantially more to their pensions as a result of the 2011-2015 reforms:

In 2019-20 total employee contributions from the four largest pay-as-you-go schemes amounted to £8.2 billion, 44% higher than 2009-10 (in real terms). On average, employees contributed around £2,700 in 2019-20 to their pensions, 33% higher in real terms than in 2009-10, and around 8.5% of average salaries in 2019-20. These increases in employee contributions are in the context of average pay decreasing 12% in real terms over the same period (to £31,600 in 2019-20), as prices increased faster than total pay...85

While the taxpayer’s proportion of total pension funding remained similar to 10 years ago, employer contributions had risen significantly in 2019-20, largely as a result of a change to the discount rate:

The taxpayer funds about 75% of the costs of the four largest pay-as-you-go schemes, a similar figure to 10 years ago. In cash terms this was £25.4 billion in 2019-20. Of this, £23.3 billion came from employer contributions – up £6.4 billion on the previous year – and the rest came from HM Treasury. The increase in employer contribution rates in April 2019 (based on the results of the 2016 valuations) is largely the result of a change to the discount rate

84 NAO, Public service pensions, HC 1242, March 2021
85 Ibid, Summary, para 13
government used to estimate the current cost of future benefits to be paid out by the schemes.\(^{86}\)

This is discussed in more detail in *Public service pensions: employer contributions*, Commons Library Briefing Paper CBP 7539.

The NAO also commented that HM Treasury’s strategy for public service pensions focused on affordability and did not explicitly consider the role of pensions in the recruitment and retention of staff. Some public bodies found pension arrangements “inflexible for supporting their workforce plans:

Employers told us that pensions can play an important role in retaining people with the right skills, but it is less clear whether current arrangements help them recruit new employees. For comparable private sector workers, pensions often form part of a flexible range of benefits alongside pay. As such, private sector employers have more flexibility to set the balance between different elements of remuneration, such as pay, pension and annual leave. Most public service employers can only offer potential employees the choice between staying in the scheme or opting out.\(^{87}\)

The NAO said there was some evidence to suggest that those in lower age and income groups were more likely to opt out as they viewed contributions as unaffordable.\(^{88}\) In its June 2021 report, the Public Accounts Committee included some HM Treasury data on overall opt-out rates:

- NHS Pension Scheme – 10% of employees opted out of their pension, the equivalent of around 180,000 employees.
- Teachers’ Pension Scheme – 7% to 8% of employees opted out of their pension, the equivalent of around 53,000 to 61,000 employees.
- Civil Service Pension Scheme – less than 1% of employees opted out of their pension, the equivalent of around 5,000 employees.\(^{89}\)

However, HM Treasury did not routinely collect detailed data on opt-out rates and as a result could not give the Committee “a clear answer as to whether overall younger employees and those on lower pay are more likely to opt out of their pensions than other groups, or whether participation rates are increasing or decreasing over time.”\(^{90}\)

The NAO also found variation in the average pension across the four largest pay-as-you-go schemes, reflecting differences in average pay, length of

\(^{86}\) Ibid, Summary, para 14  
\(^{87}\) Ibid Summary, para 18  
\(^{88}\) Ibid Summary, para 19  
\(^{89}\) Public Accounts Committee, *Public sector pensions*, HC 289, 11 June 2021, para 21  
\(^{90}\) Ibid para 22
service and accrual rates. On average, men received higher pensions than women because men, on average, earned more over their careers:

Across the largest pay-as-you-go schemes, the average difference in pension payments between male and female pensioners was 45% in March 2016, with male scheme members receiving £14,100 on average, whereas female scheme members received £7,750 on average [...]. The largest difference in pension payments was observed in the NHS Pension Scheme at 63%.91

It found no information that allowed it to “quantify the differences in pension for other groups with known pay gaps, such as members identifying as black, Asian or minority ethnic.”92

The NAO recommended that the Government “work closely with employers to understand how public service pensions can best support their workforce planning, to ensure pensions are an effective tool in recruiting and retaining the staff they need.” It should also consider:

consider whether broader performance measures, covering affordability and its other objectives, would give it greater assurance that it is delivering its objectives for public service pensions. For example, it could collect and analyse information regularly on the rate at which some groups are opting out of schemes.93

The Public Accounts Committee was “concerned that HM Treasury has still not prioritised an evaluation of its reforms, particularly given the importance of pensions to individual scheme members, their impact on frontline services, and their significant cost to the taxpayer.”94

91 NAO, Public service pensions, HC 1242, March 2021, para 2.7-8
92 Ibid para 2.9
93 Ibid p12
94 Public Accounts Committee, Public sector pensions, HC 289, 11 June 2021
The House of Commons Library is a research and information service based in the UK Parliament. Our impartial analysis, statistical research and resources help MPs and their staff scrutinise legislation, develop policy, and support constituents.

Our published material is available to everyone on commonslibrary.parliament.uk.

Get our latest research delivered straight to your inbox. Subscribe at commonslibrary.parliament.uk/subscribe or scan the code below:

commonslibrary.parliament.uk
@commonslibrary