Civil service pensions – current reforms

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The Principal Civil Service Pension Scheme (PCSPS) is the occupational pension scheme for civil servants. It is a defined benefit scheme, operating on a Pay-As-You-Go basis. The current scheme has three main sections: *classic* for entrants before 2002; *premium* for those who entered between 2002 and 30 July 2007 and *nuvos for new entrants that date.*

Nuvos was introduced in July 2007, following negotiations on reform. Compared to the already existing scheme, it has a higher normal pension age (65, compared to 60) and provides benefits based on career average rather than final salary. Another feature of the 2007-08 reforms was the introduction of a 'cap and share' mechanism, under which future increases in the cost of benefits (arising, for example, from rising longevity) would be shared between employee and employer, subject to a cap on employer contributions.

In June 2010, the Government established an Independent Public Service Pensions Commission, chaired by Lord Hutton of Furness, to look at "the long-term affordability of public sector pensions, while protecting accrued rights". The Commission's interim report, published in October 2010, recommended an increase in member contributions. Tiered increases in member contribution rates in the civil service scheme were implemented in April 2012 and 2013. Further increases are scheduled for April 2014.

Recommendations of the Commission's final report, published in March 2011, included replacing existing schemes with new ones, with pension entitlement based on career average earnings rather than final salary and linking the normal pension age to the State Pension age. The Government accepted Lord Hutton's recommendations as a basis for consultation. In December 2011, it said heads of agreement had been established with most unions in the civil service, NHS, teachers and local government schemes. In March 2012, the Government published its Final Proposed Agreement. The *Public Service Pensions Act 2013* created the framework for the new public service pension schemes to be introduced in 2015.

This note looks at the reforms to civil service pensions being introduced by the current Government. The development of the scheme is discussed in SN 3224 – Civil service pensions – developments to 2010.

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1 The current schemes

1.1 Overview

The Principal Civil Service Pension Scheme (PCSPS) is a multi-employer, unfunded, defined benefit public service occupational scheme (although the option of a money purchase pension was introduced in October 2002). Membership of the scheme is voluntary. It is limited to civil servants and employees of bodies listed in Schedule 1 to the *Superannuation Act 1972* (this includes, for example, National Museums). The final report of the Independent Public Service Pensions Commission, chaired by Lord Hutton, commented on the diversity of the membership:

> Within the civil service scheme groups as diverse as lawyers, economists, scientists and engineers are covered alongside groups such as border officers, coastguards, prison officers and some criminal investigators and police support staff.[1]

[1] Independent Public Service Pensions Commission: Final Report, 10 March 2011

The scheme rules are set and amended by statute.

The PCSPS was reformed in both October 2002 and July 2007 and the scheme for which a member is eligible depends on the date they joined the civil service. Members at 30 September 2002 belong to the *classic* scheme, which is now closed. The first major set of reforms introduced the *premium* scheme for new entrants from 1 October 2002. They also had the option of a money purchase *partnership* scheme, delivered through employer-sponsored stakeholder pensions from a choice of pension providers.[2] Members of *classic* had a limited period within which to decide whether to opt for *classic plus* – a combination of *classic* benefits to 1 October 2002 and *premium* after that. A further set of reforms was introduced on 30 July 2007: p*remium* was closed and new entrants had a choice of the *nuvos* scheme or the *partnership* pension account.

All these (with the exception of *partnership*) are Defined Benefit schemes, which means they pay benefits on retirement based on fixed values, typically salary and length of service. However, there are differences between the schemes. For example:

- In *classic* and *premium* pension benefits are based on final salary. In *classic* benefits accrue at 1/80th of final salary for each year of service, plus a lump sum of three times the annual pension. In *premium* benefits has an accrual rate of 1/60th, with the option to commute 25% of the pension for a lump sum;

- *Nuvos* is a "career average" scheme (i.e. pension benefits are based on salary in each year of service);

- In c*lassic* and *premium,* the normal pension age (NPA) is 60, whereas in *nuvos* it is 65.

- Until April 2012, members of *classic* contributed 1.5% of pensionable pay towards their pensions*.* Members of *premium, nuvos and classic plus* contributed at a higher rate (3.5%) in return for access to more generous survivors' benefits (for example, covering unmarried partners). Increases in contribution rates (tiered according to pay) were introduced from April 2012.[3]

A broad outline of the characteristics of the different schemes is provided in the Appendix to this note. See also the note produced by the Government Actuary's Department (GAD), *Principal Civil Service Pension Scheme (PCSPS) – Key features – March 08.*

As at 31 March 2012, there were 523,000 active members and 365,000 deferred members of PCSPS. 494,000 pensions were in payment to officers and 128,000 to dependants of deceased members. The approximate split of active membership was 57% classic, 2% classic plus, 26% premium and 15% nuvos.[4] The average pension in payment from the PCSPS in 2009-10 was £6,199, compared to £5,626 in 1999-2000 (2009/10 prices).[5]

Leaflets to explain the scheme to scheme members can be found on the Civil Service Pensions website.

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[2] Cabinet Office: Civil Superannuation. Resource Accounts 2006-07, HC 876

[3] See Library Note SN 6744 Civil service pensions – 2012 onwards

[4] Cabinet Office: Civil Superannuation Accounts 2011-12, HC 600, 31 January 2013

[5] Independent Public Service Pensions Commission: Interim Report, 7 October 2010

1.2 Delivery

The Cabinet Office is the manager of the scheme. Its responsibilities include admitting employers to the scheme, developing policy and maintaining scheme rules.

In 2010, changes were made to the way civil service pension arrangements were delivered, with the aim of introducing a new and more streamlined administration model. From April 2010, a new Scheme Management Board was set up to take on management and oversight of civil service pension arrangements and day-to-day administration was delegated to the Department for Work and Pensions, where it was delivered by My Civil Service Pension (MyCSP), part of DWP's shared services capability.[6]

On 12 April 2011, Cabinet Office Minister, Francis Maude, announced plans to convert MyCSP into a "mutual joint venture". The Cabinet Office said:

> This will be the first major "spin out" of a central government service giving employees the opportunity to take a stake in their business. The joint venture is a particular mutual model in which employees have a stake along with one or more partner organisation. This can combine the improved productivity associated with employee ownership with additional expertise and capital investment. Plans for MyCSP envisage that the Government, MyCSP employees, and a private sector partner would all have a strong material interest in the service. The potential for offering a stake to pension scheme members is also being considered. Work is now underway to develop this approach with the final structure of the partnership being shaped to provide further value for money to the taxpayer.[7]

The background to this is that in August 2010, Francis Maude announced the "launch of the first wave of Pathfinder mutuals to be run by entrepreneurial public sector staff who want to take control of the services they run."[8] In November, he said he would introduce new "rights to provide" across the public services. Public service employers would be "expected to accept suitable proposals from front-line staff who want to take over and run their services as mutual organisations."[9]

The change to MyCSP was opposed by the Public and Commercial Services Union (PCS):

> Despite the claims by management that the new organisation will be a 'mutual', the plans for MyCSP involve no employee consent or co-operation and does not involve genuine co-ownership. It is simply branded as such to make privatisation sound more attractive. The very clear message we have had from members is that they want to remain civil service employees and remain in the civil service pension scheme that they administer. PCS Officials have met with MyCSP management and with Francis Maude, the Cabinet Office Minister responsible and written to Permanent Secretaries to ask them to reconsider their plans. Serious concerns have also been raised by the Scheme Management Board as to the risks involved in the proposals. Yet despite all of the arguments against the plans for MyCSP management have refused to respond to

[6] Cabinet Office: *Civil Superannuation Resource Accounts 2009-10,* 22 July 2010, p17

[7] Cabinet Office Press Release, 12 April 2011 'First major central government mutual joint venture announced'

[8] Cabinet Office Press release, 12 August 2010, 'Francis Maude launches pathfinder mutuals'

[9] Cabinet Office press release, 17 November 2010, 'Big society plans for better public services'; For more on the background to this, see Library Standard Note SN/PC 5769 *Civil service reform.*

> these concerns. They are still planning to enact their plans in July and on this basis PCS has notified the employer that we intend to ballot members for industrial action.[10]

PCS members took strike action over the "loss of civil service status" on 17 June 2011.[11]

In November, Mr Maude said work was underway to select a private sector partner.[12] On 30 April 2012, he announced the launch of MyCSP as the first central government mutual:

> MyCSP Ltd, the first 'John Lewis style' business created from a central government service was launched today by Francis Maude, Minister for the Cabinet Office. MyCSP Ltd's innovative Mutual Joint Venture model gives employees a 25% ownership stake, representation at board level and a share in profits. The new enterprise will be contracted by the Government to administrate pensions for the 1.5million members of the Civil Service scheme. It will cut costs for taxpayers, reaching annual savings of 50% by 2022, while improving the service.
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> The Equiniti Group's Paymaster business has been announced as the winner of the hotly contested tender to join the venture with a 40% stake. Paymaster brings business expertise and capital investment. The Government retains a 35% stake so taxpayers benefit as the business grows in value.
>
> Francis Maude also announced today that former Cabinet Minister, Lord Hutton of Furness, will be the first Chairman of MyCSP Ltd. As such, Lord Hutton takes a leading role in the Government's plan to hand greater ownership, responsibility and power to the people running public services. Mark Lund, the former Chief Executive of St. James's Place Capital PLC, will Chair the MyCSP Ltd Employee Partnership Trust charged with protecting the employees' interests.[13]

More information about MyCSP can be found on its website.

1.3 The Labour Government's reforms

The Labour Government introduced reforms to public service pensions in 2007/08. In the civil service, this meant the introduction of a new scheme - *nuvos* – for new entrants from 30 July 2007. *Nuvos* differed from the schemes for existing members (*classic* and *premium*) in providing benefits based on career average rather than final salary and having a normal pension age of 65 rather than 60. In addition, it was agreed that a "cost capping and sharing" mechanism would be introduced. This would mean that cost pressures arising from changes in the cost of benefits (due to, for example, increasing longevity) identified at scheme valuations with effect from April 2012 would be shared on a 50:50 basis between employers and staff, subject to a cap on employer contributions of 20 per cent of pay.[14]

The National Audit Office (NAO) looked at changes introduced in the Teachers', NHS and civil service schemes in 2007-08. It explained that one of the objectives of the changes was to "reduce and better manage taxpayer costs".[15] It NAO found that:

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[10] PCS, MyCSP campaign update, 16 May 2011; See also PCS Press Release, 14 February 2011, Privatisation exposes the truth about 'mutualism'

[11] HC Deb, 28 November 2011, c748W

[12] HC Deb, 24 November 2011, c509W; See also HC Deb, 28 November 2011, c749W, HC Deb, 30 June 2011, c923W

[13] Cabinet Office press release, 30 April 2012, 'First central government mutual launched'

[14] HC Deb, 26 July 2007, c105WS; For more detail, see Library Note SN 2524 Public service pension schemes – cost capping and sharing (December 2011)

[15] NAO, The impact of the 2007-08 changes to public service pensions, HC 662, December 2010, p19

> We estimate that the 2007-08 changes will reduce costs to taxpayers in 2059-60 by 14 per cent compared to what they would have been without the changes. In net present value terms, using the Treasury's discount rate of 3.5 per cent above increases in RPI, aggregate savings over all years in the period to 2059-60 are equivalent to £67 billion in 2008-09 prices. Savings peak at 0.2 per cent of Gross Domestic Product (GDP) in 2047-48, lying between 0.1 and 0.2 per cent of GDP from 2025-26 onwards (Figure 1 overleaf). The peak occurs because of a temporary reduction in numbers of retirements as the changes start to delay the age at which employees retire. Beyond 2059-60, annual savings will initially remain at 14 per cent, rising slowly from 2065-66. As a consequence of the changes, overall costs to taxpayers will stabilise at around 1.0 per cent of GDP, close to their current levels.[16]

Its conclusion on value for money was that:

> 14 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.[17]

2 The current reforms

2.1 Independent Public Service Pensions Commission

In June 2010, the Government set up the Independent Public Service Pensions Commission ("the Commission"), chaired by former Labour Work and Pensions Secretary, Lord Hutton of Furness, to undertake a review of public service pensions.[18] The Government also announced plans to switch to the Consumer Prices Index (CPI) as the measure of prices for uprating social security benefits and, through a statutory link, public service pensions.[19] The change proved controversial because CPI increases are generally lower than RPI. An application for judicial review of the decision by a group of trade unions was ultimately unsuccessful.[20]

The Commission's interim report, published in October 2010, included an assessment of the recent reforms to public service pensions (the switch to the CPI and the reforms introduced under the Labour Government). It said that although they had reduced the cost of public service pensions, this would take time to feed through:

> **Ex.12** All these past reforms, the current pay freeze and planned workforce reductions will reduce the future cost of pensions. The gross cost of paying unfunded public service pensions is expected to fall from 1.9 per cent of GDP in 2010-11 to 1.4 per cent of GDP by 2060 as the central projection of Chart 1.B shows.
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> **Ex.13** However, these measures will take many decades to fully affect the costs of pensions in payment, which are heavily influenced by existing pensioners, the vast

[16] NAO, The impact of the 2007-08 changes to public sector pensions, HC 662, 8 December 2010, para 5
[17] Ibid
[18] HM Treasury, Budget 2010, HC 61, June 2010
[19] HM Treasury, Budget 2010, HC 61, June 2010. For more detail on the background to this, see Library Standard Note SN/BT 5434, *Public service pension increases.*
[20] FDA & Ors, R (on the application of) v Secretary of State for Work and Pensions & Anor [2012] EWCA Civ 332 (20 March 2012)For more detail, see Library Note SN 5434 Public service pension increases

> majority of whom are still in pre-reform schemes. The Commission estimates that gross expenditure on unfunded public service pensions will remain close to current levels as a proportion of GDP over the next decade.[21]

Furthermore, the Commission did not think the reforms had fully addressed the underlying issues of sustainability and fairness:

> Although some existing members of some schemes have had increases in their pension ages, to reflect increasing longevity, most have not. Cap and share cannot take account of the increases in cost of pensions over recent decades because people have been living longer. Also, untested, complex cap and share arrangements cannot of themselves, address the underlying issue of structural reforms, nor significantly reduce current costs to taxpayers.[22]

As part of its terms of reference, the Commission had been asked to “consider the case for delivering savings on public service pensions within the spending review period.” It recommended that “the most effective way to make short-term savings is to increase member contributions and there is also a clear rationale for doing so.” The rationale for this was “increased longevity, the imbalance between employer and employee contributions and the fact that total contributions may be too low if the discount rate is too high suggests there is a case to make short-term changes, pending long-term reform.”[23]

In response, the Government said it intended to introduce “progressive” changes to employee contributions from April 2012:

> The Government will implement progressive changes to the level of employee contributions equivalent to an average of three percentage points, to be phased in from April 2012. The armed forces will be exempt from this increase. Full details, including consideration of Lord Hutton’s recommendation to phase in the increase and provide protection for the low paid will be announced at Budget 2011.[24]

The policy would be designed to protect the low paid and with a view to mitigating a possible increase in opt-out rates:

> It is possible that a small number of individuals will choose to leave their pension scheme as a result of these changes, though given the generosity of the schemes there is little economic rationale to do so, and policy will be designed to mitigate these impacts.[25]

The proposed increase would apply to the main public service pension schemes, with the exception of the scheme for members of the armed forces.[26] Once the armed forces were

[21] Independent Public Service Pensions Commission: Interim Report, 7 October 2010, p44

[22] Ibid, p39

[23] Ibid, 7 October 2010

[24] HM Treasury, Spending Review – policy costings, October 2010. The announcement on the details was later postponed to the summer ,Independent Public Service Pensions Commission website - FAQs

[25] Ibid

[26] In other words, those for teachers’, NHS employees, local government employees, civil servants, police and firefighters

excluded the increase was 3.2 percentage points on average.[27] This was expected to lead to savings of £2.8 billion a year by 2014-15, to be phased in from April 2012.[28]

On 17 June, Chief Secretary to the Treasury, Danny Alexander, set out the case for contribution increases:

> And the costs have already risen dramatically...total payments to public service pensioners and their dependents were almost £32bn in 2008-9, an increase of a third in real terms over the last decade. But whilst it is the individual public service employee that reaps the benefits of receiving a pension for longer... as things stand, it is not the employee that's paying extra for it. In fact, personal contributions compared to taxpayer contributions have gone down.[29]

He explained in more detail how the Government proposed to protect the lower paid and phase-in the increase. For example:

> Our proposal would not increase contributions at all for those earning less than £15,000 a year, and we propose a limit of 1.5 percentage points increase for those earning up to £18,000. [...] Furthermore, we have been clear that for all income brackets where there is an increase in contributions, this increase would be phased in over 3 years. Our proposals would mean that in 2012, 40% of the increase will apply...approximately the same amount that had already been agreed between the Unions and the previous Government through the 'cap and share' arrangement. In 2013, 80% of the increase will apply, and 100% in 2014.[30]

Final report

In its final report, published in March 2011, the Commission made recommendations for longer-term structural reform of public service pensions. These were summarised in its press release as follows:

> The main recommendation of the report is that existing final salary public service pension schemes should be replaced by new schemes, where an employee's pension entitlement is still linked to their salary (a "defined benefit scheme") but is related to their career average earnings, with appropriate adjustments in earlier years so that benefits maintain their value.
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> The report suggests that it should be possible to introduce these new schemes before the end of this Parliament, in 2015, while allowing a longer transition, where needed, for groups such as the armed forces and police.
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> Other key recommendations in the report include:
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> - Linking Normal Pension Age (NPA) in most public service pension schemes to the State Pension Age;
> - Introducing a Normal Pension Age of 60 for those members of the uniformed services – armed forces, police and firefighters – who currently have a NPA of less than 60;

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[27] HC Deb, 24 May 2011, c589W

[28] HL Deb, 7 February 2011, cWA31 (i.e, savings of £1.8bn in addition to the £1bn already expected through cap and share mechanisms). The figure does not included expected savings from theLGPS. see para 1.16 Independent Public Service Pensions Commission: final report, March 2011

[29] Danny Alexander, Speech to IPPR, 17 June 2011

[30] Ibid

- Setting a clear cost ceiling for public service pension schemes – the proportion of pensionable pay that taxpayers will contribute to employees' pensions – with automatic stabilisers to keep future costs under more effective control;

- Honouring, in full, the pension promises that have been earned by scheme members (their "accrued rights") and maintaining the final salary link for past service for current members;

- Introducing more independent oversight and much stronger governance of all public service pension schemes;

- Encouraging greater member involvement in consultations about the setting up of new schemes, and in the running of schemes; and

- Overhauling the current legal framework for public service pensions to make it simpler [31]

2.2 Taking the reforms forward

In the 2011 Budget, the Government said it accepted Lord Hutton's recommendations as a basis for consultation and would bring forward proposals in the autumn:

> 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.[32]

On 17 June 2011, the Chief Secretary to the Treasury made a speech to IPPR expressing concern that strikes were planned for 30 June, while discussions between the Government and the unions were still ongoing. He said he wanted to "sum up our position to the vast majority of public service workers":

> We are all living longer. That means more years spent in work, as well as in retirement. To keep the best pensions in the country, you will have to contribute more. Those contributions will support your pension, not subsidise the pensions of top earners. So when you do reach retirement age, the pension you receive will be broadly as generous for low and middle income earners, as it is now. At the same time we are protecting the pension that you have earned to date. We are reforming for the future, but we will not touch the pension that you have already earned. Working longer and paying in more may not be what public service workers want to hear, but it is simply a fact of life for every single person in this country, whether you work in the public or private sector.[33]

He went on to set out proposals for change. For example, the Government was proposing, for future service, to link the normal pension age in schemes like the civil service scheme to the State Pension age. It was also proposing that, for future accruals, the defined benefit provided would be based on career average rather than final salary.[34]

The FDA "reacted with fury". General Secretary, Jonathan Baume said:

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[31] Independent Public Service Pensions Commission press release, 10 March 2011, *Lord Hutton publishes his final report on public service pensions*

[32] HM Treasury, Budget 2011, para 1.132

[33] Danny Alexander, Speech to IPPR, 17 June 2011

[34] Ibid

> The Chief Secretary's comments effectively pre-determine the outcome of the negotiations currently underway between the public sector unions and the Government. This comes just days after Francis Maude, Minister for the Cabinet Office, condemned unions for taking strike action before negotiations had concluded. The Government cannot have it both ways - either they are genuine about negotiations or they are not.[35]

The POA (Prison Officers' Association) said it would ballot "affected members to establish if they accept the Government's proposals on change":

> The reason the Executive have determined to move to ballot, is to protect our position from the public comments made by Danny Alexander MP regarding the ongoing negotiations. The Coalition Government are clear, that they want you to pay more in contributions and work longer and retire in line with the state pension age, which will rise to 66 years of age. The move away from those on final salary to career average schemes coupled with imposition of RPI/CPI for calculation purposes means individuals will certainly lose pension benefits.[36]

The results of this ballot were announced on 21 July. The POA said "there was a 61.4% turnout of which 96.7% of those voting rejected the Government's initial proposals on pension change."[37]

The PCS said the comments proved the talks were a "farce":

> We have been heavily criticised by the government for balloting for industrial action while talks are ongoing and yet Danny Alexander now appears to be admitting that ministers are not planning to change their minds. This proves we were right when earlier this week we described the talks with the government as a farce. It's clear they had no intention of engaging in honest negotiations with us and it's clear it was the right decision for our members to vote for a strike. Every expert who has looked at these issues recently, including the National Audit Office, has confirmed the changes we agreed just a few years ago put public sector pensions on a sustainable footing.[38]

Following talks on 27 June, TUC General Secretary, Brendan Barber, said that while there was the "possibility of agreement" in some areas, major divisions remained.[39] The PCS, together with three teaching unions, took strike action on 30 June 2011.[40]

Scheme specific discussions

On 19 July 2011, Chief Secretary to the Treasury, Danny Alexander said a series of meetings with the TUC had established a basis for agreement in several areas, but that differences remained on some of the key recommendations. Scheme level discussions would be established. Consultations on contribution increases for 2012/13 would be completed by October in order to ensure implementation by April 2012. There would also be consultation on contribution increases for 2014/15 and initial proposals for reformed schemes.[41]

The FDA said its members were losing confidence in the credibility of the talks:

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[35] FDA press release, 17 June 2011
[36] POA, Pensions Update, 23 June 2011
[37] POA circular 110, Pension reforms: result - workplace ballot
[38] PCS press release, 17 June 2011
[39] Brian Groom, 'Talks falter on public service strikes', *Financial Times,* 28 June 2011
[40] PCS press release, 'Civil servants vote for action over changes to pensions, jobs and pay', 15 June 2011
[41] HC Deb, 19 July 2011, c91-4

> Speaking on the BBC News channel, FDA general secretary Jonathan Baume said: "What the Government has proposed today is effectively a pay cut for many of our members of up to 2.5%... against a background where many members are in either a two-year or three-year pay freeze and inflation currently standing at about 5%. We are all seeking progress in negotiations in what have so far proved to be complex and difficult... to ensure that we have a long-term sustainable pension structure for public servants."Baume said the Treasury is regularly intervening with fresh demands so that "members are losing confidence in the credibility of these talks". [42]

Prospect said it would ballot for industrial action if the talks failed:

> Along with the majority of unions we want to explore every opportunity to arrive at an agreed outcome on what is a difficult and complex issue. But if these talks fail we will have no hesitation in balloting for wider industrial action as part of a sustained campaign against these changes right across the civil and public services.[43]

The PCS said detailed proposals on contribution increases made "a mockery of the ongoing negotiations":

> "These highly detailed proposals show that the government has made its mind up and is not negotiating seriously. It makes a mockery of the ongoing talks. We're committed to negotiation but these have to be serious - not limited to the government's predetermined outcomes. Already more trade unions have indicated they will take part in further strike action and today's announcement will only increase that resolve.[44]

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.
- **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.[45]

He said reform along the lines proposed could endure for 25 years or longer.[46] 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."[47]

The Government set out the key features of its preferred design for the new schemes for teachers, NHS, civil service and local government. They included:

- a Career Average Revalued Earnings (CARE) pension scheme;

[42] FDA Press Release, 'Union responds to Government announcement on pension contributions', 28 July 2011
[43] Prospect press release,' Pension increase 'unprincipled and unjustified'', 28 July 2011
[44] PCS Press release, 'Government undermining pensions negotiations', 28 July 2011
[45] HC Deb, 2 November 2011,c928
[46] HC Deb, 2 November 2011,c930
[47] Ibid, c928 and c935

- Public service workers benefits to be earned at a rate of 1/60ths of pensionable earnings each year;
- Public service workers will have their benefits increased each year they are working in the public services in line with earnings revaluation;
- a Normal Pension Age linked to State Pension Age (or 65, whichever is higher);
- pensions in payment to increase in line with the Consumer Prices Index (CPI);
- benefits earned by leavers to increase by CPI from the date of leaving until retirement;

  average member contributions for the unfunded public service pension schemes set at the level of the existing schemes after the increase of 3.2 percentage points currently planned.[48]

However, because the Government recognised that different designs might suit different workforces, it set cost ceilings (expressed as a proportion of pensionable pay) within which alternatives could be considered. For the civil service scheme, it proposed a gross cost ceiling of 22.5%, with contributions of 16.9% from employers and 5.6% from employees.[49]

An announcement on contribution increases for 2012/13 was made in December 2011 (see section 2.5 below – contribution increases).

Heads of agreement

On 20 December, the Chief Secretary to the Treasury announced that "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". Accordingly, in the new schemes, individuals would have their normal pension age aligned with their State Pension age. There would be transitional protection for those closest to retirement: those within 10 years of their normal pension age on 1 April 2012 would retain their existing entitlements, i.e: they would remain in their current existing scheme until they draw benefits or are entitled to do so. Those within 13.5 and 10 years would remain in the current scheme on a tapered basis. [50]

A key change compared to the November 2011 proposals was to the accrual rate:

> In the civil service, we have agreed to revalue each year's contributions by the consumer prices index rather than earnings, allowing an accrual rate of 1/44th to be offered. That will cost the same as our original offer, but with a configuration preferred by the trade unions. As a consequence, the new scheme will be very similar to the Nuvos scheme that is already available in the civil service, except that in future the normal pension age will be linked to the state pension age as it rises.[51]

The Government had agreed to retain the "fair deal policy":

> In the course of the talks, unions have stressed the importance of ensuring that their members will continue to be able to receive the benefits of their scheme if it is

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[48] HM Treasury, Public Service Pensions: good pensions that last, Mc 8214, November 2011
[49] HM Treasury, Public Service Pensions: good pensions that last, Cm 8214, November 2011, Table 3.A
[50] HC Deb, 20 December 2011, c1201-03; HC Deb, 20 Dec 2011, c150-2WS
[51] HC Deb, 20 December 2011, c1202

outsourced. That is the purpose of the fair deal policy, the future of which we have been consulting on. Because we have agreed to establish new schemes on a career average basis, I can tell the House that we have agreed to retain the fair deal provision and extend access for transferring staff. The new pensions will be substantially more affordable to alternative providers, and it is right that we offer workers continued access to them.[52]

It made a commitment that there would be no further change for 25 years:

> I have made the commitment that these reforms will be sustained for at least 25 years. The Government intend to include provisions on the face of the forthcoming public service pensions Bill to ensure that a high bar is set for future Governments to change the design of the schemes.[53]

Further details for the Principal Civil Service Pension Scheme were provided in a Written Statement:

> **Civil Service Pensions**
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> The Minister for the Cabinet Office and Paymaster General (Mr Francis Maude): On 2 November the Chief Secretary to the Treasury made a statement to the House setting out an improved offer on public service pensions to public sector workers (Cm 8214). This offer provided a more generous cost ceiling for scheme-specific discussions to work within, and protected all those within 10 years of their pension age from any further change. This generous offer was conditional on the
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> Government and trade unions reaching agreement by the end of the year, including in the principal civil service pension scheme, bringing to a conclusion talks that have lasted since February 2011.
>
> Since 2 November my officials and I have been engaged in detailed and intensive talks with the National Trade Union Committee for the civil service. I can now report to the House on the heads of agreement on the scheme design for the principal civil service pension scheme to be introduced in 2015, on which talks have concluded. The Government have made it clear this sets out their final position on the main elements of scheme design, which the FDA, Prospect, GMB Prison Governors Association and the Immigration Services Union have agreed to take to their Executives as the best that can be achieved through negotiations. There is a specific outstanding issue relating to mechanisms for prison officers to retire earlier than state pension age where we are continuing to have discussions with the Prison Officers Association. We will invite these unions to join us in further work on the remaining details in the new year, and their Executives will consult members as appropriate. The continued union engagement includes a commitment to suspend any further industrial action while the final details are resolved and unions are consulting their members.
>
> The core parameters of the new scheme are set out below:
>
> a. a pension scheme design based on career average;
>
> b. a provisional accrual rate of 2.28% (equivalent to 1/43.9) of pensionable earnings each year, subject to further agreement on final details.
>
> c. revaluation of active members' benefits in line with CPI;

[52] HC Deb, 20 December 2011, c1201-03
[53] Ibid

d. a normal pension age equal to state pension age, which applies both to active members and deferred members (for new scheme service only);

e. pensions in payment to increase in line with prices (currently CPI);

f. benefits earned in deferment to increase in line with prices (currently CPI);

g. average member contributions of 5.6%, with some protection for the lowest paid (the detailed structure of which is still to be agreed);

h. optional lump sum commutation at a rate of 12:1, in accordance with HMRC limits and regulations;

i. spouses/partner pension of three-eighths of pension, in line with the current open scheme ;

j. lump sum on death in service of two-times salary;

k. ill-health benefits in line with those in the current open scheme;

l. actuarially fair early/late retirement factors on a cost-neutral basis; and,

m. an employer contribution cap to provide backstop protection to the taxpayer against unforeseen costs and risks and allowance for an improvement in member benefits if the value of the scheme falls beyond a fixed level;

n. the scheme will support the use of partial retirement and will follow the recommended approach set out in the Independent Public Service Pensions Commission final report of 10 March 2011 on abatement (details to be finalised); and

o. a guarantee, outside of the scheme designs parameters set out above, of no further reform for the next 25 years.

Transitional arrangements

Scheme members who, as of 1 April 2012, have 10 years or less to their current pension age will see no change in when they can retire, nor any decrease in the amount of pension they receive at their current normal pension age. They will be allowed to remain members of their existing schemes up to and including the point at which they draw their pension rights and all current scheme rules will continue to apply.

Members who are within a further 3.5 years outside this protected group will have an additional degree of protection, in the form of further accrual in their existing schemes. This protection will be tapered in a linear fashion depending on the age of the member.

Areas for further detailed discussion

Discussions with the trade unions identified above will continue early next year, to shape the remaining elements of the scheme design such as abatement, re-employment, treatment of re-joiners and public sector transfers and contribution rates structures including years 2 and 3 of the employee contribution increases. Any of these issues that affect the final cost of the scheme will need to be taken into account in the final rate of benefit accrual. The requirement to fit the new scheme within the revised cost ceiling for the reference scheme published on 2 November will remain, and agreement on these issues will also be subject to review by HM Treasury to agree the approach taken to risk management and impact on cash flows.

> The Government Actuary's Department has confirmed that this scheme design does not exceed the cost ceiling set by the Government on 2 November. Copies of the heads of agreement and the scheme actuary's verification have been deposited in the Libraries of both Houses.[54]

Most of the civil service unions agreed to take the offer to the Executives as the best that could be achieved through negotiations. The Chief Secretary to the Treasury said discussions would continue with these unions:

> FDA, Prospect, GMB Prison Governors Association and the Immigration Services Union have agreed to take to their Executives as the best that can be achieved through negotiations. There is a specific outstanding issue relating to mechanisms for prison officers to retire earlier than state pension age where we are continuing to have discussions with the Prison Officers Association. We will invite these unions to join us in further work on the remaining details in the new year, and their Executives will consult members as appropriate. The continued union engagement includes a commitment to suspend any further industrial action while the final details are resolved and unions are consulting their members.[55]

However, the PCS had rejected the proposed changes.[56]

Proposed final agreement

The Government announced the details of its Proposed Final Agreement on 12 March 2012. It explained:

> The main changes from 20 December are to the accrual rate (an increase from 2.28% to 2.32%, paid for by a small change in the treatment of those within 10 years of pension age) and adding clarity on many of the issues that were still for further discussion (for example, the handling of partial retirement)[57]

The headline elements remained unchanged from those announced in December:

> **The Minister for the Cabinet Office and Paymaster General (Mr Francis Maude):** On 20 December I reported to the House on the heads of agreement on the principal civil service pension scheme to be introduced in 2015, which set out the Government's final position on the main elements of scheme design. Since 20 December, my officials have been engaged in detailed discussions with the civil service trade unions over the remaining details of the principal civil service pension scheme. I can now report to the House that discussions on these final details of the scheme design for the principal civil service pension scheme to be introduced in 2015 have now concluded. The Government have made it clear this sets out our final position on scheme design, which we are asking unions to take to their Executives as the outcome of negotiations.
> This is the proposed final agreement which reflects the conclusion of discussions on the final details with the civil service unions since I made my written ministerial statement on pension reform, on 20 December 2011, *Official Report*, column 150WS.
> The headline elements of the proposed final agreement remain unchanged from those reached on 20 December and the provisional accrual rate has been finalised.
>
> The core parameters of the new scheme are set out below:
>
> a. a pension scheme design based on career average;

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[54] HC Deb, 20 December 2011, c151-2WS
[55] Ibid
[56] HC Deb, 20 December 2011, c1201-08
[57] Civil Service Pensions – Q&A about the new scheme

b. a provisional accrual rate of 2.32% (equivalent to (1/43.1) of pensionable earnings each year;

c. revaluation of active members' benefits in line with CPI; (any change in the method of indexation will be subject to consultation)

d. a normal pension age equal to state pension age, which applies both to active members and deferred members (for new scheme service only). If a member's SPA rises, then NPA will do so too for all post-2015 service;

e. pensions in payment to increase in line with prices (currently CPI);

f. benefits earned in deferment to increase in line with prices (currently CPI);

g. average member contributions of 5.6%;

h. optional lump sum commutation at a rate of 12:1, in accordance with HMRC limits and regulations;

i. spouses/partner pension of three-eighths pension, in line with the current open scheme;

j. lump sum on death in service of two times salary;

k. ill-health benefits in line with those in the current open scheme;

l. actuarially fair early/late retirement factors on a cost-neutral basis;

m. an employer contribution cap and floor to provide backstop protection to the taxpayer against unforeseen costs and risks. This floor will also allow for an improvement in member benefits if the value of the scheme falls beyond a fixed level;

n. abatement will not apply for post-2015 service in the new scheme when members return from retirement. Abatement rules for the current schemes will remain unchanged;

o. partial retirement rules for service in the new scheme will follow existing partial retirement rules. Members with service in both the existing and the new scheme will be able to apply for partial retirement under each scheme, under the limits that exist in current schemes;

p. members will be able to take any pension they have accrued under their existing schemes without having to also take any new scheme pension at the same time, under the limits that exist in current schemes;

q. for members wishing to retire before their state pension age, there will be an opportunity to pay additional contributions to fund earlier retirement of up to three years without an actuarial reduction. Contributions will ordinarily be payable by members, but individual employers will be able to choose to provide a contribution in very limited and exceptional circumstances, that must be approved by the Cabinet Office;

r. existing added years contracts will continue in the new scheme;

s. added pension arrangements will continue;

t. members who leave the new scheme and return within five years will have their deferred benefits increased as if they had been an active member. (The rate of dynamisation for active and deferred members will however be the same, as set out in points c and f above); and

u. the Public Sector Transfer Club will continue, and consideration will be given to the best method of operation in the reformed schemes, following further discussion with trade unions;

The scheme actuary has confirmed that this scheme design does not exceed the cost ceiling set by the Government on 2 November. Copies of the heads of agreement and scheme actuary verification have been deposited in the Libraries of both Houses.[58]

The Proposed Final Agreement is on the civil service website. Information on the 2015 pension changes is on the civil service pensions website.

Response of the trade unions

Members of the FDA and Prospect voted to accept the Government's 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.[59]

Members of the PCS voted to reject the changes in a national consultative ballot.[60] In advance of the Second Reading of the *Public Service Pensions Bill* on 29 October 2012, the PCS said:

> This is the government's latest attempt to force through massive cuts to the pensions of tens of thousands of public servants from jobcentre staff to tax advisers and nurses to teachers, after refusing to negotiate on the central plans to force them to pay more every month and work up to 68 for much less in retirement. We remain committed to opposing this entirely unnecessary attack on pensions, which cannot be separated from the government's politically-motivated cuts to pay and jobs and the latest threat to undermine all civil service working conditions, including hours, holidays and family-friendly policies.[61]

Members of UNITE, the Immigration Services Union and the Prison Officers' Association also voted to reject the Government's proposed reforms.[62]

2.3 Public Service Pensions Act 2013

The Government legislated in the *Public Service Pensions Act 2013* for a framework to enable changes to public service pensions" in line its objectives and the recommendations of the Independent Public Service Pensions Commission. Key measures in the Act:

- Enable the creation of career average public service pension schemes to replace the largest existing final salary schemes;
- Link Normal Pension Ages to State Pension Age to manage longevity risk (with the exception of fire service, police and the armed forces);
- Introduce an employer cost cap as a way of controlling unforeseen changes in cost; and

[58] HC Deb, 12 March 2012, c2-3WS

[59] FDA website – Pensions 2015 ballot results; Prospect press release, Members vote for 2015 pension scheme but battle for fairness continues, 14 May 2012

[60] PCS website 21 March 2012 – next steps in the national campaign (viewed 26 April 2012)

[61] PCS Press release, 'Pledge to continue opposition ahead of pensions bill debate', 26 October 2010

[62] 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 9 May)

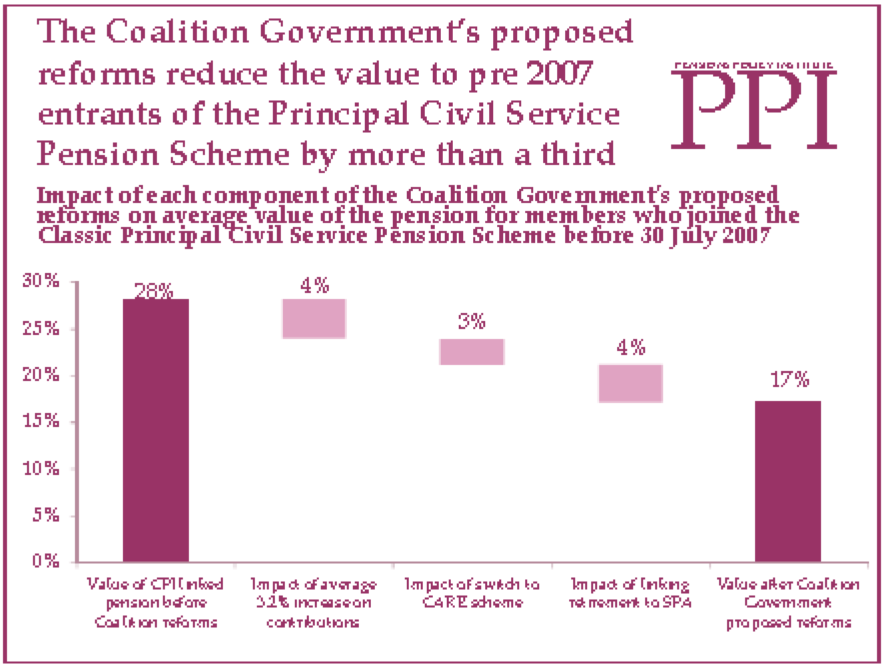
- Allow for the provision of transitional arrangements and protections where necessary.[63]

2.4 Expected impact of the reforms

Overall, these reforms are expected to reduce the cost of public service pensions as a percentage of GDP. In 2010/11, spending on public service pensions was equivalent to 1.6 per cent of GDP (net of income from member contributions). Had none of the post-2010 reforms taken place, this would have risen to around 2.0 per cent of GDP until the late 2020s, before falling steadily to around 1.5% of GDP by 2055. The combination of the post-2010 reforms is expected to result in expenditure falling to about 0.9 per cent by 2060-61.[64]

On 23 October 2012, the Pensions Policy Institute (PPI) published a report on the impact of the reforms. PPI uses the Effective Employee Benefit Rate (EEBR) to measure the value of the pension benefit provided and thus allow meaningful comparisons to be made. The EEBR is the percentage of salary that would be needed to be given to the scheme member to compensate the loss of the scheme. Member contributions are deducted in order to show the value of the pension benefit being offered to the scheme member that is effectively paid for by the employer.[65] PPI estimated that the Government's proposed reforms (the increase in member contribution rates, the switch to career average and the increase in the normal pension age) would reduce the average value of pension benefits from the Principal Civil Service Pension Scheme to members who joined before 2007 by more than a third:

Chart A5[67]



The analysis in the first part of this Annex considers the impact of the Coalition Government's proposed reforms on members of the Classic section of the Principal Civil Service Pension Scheme, which has final salary pension benefits and a membership of around 60% of all Civil Servants.

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[63] For more on the background to this, see Library Research Paper RP 12/57 Public Service Pensions Bill (October 2012)

[64] OBR *Fiscal Sustainability Report,* July 2012 Chart A.5

[65] PPI, The implications of the Coalition Government's reforms for members of the public service pension schemes, October 2012

> The Coalition Government's proposed reforms reduce the average value of the pension benefit offered by the Classic section of the Principal Civil Service Pension Scheme by more than a third, from 28% of a Civil Servant's salary before the proposed reforms with final salary benefits and CPI indexation to 17% of a Civil Servant's salary after the proposed reforms are introduced. (Chart A5)
>
> The different components of the Coalition's proposed reforms contribute to the total reduction in the average value of the pension benefit offered by the scheme. The increase in average member tiered contributions, under which higher earners pay higher contributions than lower earners, reduces the average value of the pension benefit offered by the scheme by 4% of salary. The switch from a final salary scheme with a 1/80th accrual rate and a 3/80th lump sum to the new Civil Service CARE scheme reduces the average value of the pension benefit being offered by the scheme by 3% of salary. Linking the Normal Pension Age to the State Pension Age instead of having an NPA of Age 60 reduces the average value of the pension benefit by a further 4% of salary.
>
> Nevertheless, even after the Coalition's proposed reforms the average value of the Classic section of the Principal Civil Service Pension Scheme of 17% of a Civil Servant's salary is still more valuable than an average Defined Contribution pension scheme that many workers in the private sector are offered, typically worth around 10% of a DC scheme member's salary.

For members of the *nuvos* scheme (introduced in 2007) the proposed reforms were estimated to reduce the average value of pension benefit to members from 22% of salary to 18%. The impact was less than for members of other sections of the PCSPS "largely because the scheme was already Career Average and already had an NPA of 65."[66]

PPI pointed out that these figures show the average impact. The impact for individuals might be substantially different as it will be influenced by a range of factors including the member's age, their salary when the reforms are introduced, their salary progression and whether they leave public service early or stay in the scheme until they retire.[67]

2.5 Debate on the issues

The need for further reform

As set out in section 2.1 above, the Independent Public Service Pensions Commission took the view that the reforms introduced so far (i.e. the Labour Government's reforms and the switch to the CPI) had not gone far enough:

> My interim report therefore attempts to establish a proper baseline from which we can answer the fundamental question – are public service pensions on a fair and sustainable footing that provides the best possible value for money to the taxpayer as well as adequate retirement incomes for public service employees? 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 service employees but also between current and future generations.[68]

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[66] PPI, The implications of the Coalition Government's reforms for members of the public service pension schemes, October 2010

[67] PPI Briefing Paper on the impact of the Coalition Government's proposed reforms of the four largest public service pension schemes: NHS, Teachers, Local Government and the Civil Service, October 2012

[68] Independent Public Service Pensions Commission: Interim Report, 7 October 2010, foreword

The Council of Civil Service Unions, on the other hand, argued that following the 2007 reforms, the PCSPS, there was "no credible case for further reform being necessary right now on either affordability or sustainability grounds":

> Simply put, the PCSPS faces no major long-term affordability issues. Projections of future payments from the scheme are based on realistic assumptions (in particular mortality projections are based on the most recent population projections available) and indicate no problems with future sustainability.[…] In summary, the reform of the PCSPS in 2007 was designed to put the scheme on a sustainable footing for the long-term. Projections in the NAO's report confirm that this objective has been met. There is no credible case for further reform being necessary right now on either affordability or sustainability grounds.[69]

It said arrangements were already in place (in the form of the "cap and share" mechanism) to "determine any change in scheme costs arising from the actuarial valuation and to make proposals for dealing with this in negotiation between the Civil Service and CCSU".[70] In general, the civil service unions argue that changes to pension arrangements must be subject to meaningful negotiation. They were concerned that decisions to switch to the CPI and to increase employee contributions by 3.2% on average had been imposed without consultation.[71]

The Government has taken the decision to replace 'cap and share' with increases in employee contributions (see below). On 20 December, the Chief Secretary said the case for reform was "self-evident":

> [...]The average 60-year-old lives longer now than in the 1970s. That means that people are living in retirement for longer. The life expectancy of a 60-year-old was 18 years in the 1970s; that has risen to 28 years today. As a result, the cost of public service pensions has risen to £32 billion a year—an increase of one third over the last 10 years.[72]

In its Proposed Final Agreement, the Government said it recognised that "Total Reward is an important issue". It would continue to engage constructively with the Trades Unions and this [would] form the basis of further separate discussions.[73]

Contribution increases

As explained above, the Commission's interim report said that:

> There is also a strong case for looking at some increase in pension contributions for public service employees, 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.[74]

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[69] An initial response by the Council of Civil Service Unions (CCSU) to the Independent Public Service Pensions Commission, July 2010..The CCSU acted on behalf of Civil service unions (including, the PCS, FDA, Prospect, the Prison Officers Association, the Northern Ireland Public Services Alliance) until its break-up in December 2010 (see FDA December 2010 newsletter).

[70] Ibid, p2

[71] See, for example, FDA, Second Submission to the Independent Public Service Pensions Commission, December 2010; Prospect, *Response by Prospect to call for evidence for final report on public service pension provision*, December 2010

[72] HC Deb, 20 December 2011, c1201

[73] Civil Service Pension Scheme – Proposed final agreement, March 2012

[74] Independent Public Service Pensions Commission: Interim Report, 7 October 2010, p4

In response, the Government said it would implement increases in member contributions:

> Spending review 2010 announced progressive changes to the level of employee contributions to public service pensions that lead to savings of £2.8 billion a year from the unfunded pension schemes by 2014-15, to be phased in from 2012-13, excluding the armed forces. This is equivalent to 3.2 percentage point increase on average. No decisions have been taken on individual schemes—this is subject of discussions with trade unions and other work force representatives.[75]

The Government argued that reforms to date had been insufficient to reverse the increase in costs of public service pensions from rising longevity and that employee contribution rates should increase so that they pay a higher proportion of the cost.

> The interim report of the Independent Public Service Pensions Commission, chaired by Lord Hutton, former Work and Pensions Secretary, sets out that there is a clear rationale for increasing employee contributions to public service pensions. The report found that the value of public service pensions has been increasing following a dramatic increase in life expectancy at retirement. Current pensioners are expected to spend over 40% of their adult lives in retirement, compared to 30% for pensioners in the 1950s. Members of all of the public service pension schemes have benefited from the increase in the value of their pension and most of these extra costs have fallen to employers and taxpayers. Increases in employee contributions will rebalance contributions, and ensure a fairer distribution of costs between members and other taxpayers.[76]

Contribution increases would be phased-in and designed to protect the lower paid.[77]

On 19 July 2011, the Chief Secretary to the Treasury announced scheme-specific consultation on the contribution increases.[78] On 28 July, the Government published its consultation on pension contribution increases – tiered according to pay - for civil servants for 2012/13.[79]

FDA General Secretary, Jonathon Baume, described the contribution increases as "completely unjustified":

> Any increase in pension contribution rates during a pay freeze and with the current relatively high inflation is completely unjustified. This is nothing more than a pay cut for civil servants as part of the Government's deficit reduction programme. It will do nothing to secure long-term sustainable pensions.[80]

Prospect agreed:

> It is unjustified in that we are engaged in talks to look at medium and longer-term changes to pensions and this cuts right across the process. These increases are a crude tax on public sector workers dressed up as pension reform. The actuarial costs

[75] HC Deb, 24 May 2011, c589-90W. This is discussed in more detail in SN 5768 Public service pension reform – 2010 onwards

[76] HC Deb, 1 Mar 2011, c 438W; See also, HM Treasury, Public Service Pensions: good pensions that last, Cm 6214, November 2011, para 1.9, and Danny Alexander, Speech to IPPR, 17 June 2011

[77] HC Deb, 20 December 2011, c1201

[78] HC Deb, 19 July 2011, c91-4

[79] HM Treasury press release, 'Government consultation on proposed pension contribution changes for civil servants, NHS workers and teachers, 28 July 2011'

[80] FDA press release, 'Civil service pension increase is completely unjustified, says union,' 28 July 2011

> of these schemes are projected to fall, not increase, despite the Government's cynical attempt to sway public opinion by distorting statistics.[81]

It was concerned that the change could result in more members opting out.[82]

In December, the Government confirmed that it had decided to implement its proposed increases for 2012/13, with effect from April 2012.[83]

A consultation on proposed increases for 2013 was launched in November 2012.[84] The Government responded to this consultation in December 2012.[85] A consultation on the proposed increases for 2014 was launched in October 2013.[86] The Government responded in December 2013.[87]

Member contribution rates for the four years from 2011/12 are in the table below:

Employee contribution rates - classic (% of FTE pensionable pay)

FTE pensionable pay	2011/12	2012/13	2013/14	2014/15
Up to £15,000	1.50	1.50	1.50	1.50
£15,001 to £21,000	1.50	2.10	2.70	3.00
£21,001 to £30,000	1.50	2.70	3.88	4.48
£30,001 to £50,000	1.50	3.10	4.67	5.27
£50,001 to £60,000	1.50	3.50	5.46	6.06
Over £60,000	1.50	3.90	6.26	6.85

Members of premium, classic plus and nuvos (% of FTE pensionable pay)

FTE pensionable pay	2011/12	2012/13	2013/14	2014/15
Up to £15,000	3.50	3.50	3.50	3.50
£15,001 to £21,000	3.50	4.10	4.70	5.00
£20,001 to £30,000	3.50	4.70	5.88	6.48
£30,001 to £50,000	3.50	5.10	6.67	7.27
£50,001 to £60,000	3.50	5.50	7.46	8.06
Over £60,000	3.50	5.90	8.25	8.85

[81] Prospect press release, Pension increase 'unprincipled and unjustified', 28 July 2011; See also POA press release, 'Increase in contribution rates for pensions unjustified', 28 July 2011

[82] Prospect, *Response by Prospect to call for evidence for final report on public service pension provision*, December 2010; See also PCS submission to the Public Service Pensions Commission final report

[83] Cabinet Office, Principal Civil Service Pension Scheme – Consultation on proposed increases to employee contribution rates effective from April 2012 – Government response, 15 December 2011;
Department for Education, Consultation on proposed increases to contributions for Members of the Teachers' Pension Scheme – consultation response, December 2011

[84] Cabinet Office, Principal Civil Service Pension Scheme – Consultation on proposed increases to employee contribution rates effective from April 2013

[85] Cabinet Office, Principal Civil Service Pension Scheme – Response to consultation on proposed increases to employee contribution rates effective from April 2013, December 2012

[86] Cabinet Office, Principal Civil Service Pension Scheme. Consultation on proposed increases to employee contribution rates effect from April 2014, October 2013

[87] Cabinet Office, Principal Civil Service Pension Scheme – Response to consultation on proposed increases to employee contribution rates effective from April 2014, December 2013

As explained above, the intention was that contribution increases would be designed to protect the lower paid. As a result, those earning less than £15,000 full-time equivalent, pay no extra. Those earning up to £21,000 pay no more than 1.5% of pay extra.[88]

Information for scheme members on how will pension contribution increases affect me? is on the Civil Service pensions website.

In the new scheme to be introduced in 2015, the Government has proposed that there should be "average member contributions of 5.6%, with some protection for the lowest paid (the detailed structure of which is still to be agreed)."[89] The proposed rates are as follows:

New member contribution rates from April 2015

Actual pensionable salary (annual)	Classic members immediately before April 2015	All other members
Up to £15,000	3	4.6
£15,001 to £21,000	4.6	4.6
£21,001 to £47,000	5.45	5.45
£47,000 to £150,000	7.35	7.35
£150,000 and above	8.05	8.05

The contribution rates in the new scheme are based on actual pay rather than full-time equivalent pay. This approach was welcomed by the trade unions on the basis that it would mean rates were set taking into account the impact of tax relief.[90]

Scheme design

Lord Hutton's final report recommended that "a new career average revalued earnings (CARE) scheme should be adopted for general use in the public service schemes." It did not consider final salary schemes provided the "right design for future public service schemes". This was because:

> 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.[91]

In his speech of 17 June 2011, the Chief Secretary said the Government was proposing that for future pension accruals, the defined benefit would be linked to career average salary, not final salary. There would be protection for accrued rights:

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88 HC Deb 5 February 2014 c235W
89 HC Deb 20 December 2011 c151WS
90 FDA website – pensions update 2014
91 Independent Public Service Pensions Commission: Final Report, 10 March 2011, p10

> The benefits that you have already secured under the current final salary scheme would be protected. Let me be clear what this means: for what you have accrued, the 'final salary' which is used to calculate that pension would be the one you have when you eventually decide to retire or leave the scheme altogether. And again, for what you have accrued, we would not be changing the age at which you can claim those benefits.[92]

In its submission to the Commission's final report, the FDA said it rejected the arguments that had been against the continuation of final salary schemes. It argued that it was "wholly legitimate and reasonable for pension arrangements to benefit those who are loyal, ambitious, capable and long serving". It also pointed out that although final salary schemes do benefit those considered to be high earners, "because of long service and career development," they also benefit junior staff promoted over time into middle management roles. Furthermore, it argues that "there will be an element of cross-subsidy in any pension scheme, however it is constructed."[93] However, the civil service unions are not opposed to career average schemes in principle. They were, after all, involved in the development of *nuvos:*

> 5.2 The Nuvos scheme is the most significant career average scheme in the public sector with around 75,000 civil servants in active membership. The scheme came into existence in 2007 with the agreement of the Council of Civil Service Unions – the umbrella body for all civil service unions – and following extensive negotiations. The scheme is a radical departure from the traditional civil service structure for pension arrangements. But Nuvos maintains the civil service tradition of high quality defined benefit pension arrangements.[94]

However, the detailed design of the scheme had been crucial to this agreement:

> 5.3 The scheme has a number of key elements that ensure the delivery of high quality pensions. If retained and developed, these may also be attractive to some members of existing final salary schemes. These elements are also essential in constructing pension arrangements that, as a key part of a "new deal" on total reward, will underpin the recruitment and retention of those with the requisite skills and experience to ensure the effective operation of central government services. The key elements rae:
>
> - The provisions for uprating;
> - The rate of accrual;
> - Access to the same scheme on the same terms.[95]

A key factor had been the uprating arrangements. For this reason, there was particular concern about the switch to the CPI. The FDA said:

> The most significant impact will fall on those who are members of the *nuvos* pension scheme because it will substantially reduce the value of their accruing benefits as well as the value of the pensions when in payment.[96]

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[92] Speech to IPPR, 17 June 2011

[93] FDA, Second Submission to the Independent Public Service Pensions Commission, December 2010; See also *Response by Prospect to call for evidence for final report on public service pension provision*, December 2010

[94] Ibid

[95] Ibid

[96] Ibid

Prospect argued that decisions on whether to move to a career average scheme should be taken on a scheme by scheme basis, and only after full consultation:

> 49 It is highly unlikely that a single overall scheme design will be appropriate for all pension schemes in the public sector. Different areas of the public sector have very different workforces. It is important for individual schemes to decide on their approach after full consultation with employers and members' representatives.[97]

Furthermore, any such change should be on a cost-neutral basis:

> Members will not accept a switch to career average design without a compensating improvement in the accrual rate. It is also important to offer protection on the revaluation rate used. The Government's recent announcement that pensions will be indexed in line with CPI rather than RPI has seriously undermined confidence in career aver scheme design as it has exposed the risk that expected benefits can be sharply reduced in response to any worsening of the Government's fiscal position..[98]

The PCS was opposed to members of the existing final salary schemes being compelled to move to career average scheme.[99]

On 20 December, the Government confirmed the accrual rate for the new scheme. It would be similar to the *nuvos* scheme*:*

> In the civil service, we have agreed to revalue each year's contributions by the consumer prices index rather than earnings, allowing an accrual rate of 1/44th to be offered. That will cost the same as our original offer, but with a configuration preferred by the trade unions. As a consequence, the new scheme will be very similar to the Nuvos scheme that is already available in the civil service, except that in future the normal pension age will be linked to the state pension age as it rises.[100]

PCS said that the value of *nuvos* had been reduced by the Government's decision to switch to the CPI:

> The new pension scheme offered by the government is based on the nuvos scheme, which is based on a career average salary. This average is calculated by taking a percentage of each annual salary and uprating it by inflation. But, by cutting the inflation indicator from RPI to CPI, the government at a stroke reduced the value of the existing NUVOS scheme.[101]

Furthermore, members would pay increased contributions and the pension age would be higher.[102]

The Government's Proposed Final Agreement set out the main elements of the design of the new scheme. This included:

> i. A pension scheme design based on career average;

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97 *Response by Prospect to call for evidence for final report on public service pension provision*, December 2010, para 49

98 Ibid

99 PCS submission to the Public Service Pensions Commission final report

100 HC Deb, 20 December 2011, c1202

101 PCS website – the Government's offer explained

102 Ibid

ii. An accrual rate of 2.32% (equivalent to 1/43.1 of pensionable earnings) each year;

iii. Revaluation of active members" benefits in line with CPI; (any change in the method of indexation will be subject to consultation);

iv. A Normal Pension Age equal to State Pension age, which applies both to active members and deferred members (for new scheme service only). If a member's SPA rises, then NPA will do so too for all post 2015 service;

v. Pensions in payment to increase in line with Prices (currently CPI);

vi. Benefits earned, in deferment, to increase in line with Prices (currently CPI) […][103]

Section 8 of the *Public Service Pensions Act 2013* provides that new schemes to be established under the Act must be CARE schemes, or another type of DB scheme to be specified in regulations. They cannot be final salary schemes.[104]

Pension age

Lord Hutton's final report recommended, for future accruals, linking the normal pension age in most public service schemes (those not those for the uniformed services) to the State Pension age.

> **Recommendation 11**: 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.
>
> Ex.27 The introduction of the link to the State Pension Age, which will initially move Normal Pension Ages to 65, will move the proportion of adult life in retirement for public service pension scheme members back to about a third: roughly where it was in the 1980s. The current State Pension Age of 65 is already the Normal Pension Age for most new entrants to public service pension schemes. Moving to this for future accrual will more fairly distribute the benefits between scheme members. In the long term, the timetabled increases in State Pension Age should help to keep the proportion of adult life in retirement for members around this level, on current life expectancy projections.[105]

The State Pension age is rising. Under current legislation, the State Pension age for women will reach 65 by November 2018, equal to that with men. The equalized State Pension age will then increase to 66 by October 2020 and then to 67 between 2026 and 2028.[106] For the future, the Government has established periodic reviews of the State Pension age, which will take into account changing life expectancy as well as other factors. For more detail, see Library Standard Note SN 6546 State Pension age 2012 onwards

On 17 June, Danny Alexander said the Government was proposing that (as recommended by Lord Hutton) the normal pension age in public service schemes, other than for the uniformed services, should be linked to the State Pension age:

> For that reason, we are proposing to link the Normal Pension Age to the State Pension Age. That is, we propose linking the age you can draw your occupational pension, to

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[103] Civil Service Pension Scheme – Proposed final agreement, March 2012
[104] Explanatory Notes, paras 53-7
[105] Independent Public Service Pensions Commission: Final Report, 10 March 2011, Executive summary
[106] *Pensions Act 1995*, Schedule 4 as amended by the *Pensions Act 2011*; *Pensions Act 2014* section 26 and 27

> the age that you can draw your State pension. And the two would continue to track each other in the future as we as a society benefit from greater longevity.[107]

In its submission to the Commission's final report, Prospect argued that decisions on the appropriate pension age should be made on a scheme by scheme basis:

> 75 Each public sector pension scheme has a different set of members with different jobs and characteristics. It is entirely appropriate for scheme design to reflect these differences. For example, some occupations are arduous and require a level of fitness that can be difficult to maintain, in these cases it is perfectly justifiable for members to enjoy lower normal pension ages than exist in the rest of the public service.[108]

The Prison Officer's Association (POA) argued that any further rise in the normal pension age "should not include operational prison staff."[109]

On 19 July, in response to a question about prison officers, the Government said it would consider "what form" the increase in the pension age for the uniformed services would take, and who was covered.[110]

On 20 December 2011, the Government confirmed that in the new scheme, civil servants would have their normal pension age aligned to their State Pension age.[111] There would be transitional protection for those closest to retirement:

> As announced on 2 November, for those members who, on 1 April 2012, have 10 years or less of their current Normal Pension Age will see no change to when they can retire, nor any reduction in the amount of pension they receive at their Normal Pension Age. Such members of staff will be able to remain members of their existing scheme up to and including the point at which they draw their pension and all scheme rules current in 2015 (including rules on contribution rates) will apply.
>
> Members of staff who are less than a further 3 and a half years outside this protected group, will be eligible for an additional degree of protection, in the form of further accrual in their existing scheme. This protection will be tapered in a linear fashion depending on their age on 1 April 2012.[112]

The link with the State Pension age would be kept under review.[113] Discussions were underway on the appropriate pension age for prison officers:

> There is a specific outstanding issue relating to mechanisms for prison officers to retire earlier than state pension age where we are continuing to have discussions with the Prison Officers' Association.[114]

The Proposed Final Agreement confirmed the link between the normal pension age and the State Pension age for post 2015 accruals. This would be kept under review.[115]

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[107] Danny Alexander, Speech to IPPR, 17 June 2011

[108] Prospect, *Response by Prospect to call for evidence for final report on public service pension provision*, December 2010

[109] POA response to the Independent Public Service Pensions Commission's call for further evidence

[110] HC Deb, 19 July 2011, c899W

[111] HC Deb, 20 December 2011, c1202

[112] Civil service website – overview of the offer

[113] NHS Pension Scheme Heads of Agreement, Annex B, para 5

[114] HC Deb, 20 December 2011, c151-61WS;See also HC Deb, 20 February 2012, c619W; HC Deb, 19 July 2011, c899W

The Prison Officer's Association announced on 27 April 2012 that it had rejected the offer put to it on the normal pension age:

> The offer made was for the employer to part subsidise a buy back from 68 years to 65 years which would have cost prison officers more money in contributions. The offer only covered England and Wales as there was no mention within the offer that this relates to POA members in Scotland and Northern Ireland.
>
> PJ Mc Parlin, National Chairman stated:
>
> "This could have serious ramifications in the future for the health and safety of our members and indeed the safety of prisoners and ultimately the general public. I call on the Government to make us a serious and realistic offer on pension age.[116]

PCS, together with Unite and the NUT, launched its '68 is too late' campaign on 8 May 2012.

Section 10 of the *Public Service Pensions Act 2013* provides for the normal pension age to be linked to the State Pension age in the new civil service scheme to be introduced under the Bill.

When the legislation was before Parliament, there was some debate about the Defence Fire and Rescue Service (DFRS) and Ministry of Defence Police, who are members of the civil service scheme. Labour Peer, Lord Eatwell argued that they should be treated in the same way as other fire and rescue workers and members of police forces. This would mean they would have a normal pension age of 60 rather than one linked to their State Pension age.[117] In the event, Government said it was amending the Bill to require a review of the effect of section 10[118] on the MoD police and Defence Fire and Rescue Services, with particular regard to the impacts on the health and well-being of the individuals affected.[119] This was provided for in section 36 of the *Public Service Pensions Act 2013*.[120] The report of the review was published in December 2013. It concluded that:

> 35. Whilst there are risks to DFRS associated with Section 10, in the absence of compelling medical evidence there is currently, no operational reason why the MOD would not continue with its introduction as planned in April 2015. However, the MOD will regularly review risks to both DFRS members and operational outputs of a higher NPA to confirm the effectiveness of mitigation actions, and risk assessments will continue to be informed by research and experience from the wider FRS environment and similar workforces.[121]

Pension protection on compulsory transfer of employment

The pension protection arrangements for staff compulsorily transferred out of the public sector are covered in Library Note SN 1665 TUPE and Pensions (June 2014).

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[115] Civil Service Pension Scheme – Proposed final agreement, March 2012

[116] PoA Press Release, POA reject final offer on prison officer normal pension age

[117] HL Deb, 9 January 2013, c180

[118] Section 10 provides for the new public service schemes to be introduced from 2015 to have a normal pension age linked to the State Pension age (except for the schemes for the police, firefighters and armed forces, who are to have a normal pension age of 60)

[119] HL Deb, 23 April 2013, c1357

[120] *Public Service Pensions Act 2013 (Commencement No 1) Order 2013 (SI 2013/1518*)

[121] MoD, Report on the likely effect of Section 10 of the Public Service Pensions Act 2013 on members of the Defence Fire and Rescue Service and the Ministry of Defence Police, December 2013