

Independent Public Service Pensions Commission Final Report

The final report was published today. There are 27 key recommendations. These are attached, a more detailed analysis and commentary is being produced now.

The following is a summary of the key issues.

Final salary will be replaced by Career Average

There is no recommendation that the CARE scheme should be of the same overall value to existing Final Salary Schemes. CARE should be adopted for 'general' use in the public service schemes.

The commission recommends that while members are paying into the CARE scheme, pension earnings should be revalued in line with average earnings instead of prices, which would be (CPI).

Increase in retirement age

Increases in the normal retirement age for public service schemes are to linked to increases in State Pension Age (SPA) this means higher than 65.

For those now 34 or younger it is already 68. For those between 34 and 42 it is 67. For those between 42 to around 57 it will be 66.

There is no indication that Normal Pension Age should be decided scheme by scheme based on the life expectancy of actual members of a scheme.

Cost sharing

The Commission proposes the cost ceiling for the taxpayer/employer should be a fixed proportion of pensionable pay. It doesn't specify what should be covered by the ceiling or suggest where the ceiling may be.

So it could be used as an excuse by government to share all costs with scheme members.

Or it could just stick with existing cost share arrangements where for example in the NHSPS the long term employer contribution cap is already set at 14%

The Commission still believes there is no evidence outside London and the SE that public service pay is lower than the private sector. It recommends public service employers take more account of pensions when constructing pay packages.

Supports the end of Fair Deal

Only public sector workers can be members of a public sector pension scheme.

Excluding workers after they have been outsourced means that if Fair Deal is watered down the very race to the bottom the Commission and Government say they want to avoid will happen.

Scheme Governance

There is a commitment to greater transparency and involvement by trade unions and scheme members in the design of new governance structures across the public sector. Everyone who contributes to a scheme should be afforded the highest standards of governance and involvement in the management and administration of their money.

Lord Hutton recommends the Government should introduce primary legislation to adopt a new common UK legal framework for public service schemes.

The specific recommendations however do not go far enough, Lord Hutton has made no mention of the EU Directive 41/2003/Institutions for Occupational Retirement Provision. Or the IORP Directive, which apply to state backed schemes with investment funds, specifically the LGPS.

Scheme Administration Costs

Lord Hutton has recommended that Central and Local Government should closely monitor the benefits associated with the current co-operative projects within the LGPS, with a view to encouraging the extension of this approach, if appropriate, across all local authorities.

Government should also examine closely the potential for the unfunded public service schemes to realise greater efficiencies in the administration of pensions by sharing contracts and combining support services, including considering outsourcing.

Lord Hutton has missed the opportunity of recommending LGPS fund mergers, which could have produced significant increases in income for the employers, scheme members and taxpayers.

There is no evidence to suggest that improved collaboration over the purchasing of fund management for the LGPS has delivered anything like the income generation that fund mergers would achieve.

Savings in administration are insignificant compared to what could be done with fund management costs and increases in income by economy of scale.

UNISON does not support the outsourcing of administration services.

How will the changes be made?

Each government department will undertake negotiations with trade unions and social partners by the end of this Parliament.

The Independent Public Service Pensions Commission's 27 recommendations are as follows.

Recommendation 1: The government should make clear its assessment of the role of public service pension schemes. Based on its framework of principles, the Commission believes that the primary purpose is to ensure adequate levels of retirement income for public service pensioners.

Recommendation 2: Pensions will continue to be an important element of remuneration. The Commission recommends that public service employers take greater account of public service pensions when constructing remuneration packages and designing workforce strategies. The government should make clear in its remits for pay review bodies that they should consider how public service pensions affect total reward when making pay recommendations.

Recommendation 3: The government should ensure that public service schemes, along with a full state pension, deliver at least adequate levels of income (as defined by the Turner Commission benchmark replacement rates) for scheme members who work full careers in public service. Employers should seek to maximise participation in the schemes where this is appropriate. Adequate incomes and good participation rates are particularly important below median income levels.

Recommendation 4: The government must honour in full the pension promises that have been accrued by scheme members: their accrued rights. In doing so, the Commission recommends maintaining the final salary link for past service for current members.

Recommendation 5: As soon as practical, members of the current defined benefit public service pension schemes should be moved to the new schemes for future service, but the government should continue to provide a form of defined benefit pension as the core design.

Recommendation 6: All public service pension schemes should regularly publish data which, as far as possible, is produced to common standards and methodologies and is then collated centrally. This information should be of a quality that allows simple comparisons to be made across Government, between schemes and between individual Local Government Pension Scheme (LGPS) Funds.

Recommendation 7: A new career average revalued earnings (CARE) scheme should be adopted for general use in the public service schemes.

Recommendation 8: Pension benefits should be uprated in line with average earnings during the accrual phase for active scheme members. Post-retirement, pensions in payment should be indexed in line with prices to maintain their purchasing power and adequacy during retirement.

Recommendation 9: A single benefit design should apply across the whole income range. The differing characteristics of higher and lower earners should be addressed through tiered contribution rates. The government should consider the trade off

between affordability and the impact of opt outs on adequacy when setting member contribution levels.

Recommendation 10: Members should have greater choice over when to start drawing their pension benefits, so they can choose to retire earlier or later than their Normal Pension Age and their pension would be adjusted accordingly on an actuarially fair basis. Flexible retirement should be encouraged and abatement of pensions in its current form for those who return to work after drawing their pensions should be eliminated. In addition, caps on pension accrual should be removed or significantly lifted.

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.

Recommendation 12: The government, on behalf of the taxpayer, should set out a fixed cost ceiling: the proportion of pensionable pay that they will contribute, on average, to employees' pensions over the long term. If this is exceeded then there should be a consultation process to bring costs back within the ceiling, with an automatic default change if agreement cannot be reached.

Recommendation 13: The Commission is not proposing a single public service pension scheme, but over time public service pensions should move towards a common framework for scheme design as set out in this report. However, in some cases, for example, the uniformed services, there may need to be limited adaptations to this framework.

Recommendation 14: The key design features contained in this report should apply to all public service pension schemes. The exception is in the case of the uniformed services where the Normal Pension Age should be set to reflect the unique characteristics of the work involved. The Government should therefore consider setting a new Normal Pension Age of 60 across the uniformed services, where the Normal Pension Age is currently below this level in these schemes, and keep this under regular review.

Recommendation 15: The common design features laid out in this report should also apply to the LGPS. However, it remains appropriate for the Government to maintain the different financing arrangements for the LGPS in future, so the LGPS remains funded and the other major schemes remain unfunded.

Recommendation 16: It is in principle undesirable for future non-public service workers to have access to public service pension schemes, given the increased long-term risk this places on the government and taxpayers.

Recommendation 17: Every public service pension scheme (and individual LGPS Fund) should have a properly constituted, trained and competent Pension Board, with member nominees, responsible for meeting good standards of governance

including effective and efficient administration. There should also be a pension policy group for each scheme at national level for considering major changes to scheme rules.

Recommendation 18: All public service pension schemes should issue regular benefit statements to active scheme members, at least annually and without being requested and promote the use of information technology for providing information to members and employers.

Recommendation 19: Governance and the availability and transparency of information would be improved by government establishing a framework that ensures independent oversight of the governance, administration and data transparency of public service pension schemes. Government should consider which body or bodies, including, for example, The Pensions Regulator, is most suitable to undertake this role.

Recommendation 20: When assessing the long term sustainability of the public finances, the Office for Budget Responsibility should provide a regular published analysis of the long term fiscal impact of the main public service pension schemes (including the funded LGPS).

Recommendation 21: Centrally collated comprehensive data, covering all LGPS Funds, should be published including fund comparisons, which, for example, clarify and compare key assumptions about investment growth and differences in deficit recovery plans.

Recommendation 22: Government should set what good standards of administration should consist of in the public service pension schemes based on independent expert advice. The Pensions Regulator might have a role, building on its objective to promote good administration. A benchmarking exercise should then be conducted across all the schemes to assist in the raising of standards where appropriate.

Recommendation 23: Central and local government should closely monitor the benefits associated with the current co-operative projects within the LGPS, with a view to encouraging the extension of this approach, if appropriate, across all local authorities. Government should also examine closely the potential for the unfunded public service schemes to realise greater efficiencies in the administration of pensions by sharing contracts and combining support services, including considering outsourcing.

Recommendation 24: The government should introduce primary legislation to adopt a new common UK legal framework for public service schemes.

Recommendation 25: The consultation process itself should be centrally co-ordinated: to set the cost ceilings and timetables for consultation and overall implementation. However, the consultation on details should be conducted scheme by scheme involving employees and their representatives.

Recommendation 26: The Commission's view is that even allowing for the necessary processes it should be possible to introduce the new schemes before the end of this Parliament and we would encourage the Government to aim for implementation within this timeframe.

Recommendation 27: Best practice governance arrangements should be followed for both business as usual and the transformation process, for each scheme. And there will also need to be the right resource, on top of business as usual, to drive the reforms; particularly given the challenging timescale and scope of the reforms.