Barnett Waddingham
Public Sector Consulting

Public Sector Pensions – Client Briefing Note

Public Sector Pension Reform - the Government sets out a new offer: Work longer, pay more, get more?

A new offer

In an attempt to head off mass strike action on 30 November and to conclude reform of the public sector pensions by the end of the year, on Wednesday 2nd November the Government set out a new and improved offer to the unions, followed by a statement by Danny Alexander to update the House of Commons.

The revised offer follows months of discussions with the unions and other interested parties following the Hutton reports on public sector pension reform and feedback that the cost ceilings set in October 2011 were not generous enough to ensure the protection of low and middle income workers and that protections for workers nearing retirement were required.

In summary, the new offer consists of two key elements:

- increased cost ceilings (see table below) allowing the new schemes to be based on a pension to the value of 1/60th of average salary for each year worked rather than 1/65th,representing an increase of 8% and enabling the lowest paid to be protected as originally intended.

Pension Scheme	Gross cost ceiling	Taxpayers	Employees
NHS Pension Scheme *(England and Wales)*	21.9%	12.1%	9.8%
Principal Civil Service Pension Scheme	22.5%	16.9%	5.6%
Teachers Pension Scheme *(England and Wales)*	21.7%	12.1%	9.6%
Local Government Pension Scheme *(England and Wales)*	20.4%	10.9%	9.6%

Source: HM Treasury following advice from the Government Actuary's Department

- Transitional arrangements for those closest to retirement, reflecting the approach taken to the increases in the State Pension Age. The protection will cover those within 10 years of retirement at 1st April 2012 and ensure that they have no change in when they would otherwise retire and no reduction in the pension they would otherwise receive. The protection can be provided outside of the cost ceiling.

Work longer, pay more, get more?

Under the new offer, the Government expects that some workers will receive larger pensions at retirement, though they will have to work longer and in most cases pay more to get them. They quote the following examples, at normal pension age, after a full career in the new scheme:

- a nurse with a salary at retirement of £34,200 would receive £22,800 of pension each year if these reforms were introduced – under the current NHS Pension Scheme 1995 arrangements, they would only get £17,300;
- a teacher with a salary at retirement of £37,800 would receive £25,200 each year under our proposals, rather than the £19,100 they would currently earn in the final salary Teachers' Pension Scheme (pre-2007);
- a civil servant with a salary at retirement of £29,800 would receive a pension of £24,300 each year under our proposals – under their current Nuvos Pension Scheme arrangements, they would only receive £20,100 per year;
- a housing benefits officer with a salary on retirement of £21,500 would receive £17,500 each year under our proposals, rather than the £13,600 they would currently get in the Local Government Pension Scheme (1 April 2008);
- a hospital porter with a salary at retirement of £14,600 would receive pension benefits of £11,900 each year, as opposed to the £9,300 they would currently get in the NHS Pension Scheme (2008); and

- a senior civil servant with a salary at retirement of £100,000 would receive a pension of £37,000 each year under our proposals, rather than the £44,400 they would currently get in their Premium Pension Scheme arrangements.

A conditional offer!

The offer is dependent upon all sides reaching agreement by year end on new schemes formed within the revised cost ceilings, with an expectation that strikes will be avoided. In the meantime, the increase in member contributions, or equivalent increase and benefit changes in the LGPS, for those earning over £15,000 a year will continue to proceed.

Commenting on the revised offer, Danny Alexander noted that the revised package was affordable and fair to public sector workers while delivering long term saving to taxpayers.

Our initial view

Commenting post Danny's statement,
Graeme Muir noted that:

"So we now seem to be back to a 60th accrual rate from the originally proposed 65th for public sector pension schemes after 2015. If that's where we end up then at least it will mean that most public service employees will earn the same amount of pension each year as they are already earning.

Victor Meldrew will no doubt be not believing it and the fact that Mr Cameron has indicated to the Commons that the changes will mean in some cases even bigger pensions than before will no doubt push Victor one step closer to the grave.

The bottom line, however, is that whilst some may receive bigger pensions than before they will have to still pay in more and for longer to get their bigger pensions - so save up more for longer and get more - seems fair enough.

We await the reaction of the unions with interest"

Further information

We will of course be digesting the announcements in more detail and will issue further information.

In the meantime, for further information please contact Graeme Muir or Alison Hamilton on 0141 243 4400 or email publicsector@barnett-waddingham.co.uk

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