IER Conference 2014
Pension changes and challenges

If public service pension schemes survive , can they halt the decline in pensions for everyone else?

Glyn Jenkins
Head of Pensions – UNISON

But first :
Are We still pensioned out on public service pensions?
What do members think?

Local Government Pension Scheme (LGPS)

Trade Unions and LGA conduct consultation with members result issued 30 August. Endorsement from those who responded .

- 93% of employers in favour
- 90% of UNISON in favour

UNISON members just endorsed similar changes to LGPS Scotland from April 2015

LGPS Northern Ireland consultation on similar changes from April 2015.

1. Members value that contributions will not increase for those paying basic rate tax
2. Members hugely relieved that the scheme remains a defined benefit scheme
3. Older Members relieved the at the continuing protection under the ‘rule of 85’ and the underpin for those within 10 years of NRA at April 2012
4. Members relieved at the earnings link on pre 2014 final salary service
5. Members are anxious over when they can afford to retire
6. Members hopeful that they will have a bigger say in the scheme in the future

How good was the settlement for public service pension schemes

CARE v Final Salary

- Based on the better accrual rates negotiated for the schemes and the likely length of service for most members the majority should be better off. UNISON calculated that based on salary increases (excluding any promotions) then from 1988 when CPI came in members pensions would have been around 20% better off.

- But these are essentially the low paid and even in a relatively good scheme public service scheme if they are not in it for a long period the pension on its own may not be enough to put them above the poverty line. Especially if the schemes are made worse in the future.

How good was the settlement for public service pension schemes

Retirement Age

- This is the major detriment. If members do not retire later in the future. The main group affected are likely be those under 55 who have to draw their pension (retire ‘voluntarily’)before the new NPA based on the SPA that is a ’moveable feast’.
- The problem is that when a member has to retire they must take all their pension not just the ‘protected’ part’.
- At 55 the reduction would currently be around 40%+ based on 11 years before SPA. And for the part protected at 60 around 25%+

How good was the settlement for public service pension schemes

Final Salary protection on pre 2014/15 changes

- This was a major achievement especially for those with a sizeable length of service in the old final salary schemes
- Linking to final earnings rather than prices is likely to protect these pensions in the long run and offset to some extent the lower accrual rate
- But many who are currently opted out of their public service of their pension schemes may miss the boat if they do not rejoin soon

Survivor benefits

Still there but reducing in value relative to the members pension. The accrual rate is not keeping up with the accrual rate for the main pension. For example in LGPS it is 1/160th while the main pension accrues at 1/49th

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Indexation of pension

The CPI may be a flawed index that does not really reflect the changes in the cost of living but at least it is not capped in the Public Service Schemes

Fair deal retained

But some loop holes

How good was the settlement for public service pension schemes

So overall good packages but :

- Is already unaffordable for many workers
- And likely to be inadequate if members have to retire before their SPA
- And it is under threat

The threats

Danny Alexander says the agreement should last at least 25 years.

But what if the next coalition government is Tory/UKIP ?

Cost control

The crunch year is likely to be 2016 when valuations occur in the LGPS England and Wales and NHSPS and costs likely to go up because:

Increasing proportion of lower paid in the workforce will reduce employee contribution yield below the proportion required in the schemes regulations

A ‘maturing’ scheme may increase costs and reduce cash flow

Over prudent actuarial assumptions on future growth of the value of the schemes

How is membership changing in England?

Table 4: Number of Local Government Pension Scheme members at the end of each year

2008-09 TO 2012-13					
THOUSAND					
	2008-09	2009-10	2010-11	2011-12	2012-13
Employees	1,685	1,684	1,633	1,567	1,586
Pensioners	1,088	1,131	1,187	1,253	1,288
Former employees entitled to deferred benefits	1,149	1,245	1,326	1,420	1,508
Former employees to whom Regulation 18 of the 2007 Benefit Regulations (flexible retirees) applies	2	4	9	9	10

Source: SF3 Forms

The threats

The pensions ‘industry’ and pundits

Still smarting that all that business was lost when Public Service pension Schemes remained defined benefit.

At pension conferences it is being openly mooted by pundits that ‘defined ambition’ should apply to Public Service Pension Schemes

The single tier state pension

From April 2016 employers will pay an extra 3.4% National Insurance contribution when contracting out rebate goes. At the moment this cannot be passed on to members of the Public Service Pension Schemes but what happens when services are cut to pay for it?

How many members will leave when their NI goes up by 1.4% especially if their schemes contributions also increase?

The threats

The pension ‘Revolution’ in the private sector

Auto enrolment is NOT increasing pension saving.

From April 2016, it is replacing a second state pension that workers will no longer be able to contribute to with an inferior and inadequate Default Pension Arrangement where the minimum employer contribution (of 3% by 2017) is woefully inadequate.

By increasing savings do the politicians mean members instead of paying 1.4% extra NI contributions to a superior second state pension that they are abolishing from 2016, will now pay more - minimum 4% under the default scheme?

Employers are using it as an excuse to close their pension schemes or at least exclude new starters, because they fear the cost of those who have opted out or been previously excluded coming back into a more costly scheme

The defined contribution schemes that are replacing them are not just passing on the risk to the members but are a significant saving in cost to the employer

The threats

The pension ‘Revolution’ in the private sector

The defined contribution schemes that are replacing defined benefit schemes are not just passing on the risk to the members but are a significant saving in cost to the employer

The employer contribution needed on top of the new State Pension Scheme, ignoring the hidden costs (including the main one of the transference of risk), needed is around 16% with the member pay at least another 6%.

The pundits and politicians argue around the charging structure and investment strategies of DC schemes

If only they paid the same attention to the minimum employer contribution rate and worsening annuity rates!!

What Revolution ? What consensus?

If public service pension schemes survive , can they halt the decline in pensions for everyone else?

The answer has to be Yes with a big IF Public Service Schemes survive

There is little doubt that the settlement that was achieved during the most recent attack on Public Service Schemes owes a lot to the fact that public services still have a high proportion of Trade Union members willing to take action to defend their pensions.

If public Service Pension Schemes go down their will be little hope for workers in failing DC schemes.

If they survive they will be a standard for all workers to aim for

Trade Unions must follow their members into the private sector when services are out sourced and organise the whole work force in the private sector employer to fight for better pensions including increasing employer contributions for the staff in the woefully inadequate DC schemes and substandard DB schemes

Questions?

Glyn Jenkins
Head of Pensions
UNISON

g.jenkins@unison.co.uk

UNISON Pension Website
http://www.unison.org.uk/pensions/