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REFORM OF PUBLIC SERVICE PENSION SCHEMES: THE WAY FORWARD FOR TEACHERS, THE NHS AND THE CIVIL SERVICE

“Public service pensions are a key benefit of public service employment and should be celebrated as such. They should continue to be good quality public service pensions schemes that are sustainable, defined benefit and index linked. Changes in demographics, employment patterns, and the legal and regulatory framework require public service pension schemes to be modernised. Underlining the importance of a diverse workforce, there is scope to address how to develop flexible retirement options to meet the needs and aspirations of older workers and to make the most of their experience and expertise.” (PSF pay principles, February 2005).

To build on that agreement, schemes should have flexibility to determine their details consistent with the following framework principles and a cost envelope for each scheme that will be respected. This will be set out at an early stage of the negotiations and signed off by the Chief Secretary.

Framework principles for scheme negotiations

1. Workforces and their representatives should be informed of all the options and issues about reform of their pension schemes. Trade unions, employers and the Government are committed to moving forward together on the basis of transparency, shared information and joint working. All sides are fully committed to an open and evidence based approach that explains and justifies the policy approach and the possible alternatives.
2. Key priorities that should be addressed as part of the evidence gathering at scheme level should include: (a) demographics for the scheme and, subject to availability of data, for groups of workers; (b) scope to improve individual choice over how long to work for, including increased flexibility to choose a retirement date different from normal pension age; (c) scope for increasing take-up; (d) the role of good pensions as a key element of the overall remuneration package and in supporting recruitment and retention; and (e) robust costings of the proposals and their likely impact on long term affordability.
3. A co-operative approach should be adopted in all discussions. Adequate time should be made for this process and all sides are committed to working towards a final agreement following consultation with workforces as quickly as possible. All sector scheme negotiations should complete their initial discussions by no later than March 2006. This will be followed by a sufficient period to allow adequate consultation, with the aim of reaching agreement by no later than June

2006. Implementation of the new schemes for new entrants should follow as soon as is practicable thereafter in each scheme.

4. A principle underlying this agreement is that existing scheme members will have the right to suffer no detriment in terms of their normal pension age and will retain their existing pension provision unless individual or collective agreements within sector specific negotiations are reached which allow changes to those provisions or transition to new schemes. The accrued pensions rights of the existing workforce will be fully protected in the event of transition. New entrants from the date of implementation will only be offered pensions in the new schemes negotiated through the sector specific discussions.

Features of new schemes

5. New schemes should continue to guarantee defined benefit provision, linked to an individual's earnings. Schemes should also offer indexation to protect retired members against rises in the cost of living.
6. All changes to schemes should be equality-proofed before implementation.
7. New schemes should be designed with the objective of increasing appropriate take-up especially amongst part-time and lower paid workers and others who are eligible but where participation in the scheme may be lower currently.
8. As people live longer, healthier lives, it is likely more will choose to continue working for longer. This makes it crucial that schemes give greater flexibility than in the past to those who wish to use part-time work as a stepping stone to retirement, and also greater recognition to service by those who chose to work beyond typical retirement ages.
9. For the purposes of calculating accrual of pensions, 65 will be the reference age (the "NPA") for new entrants to the new schemes entering employment after the implementation date. But not all new members will want to work longer, and all new scheme members will continue to have the right to retire at age 60. All new scheme members who under the new arrangements would retire on a lower pension than they would under existing rules will be offered the opportunity to increase contributions so members can continue to retire on a full pension at age 60. Those who wish to continue to work to the new normal pension age will be able to do so at the standard contribution rate.

10. Government will make available approximately 1% of pay roll to improve benefits in the new schemes, such as improved survivor benefits, or to deal with transition arrangements/protection for existing scheme members.
11. Scheme specific negotiations should take account of the special physical and mental demands of many public sector jobs, and the resultant continuing importance of early retirement provision for those with ill health.
12. The PSF will review the operation of these principles early in the New Year.