Frequently asked questions

10 March 2011

The Independent Public Service Pensions Commission published its final report on 10 March 2011 setting out its recommendations for how public service pension schemes should look in the future. The Commission is aware of the value that public service workers place on their pensions and tries to answer below some of the key questions around reform.

1. Why do public service pensions have to change?

We need a system that is fairer: the current final salary pension schemes reward workers that move up the career ladder faster more than those that don't. And on average we are living longer than when these schemes were set up. Someone retiring now from the NHS at age 60 can expect to spend around 40 to 45 per cent of their adult life drawing a pension, compared to around a third in the 1980s. We cannot expect the taxpayer to fund this and need to share the cost, for example, by working longer.

2. I work in the public services - what does this mean for my pension?

The recommendations in the Commission's final report are designed to ensure public service pensions are sustainable and affordable in the future while providing an adequate level of retirement income for people who devote their careers to public service. But they are only recommendations and the Government will need to work out the detail in consultation with staff and unions over time. Until these details are agreed it is not possible to assess the precise impact on individuals.

3. You're recommending changing from a final salary scheme to career average. Won't that mean members of the scheme are worse off?

There is no reason why this will be the case but there are likely to be winners and losers from a switch. A career average scheme can be misunderstood. It does not just substitute your average career salary for your final salary in the old scheme. Rather it lets you build up a slice of pension each year based on your salary in that year and then increases the value of that slice each year. The Commission has suggested increasing it by changes in average earnings. In the end all those slices make up your pension. The exact effect on you will depend on the details set by the Government after they have consulted scheme members. This report demonstrates how many people can be better off from a move to career average, which is a fairer system. Under a career average scheme, people who don't experience big leaps in their salary will often do better than from a final salary type scheme.

4. How do career average schemes work?

Instead of the amount of your pension being based on your salary at retirement, it will be based on how much you earn each year in your career. This will be much fairer to those scheme members who do not get large pay increases towards the end of their careers. More information on how career average schemes work is on the Commission's website in our document 'How a Career Average Revalued Earnings (CARE) scheme works' (PDF 452KB)

5. I am planning to have a career break to raise my family and have heard I will be worse off in a career average scheme. Is this true?

This is not true. If you take a career break you will not continue to build up your career average pension during the years you are not working. But in a final salary scheme the years you are on a career break also do not count towards the calculation of your final salary pension either. So the effects are similar. The Commission recommends that members should still be able to buy added pension which would allow you increase your income if retirement to make up for any missing years of accrual.

6. I am a 50 year-old public service worker and have planned for my retirement. Will the reforms mean I have to work for longer?

The pension you've built up so far won't change, including the age at which you can take it. Everything you build up after the reform can be taken from the new pension age, though you can still take a reduced amount earlier if you prefer.

7. I am a 32 year-old public service worker with a Normal Pension Age of 60 at the moment, will these changes mean I have to work until I'm 68?

The Commission is recommending that your Normal Pension Age in the new pension schemes should be in line with your State Pension Age. So most people aged 32 or less at the moment are likely to have a Normal Pension Age of 68 for any future pension they build up. What you have currently built up can be taken without any reductions at your current Normal Pension Age.

Since most public service schemes for people joining today have Normal Pension Ages of 65, the Commission believes that it is fair and reasonable for members of all public service schemes to wait a bit longer before they get their public service pension. However, there will be some exceptions, particularly in the Armed Forces, Police and Fire schemes.

8. Will the changes mean that I have to pay more in contributions?

If schemes become too expensive, then mechanisms will need to be in place to make it affordable. This could result in an increase in member contribution rates or a reduction in member benefits. The precise details will be decided after a consultation process. This is fair, because the alternative is for the taxpayer to foot the bill.

9. When is this going to happen?

The reforms cannot be achieved overnight. It will be up to the Government to decide whether or not to accept the recommendations of the report. Once the Government and schemes have come to an initial view on the details, they will need to consult with interested groups including employees and their representatives.

But the Commission has said that it should be possible to introduce these new schemes before the end of this Parliament in 2015.

10. I have read that public service pension contributions will increase by an average of 3 per cent from April 2011 – is this correct?

The Commission's interim report recommended that there was a case for short-term cost savings in recognition of substantial unexpected increases in costs as the result of people living longer. In practice these savings could only be realised by increasing member contributions. The Commission recommended that any increase should be managed so as to protect the low paid and if possible staged over time. The Government accepted this and announced in the Comprehensive Spending Review that member contributions in the current public service defined benefit schemes would have to increase, on average, by 3 percentage points. Further details on how this will be implemented will be announced by the Government in summer 2011.

11. These schemes are constantly changing. How do I know that there will not be further large changes in the next ten years or so?

The Commission has developed a system which will be sustainable in the long-term, so further large changes should not be necessary. The new system is much fairer between scheme members and has in-built mechanisms to deal with any future increases in longevity, this reduces the need for further large changes in future.

12. I work in the private sector and have a DC pension. Why are public sector workers keeping their gold-plated pensions?

Most public sector workers do not receive gold-plated pensions. The Commission's interim report showed that around half of pensioners receive less than £5,600 a year, with the average amount of pension paid being £7,800 a year. The recommendations in the final report will ensure that there is a fairer share of risk between scheme members and taxpayers.

13. I work in the private sector and don't have a pension, why should my taxes pay for public service pensions?

The amount of people in the private sector without a pension or with inadequate pension savings is clearly a huge problem. This is being addressed through separate reforms, starting next year, which will require companies to pay into a pension scheme for all of their eligible employees.

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