

Government proposals on the future of public sector pensions

Speech by the Chief Secretary to the Treasury, Rt Hon Danny Alexander MP

Treasury Minister Danny Alexander made a speech on 17th June which set out the Government's proposals for the future of public sector pensions, including the Local Government Pension Scheme (LGPS). The Minister's speech identifies challenges facing the current structure of public sector pensions and the need for change because of unsustainable costs. The full speech can be downloaded at http://www.hm-treasury.gov.uk/press_61_11.htm

The key points of the Minister's speech were:

Keeping public sector pensions as 'Defined Benefits'

The Minister has proposed that public sector pensions will remain 'Defined Benefits'. This is an important commitment which means that Members will continue to receive a guaranteed amount in retirement, not an uncertain amount based on the value of an investment fund or cash pot.

Increasing the Retirement Age in line with the State Pension Age

Referring to the fact that people are increasingly living longer than they were when public sector pension schemes were set up, and that their pensions therefore have to be paid for longer which has increased costs, the Minister has said that in future all Scheme retirement ages will be linked to the State Pension Age. (This is due to be increased to 66 by April 2020).

Increasing Pension Contributions

The Minister also confirmed that Members of public sector pension schemes may have to contribute a further 3.2% of their pensionable pay on average, phased in over the period from 2012 to 2014. He also stated that there would be some protections; with no increase in contributions for those Members who earn less than £15,000 a year, and a limited increase of 1.5% for those earning up to £18,000.

Benefits already built up will be protected

The Minister has stated that all benefits which Members have built up in public sector pension schemes, before any proposed changes are made, will be protected.

And Future benefits?

The Minister proposes that future 'Defined Benefit' public sector pension schemes will be linked to each Member's average salary over their career and not their final salary. As some Members can benefit from significant increases in their salary during their career, which increases overall costs of providing public sector pensions, it is seen as unfair to workers who do not benefit from such salary increases. Therefore it is generally accepted that a 'career average' (CARE) scheme can be fairer to the majority of scheme Members.

What does this mean for current LGPS Members?

The Minister has stated ***"I want to make it absolutely clear that we are fully committed to protecting the pension that has been earned to date"***

The Minister has stated ***'we will ensure that public service pensions remain among the very best available, and will provide low and middle income workers with a pension broadly as good as what you have now'***

Important points to note

- The proposals to change public sector pensions are still being formulated.

- No changes have yet been made to the structure of the LGPS.
- Currently, in addition to providing a valuable mechanism for staff to save for their retirement, the LGPS also gives a Member protection in the form of early payment of benefits in qualifying ill health and redundancy situations, and also protection for a Member's dependants in the form of a grant of 3 years pay on the death of a current Member and Survivor's Pensions for eligible partners and dependent children.
- **The changes proposed DO NOT affect the benefits you have built up now and will build up to the date any changes become effective.**
- This includes the final salary on which those benefits will be calculated (when you retire or leave the scheme) and also the date on which those benefits can come into payment.
- **Any major changes to schemes are anticipated to be operative in 2015**
- **There are NO increases in employee contribution rates until April 2012**
- Some members will not be affected by these increases
- **Avon Pension Fund would recommend that any Member considering opting out of the LGPS should seek Independent Financial Advice before making any such decision.**

What if I am retired or have already stopped paying into the LGPS?

If you have already retired, or have left the LGPS before retirement age and have kept your pension rights preserved in the Avon Pension Fund (i.e. you have a Deferred Benefit), the Government's proposed changes should not affect you.