UNISON Scotland
Public Service Pensions Commission: Final report

Recommendations and Scottish commentary

Hutton recommendation	Scottish commentary
Recommendation 1: The government should make clear its assessment of the role of public service pension schemes. Based on its framework of principles, the Commission believes that the primary purpose is to ensure adequate levels of retirement income for public service pensioners.	As the regulation of Scottish public service pension schemes is a devolved responsibility this will require the Scottish Government to make a similar assessment. The Scottish Government and employers organisations in Scotland have taken a stronger line than this report on the importance of recruiting and retaining quality staff.
Recommendation 2: Pensions will continue to be an important element of remuneration. The Commission recommends that public service employers take greater account of public service pensions when constructing remuneration packages and designing workforce strategies. The government should make clear in its remits for pay review bodies that they should consider how public service pensions affect total reward when making pay recommendations.	The pension scheme has already been taken into account in pay and conditions negotiations in Scotland. In addition a significant and sadly growing number of workers are not in the pension schemes, a proportion likely to rise sharply if the UK government's contribution increase is implemented. It would therefore be inappropriate to negatively take account of pensions in pay recommendations
Recommendation 3: The government should ensure that public service schemes, along with a full state pension, deliver at least adequate levels of income (as defined by the Turner Commission benchmark replacement rates) for scheme members who work full careers in public service. Employers should seek to maximise participation in the schemes where this is appropriate. Adequate incomes and good participation rates are particularly important below median income levels.	There is an obvious contradiction between the proposals for a simplified state pension that seeks to encourage staff to save for retirement and the Treasury's public service pensions 'tax', levied through increased contributions. Maximising participation is very desirable, but unlikely to be achievable when staff are facing a pay freeze, attacks on pay and conditions, rising inflation and a contribution increase. Coupled with the reduction in benefits the message 'pay more for less' is not an attractive sales pitch.
Recommendation 4: The government must honour in full the pension promises that have been accrued by scheme members: their accrued rights. In doing so, the Commission recommends maintaining the final salary link for past service for current members.	Whilst welcome, this assurance does not fit with the UK Government's decision to change the indexing from RPI to CPI, a change that slashes at least 15% from benefits. The pensions minister did not make a similar change in the private sector because it would interfere with contractual arrangements. No such consideration was given to public service workers and this further undermines confidence in pension schemes.

Recommendation 5: As soon as practical, members of the current defined benefit public service pension schemes should be moved to the new schemes for future service, but the government should continue to provide a form of defined benefit pension as the core design.	This should be a matter for negotiation within each scheme given that the Scottish schemes have only recently been restructured. The design of schemes is a devolved issue for Scottish ministers. The use of 'government' throughout this report reflects a failure to grasp the consequences of devolution.
Recommendation 6: All public service pension schemes should regularly publish data which, as far as possible, is produced to common standards and methodologies and is then collated centrally. This information should be of a quality that allows simple comparisons to be made across Government, between schemes and between individual Local Government Pension Scheme (LGPS) Funds.	Objective comparison between schemes is difficult because they rightly reflect the nature of employment of scheme members. In Scotland there are particular issues in relation to health, longevity and how services are delivered that make wider UK comparisons even more difficult.
Recommendation 7: A new career average revalued earnings (CARE) scheme should be adopted for general use in the public service schemes.	Whilst there is no objection in principle to career average schemes they are being introduced here simply to cut costs and there is no commitment to maintaining the same overall value. Again the scheme design should be a matter for each scheme to decide, reflecting the workforce.
Recommendation 8: Pension benefits should be uprated in line with average earnings during the accrual phase for active scheme members. Post-retirement, pensions in payment should be indexed in line with prices to maintain their purchasing power and adequacy during retirement.	Without this a career average scheme will be virtually worthless, particularly for younger workers.
Recommendation 9: A single benefit design should apply across the whole income range. The differing characteristics of higher and lower earners should be addressed through tiered contribution rates. The government should consider the trade off between affordability and the impact of opt outs on adequacy when setting member contribution levels.	The Scottish schemes UNISON has negotiated already have progressive tiered contributions to reflect the relative benefits in the current scheme design. It will not be possible to accommodate the scale of contribution increase proposed without hitting lower income levels. In the LGPS in particular the numbers of low paid staff are simply too great a proportion of the workforce. A single benefit design may also not be appropriate for schemes that should reflect different workforce structures and range of pay scales.
Recommendation 10: Members should have greater choice over when to start drawing their pension benefits, so they can choose to retire earlier or later than their Normal Pension Age and their pension would be adjusted accordingly on an actuarially fair basis.	There are already provisions for some of this in the Scottish schemes.

Flexible retirement should be encouraged and abatement of pensions in its current form for those who return to work after drawing their pensions should be eliminated. In addition, caps on pension accrual should be removed or significantly lifted.	
Recommendation 11: The government should increase the member's Normal Pension Age in the new schemes so that it is in line with their State Pension Age. The link between the State Pension Age and Normal Pension Age should be regularly reviewed, to make sure it is still appropriate, with a preference for keeping the two pension ages linked.	The LGPS in Scotland already has a NPA of 65. In the NHS scheme members in Scotland have just completed the CHOICE exercise. Almost all decided to stay in the section that retains a retirement age of 60. They could reasonably argue that this recommendation undermines the basis of their pension choice. The UK state retirement age does not take into account morbidity rates in Scotland. Although people in Scotland are living longer than ever before, our life expectancy remains lower than that in most other Western European countries. Variations in life expectancy have increased consistently over the past 10 years. Men living in Scotland's least deprived areas now have a life expectancy of 10.7 years longer than men living in the most deprived areas, whilst for women, the life expectancy gap is 6.8 years. This means that most men and women in the most deprived areas will not live to collect their pension at the current retirement age.
Recommendation 12: The government, on behalf of the taxpayer, should set out a fixed cost ceiling: the proportion of pensionable pay that they will contribute, on average, to employees' pensions over the long term. If this is exceeded then there should be a consultation process to bring costs back within the ceiling, with an automatic default change if agreement cannot be reached.	The Scottish schemes already have cost sharing provisions in place that were agreed only two years ago. The LGPS costs will be reviewed in line with the normal three yearly valuations and that is the proper approach in a funded scheme consistent with practice elsewhere. This section of the report also fails to mention the extensive contribution holidays that Scottish employers have benefited from in the past.
Recommendation 13: The Commission is not proposing a single public service pension scheme, but over time public service pensions should move towards a common framework for scheme design as set out in this report. However, in some cases, for example, the uniformed services, there may need to be limited adaptations to this framework.	There have been historical differences between the Scottish schemes and those in England and that is reflected in the division of responsibilities between the UK and Scottish governments. It is difficult to see what benefits a common framework would bring.
Recommendation 14: The key design features contained in this report should apply to all public service pension schemes. The exception is in the case of the uniformed services where the Normal	There are other uniformed services that are not covered by these schemes together with other occupational groups that could make as strong a case for a lower retirement age. The NPA should reflect the actual life expectancy of

Pension Age should be set to reflect the unique characteristics of the work involved. The Government should therefore consider setting a new Normal Pension Age of 60 across the uniformed services, where the Normal Pension Age is currently below this level in these schemes, and keep this under regular review.	scheme members.
Recommendation 15: The common design features laid out in this report should also apply to the LGPS. However, it remains appropriate for the Government to maintain the different financing arrangements for the LGPS in future, so the LGPS remains funded and the other major schemes remain unfunded.	
Recommendation 16: It is in principle undesirable for future non-public service workers to have access to public service pension schemes, given the increased long-term risk this places on the government and taxpayers.	The explanation in the report for this recommendation is to "help to facilitate the Government's aim for increased plurality of provision for public services." The Scottish Government has no such stated objective and there is separate statutory guidance in Scotland that does meet the Scottish Government's aim to end the two tier workforce. Access to quality pension schemes is an important factor in avoiding a 'race to the bottom' in pension provision and this recommendation would take even more workers out of the schemes.
Recommendation 17: Every public service pension scheme (and individual LGPS Fund) should have a properly constituted, trained and competent Pension Board, with member nominees, responsible for meeting good standards of governance including effective and efficient administration. There should also be a pension policy group for each scheme at national level for considering major changes to scheme rules.	There has been some progress on this issue in the Scottish LGPS with new regulations promulgated last year. However, these do not go far enough and this recommendation makes no reference to the IORP Directive. We already have national policy groups in Scotland for all the main schemes.
Recommendation 18: All public service pension schemes should issue regular benefit statements to active scheme members, at least annually and without being requested and promote the use of information technology for providing information to members and employers.	This is already best practice.
Recommendation 19: Governance and the availability and transparency of information would be improved by government establishing a framework that ensures independent oversight of the governance, administration and data transparency of public service	It is unclear how this fits with the role of the existing policy structures and devolved responsibilities. Like much of the report it fails to reflect devolution.

pension schemes. Government should consider which body or bodies, including, for example, The Pensions Regulator, is most suitable to undertake this role.	
Recommendation 20: When assessing the long term sustainability of the public finances, the Office for Budget Responsibility should provide a regular published analysis of the long term fiscal impact of the main public service pension schemes (including the funded LGPS).	The OBR is a UK organisation that has no role in Scotland.
Recommendation 21: Centrally collated comprehensive data, covering all LGPS Funds, should be published including fund comparisons, which, for example, clarify and compare key assumptions about investment growth and differences in deficit recovery plans.	This is being collated in Scotland as part of the shared services pathfinder project.
Recommendation 22: Government should set what good standards of administration should consist of in the public service pension schemes based on independent expert advice. The Pensions Regulator might have a role, building on its objective to promote good administration. A benchmarking exercise should then be conducted across all the schemes to assist in the raising of standards where appropriate.	Again it is unclear how the functions of the Pensions Regulator would operate in a devolved context.
Recommendation 23: Central and local government should closely monitor the benefits associated with the current co-operative projects within the LGPS, with a view to encouraging the extension of this approach, if appropriate, across all local authorities. Government should also examine closely the potential for the unfunded public service schemes to realise greater efficiencies in the administration of pensions by sharing contracts and combining support services, including considering outsourcing.	There is a shared service pathfinder project in Scotland that is looking at this issue. It is a devolved issue and there is no role for the UK Government. We would agree that there is potential for greater efficiencies in fund management but limited scope with administration. The reference to outsourcing simply reflects Lord Hutton and the UK Government's ideological position. If anything, the available evidence shows that in house pension services are more efficient.
Recommendation 24: The government should introduce primary legislation to adopt a new common UK legal framework for public service schemes.	We can see no evidence to justify primary legislation across the UK. If it was anything other than broad principles it would involve very complex drafting to take account of the many different regulations covering the different schemes. Again there is no recognition of devolution and there are no provisions in the Scotland Bill currently before Parliament on this issue.

Recommendation 25: The consultation process itself should be centrally co-ordinated: to set the cost ceilings and timetables for consultation and overall implementation. However, the consultation on details should be conducted scheme by scheme involving employees and their representatives.	It is unclear why this has to be centrally co-ordinated and how this would impact on the devolved responsibilities.
Recommendation 26: The Commission's view is that even allowing for the necessary processes it should be possible to introduce the new schemes before the end of this Parliament and we would encourage the Government to aim for implementation within this timeframe.	This is a very challenging timetable.
Recommendation 27: Best practice governance arrangements should be followed for both business as usual and the transformation process, for each scheme. And there will also need to be the right resource, on top of business as usual, to drive the reforms; particularly given the challenging timescale and scope of the reforms.	Many of the recommendations and in particular the centralising approach of the report will incur unnecessary costs.

Dave Watson
Scottish Organiser
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