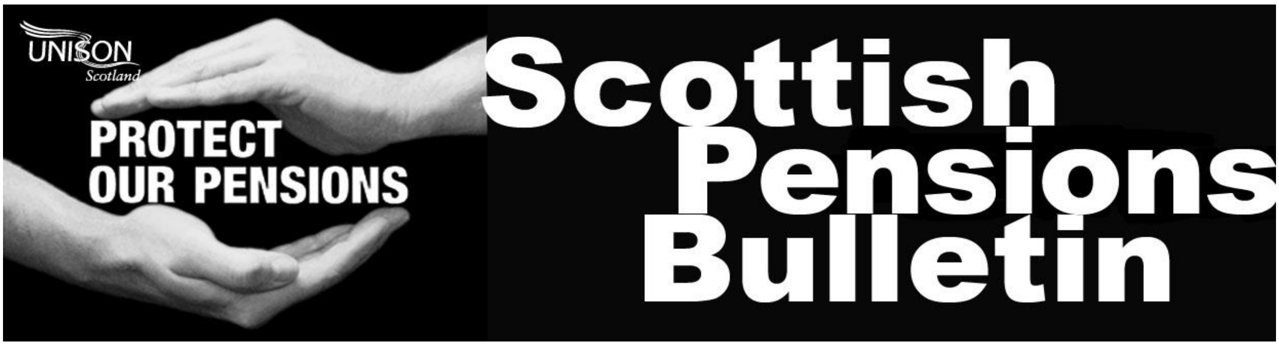

No.19 **January 2011**

Pension Contributions Increase?

The UK government announced last October, following the interim report of the Independent Public Service Pensions Commission (Hutton Review), that there should be progressive changes to employee contributions equivalent to a 3% increase between April 2012 and 2015. Before Christmas they clarified this announcement by increasing contributions to 3.2% to cover their decision to exclude the armed forces. They are seeking to raise £2.8bn from pension contributions. 40% of this in April 2012, 40% in April 2013 and the remaining 20% in April 2014.

For the Local Government Pension Scheme (LGPS) in Scotland this is a devolved matter for the Scottish Government. It is being argued that the UK Government have included this saving in the Scottish budget under the Barnett formula and therefore there would be a financial cost to the Scottish Government if they did not increase contributions. The Scottish Government is therefore planning to issue a consultation paper shortly on this issue.

UNISON Scotland’s initial position has been that this is a simple cash grab by the UK government that has nothing to do with the actual cost of the LGPS. The Scottish Government, CoSLA and the trade unions reached an agreement on the new LGPS that deals with the affordability of the scheme though a system of cost sharing. We have been developing that system and that should be in place to deal with any funding consequences of the 2011 scheme actuarial valuations. Any breach of this agreement by the Scottish Government has inevitable consequences for cost sharing.

The UK Government and the Hutton Review both make it clear that the increased contributions should be applied progressively i.e. that those on higher salaries should pay proportionally more to reflect the benefits of a final salary scheme. We have a progressive scheme at present and it will be very difficult to make further changes that reflect this principle without making the scheme unworkable. Equally, many low paid staff opt out of the LGPS because they can’t afford the contributions. At a time of a pay freeze and other attacks on conditions, an increase in contributions will only increase the level of opt out. The irony is that this will lead to further pressure on welfare benefits as staff will calculate that there is insufficient benefit to make their own provision for retirement.

It is also likely that the Hutton Review will recommend some version of a career average pension scheme to replace final salary schemes like the LGPS. If this is adopted by the LGPS in Scotland it will require yet another restructuring of the contribution bands to reflect a new assessment of relative pension benefit. This could result in at least two changes in the contribution structures in as many years, possibly with complex transitional arrangements that could be an administrative nightmare. This year’s actuarial valuations will also not take account of any contribution increase.

UNISON Scotland will await the Scottish Government consultation paper on this issue and discuss a response with branches (see over).

Indexing of Pension Benefits

The UK Government has announced that it will change the indexing of public sector pension increases each year from the Retail Price Index (RPI) to the Consumer Price Index (CPI). The effect of the change is likely to cut pension benefits by at least 15%.

The UK Government has now decided not to apply this principle to private sector schemes because, in the words of the Pensions Minister, "we want people to have confidence and trust in their pensions, we will not be re-writing the rules of their pension schemes". Apparently it's OK to rewrite the rules for public service workers. The phrase 'pension apartheid' springs to mind!

In Scotland the Scottish Public Pensions Agency (SPPA) issued a consultation letter on changes in the Scottish LGPS as a result of the UK Government's change from the RPI to the CPI. They have extended the consultation period to 26 February, largely to allow further time to address the implications for Councillors pensions that explicitly refer to the RPI.

The consultation also covers the LGPS Regulations definition of "indexing". The current definition is "indexing in accordance with the Government Index of Retail Prices". They want to change this to read "indexing in accordance with the Pensions Increase Act." However, the Scottish Government now intend to apply the change from RPI to CPI, irrespective of the consultation outcome, with effect from April this year. They claim that the change is forced on them by the UK Government order under the Pensions Increase Act because the wording "indexing in accordance with the Government Index of Retail Prices" could be interpreted as CPI or RPI. This of course begs the question why consult on a change to the wording of the regulations if the current language is adequate? We are not convinced that this is correct and will be seeking legal advice.

Hutton Review

Lord Hutton is returning to Scotland on 25 February to discuss his final report, likely to be published in early March, in time for the UK Budget. UNISON will be meeting him to set out our views on the issues identified in his interim report and our response to his further call for evidence.

On other Hutton interim proposals, the UK Government has issued a consultation on the discount rate calculation. This could have a serious impact on the cost of 'pay as you go schemes' such as the NHS scheme. Another consultation paper is expected shortly on the 'Fair Deal' pension arrangements for staff that are transferred out of the public sector. This may have implications for Scottish two-tier workforce regulations and certainly for staff outwith these provisions.

Tax Changes

Another UK Government pension cash grab is restrictions on pension tax relief. Whilst these changes were aimed at higher pension payers they could catch a wider group of workers in receipt of redundancy or ill health retirement payments because of 'spikes' in payment years. The HMRC have now confirmed that, provided the payment of Compensatory Added Years is made direct from employer to employee and is not paid through the fund (even though the fund is duly re-imbursed by the employer subsequently) the payment would not count towards the taxation Annual Allowance. This should cover the Scottish redundancy provisions but we are still awaiting HMRC guidance on the definitions of ill health retirement.

Pensions Contacts meeting

There will be a meeting for UNISON branch pension contacts on **Monday 7 February 2011** starting at 11am in UNISON House, 14 West Campbell Street, Glasgow G2 6RX.

For further details contact:

Dave Watson, Scottish Organiser d.watson@unison.co.uk
Malcolm Burns, Information Development Officer m.burns@unison.co.uk