



The Fund's summary of the Hutton report

Lord Hutton's final report

Lord Hutton has now produced his final report in time for the Budget on 23 March. The report into the future of pensions for teachers, nurses and other public sector workers has recommended key changes to provision, as well as the length of employees' working lives. Chancellor George Osborne has said that the projected rise in the cost to taxpayers of public sector pensions is "unsustainable". To respond to this, the coalition government set up a commission, led by former cabinet minister Lord Hutton, to consider the options for short- and long-term reform of the system.



The full report, as well as Lord Hutton's interim report, has now been published (www.hm-treasury.gov.uk/pensionscommission) ahead of the Budget on 23 March.

Which pensions have the commission been looking at?

A range of pension schemes have been studied by the commission.

They are:

- Principal Civil Service Pension Scheme and its equivalent in Northern Ireland
- Armed Forces Pension Scheme
- NHS Pension Scheme
- NHS Superannuation Scheme in Scotland
- Health and Personal Social Services Northern Ireland Superannuation Scheme.
- Teachers' Pension Scheme in England and Wales (as well as the Scottish Teachers' Superannuation Scheme and the Northern Ireland Teachers' Superannuation Scheme).
- Local Government Pension Scheme (LGPS) in England and Wales, as well as its equivalents in Scotland and Northern Ireland
- Police Pension Scheme
- Firefighters' Pension Scheme
- UK Atomic Energy Authority Pension Schemes.
- Judicial Pensions Scheme
- Department for International Development's Overseas Superannuation Scheme
- Research Council's Pension Schemes

A number of smaller schemes complete the list.

That is quite a list. How much does it cost?

According to the report, public service schemes paid out £32bn in 2008-09. This was about two-thirds of the cost of the basic state pension. The Office for Budget Responsibility - OBR (budgetresponsibility.independent.gov.uk/) suggested that the gap between contributions and pensions in payment would double to £9bn over the next four years. This is one of the issues that the commission has been considering.

So how does Lord Hutton suggest this should be tackled?

A number of recommendations have been made; the most significant being that existing pensions should be changed from a final-salary basis to a payout based on average pay over workers' careers, with the pension that is built up each year being revalued over time. Hutton has not suggested an accrual rate for such pensions, or which revaluation factor should be applied.

Lord Hutton says this would be possible to carry out by the end of this Parliament in 2015. However, the switch could take longer for some schemes, such as the Police and Armed Forces Pension Schemes.

What else is suggested in the final report?

Arguably as important as the career average plan is the recommendation to raise the age at which people are entitled to draw their pension to the same as the state pension; plans are for the state pension age to reach 66 for both men and women by April 2020.

Uniformed services (the armed forces, police and firefighters) should see their pension age rise to 60, Lord Hutton says.

In addition, there should be a cap on the cost of public sector pensions to the taxpayer. The schemes should also be made simpler, need more independent oversight, and employees should be involved more in decisions about how the schemes are run, he says.

How else could the cost of pensions be cut?

Public sector pensions are already changing. In his interim report, Lord Hutton pointed out that the cost of public sector pensions was dropping by 25% already. This was the result of pensions in payment being increased by the consumer prices index (CPI) measure of inflation, rather than the retail prices index (RPI), which is traditionally higher. The pension age has also been raised to 65 for most new recruits in many schemes.

With more job losses to come and a pay freeze in place, the cost will continue to fall. The government has already accepted a previous recommendation of Lord Hutton's that public servants should soon pay higher contributions.

Who would be hardest hit?

Nobody in public sector pension schemes is likely to get a higher pension if these proposals are implemented. The hardest hit, according to some industry commentators, will be middle and senior management rising through the ranks. The lowest paid and those close to retirement should be affected the least.

"Consider a newly appointed NHS consultant or a secondary school year-head in their mid-30s," says Andrew Cawley, head of pensions at KPMG. "In order to obtain the full value of retirement benefits they would have expected when they joined the public sector, they may have to save 20% or more of pay to compensate for a raft of pensions changes already underway and the likely outcome of Lord Hutton's final report."

Isn't it true that these schemes are just too generous to afford?

Lord Hutton denied this in his interim report, saying that "there is no evidence that pay is lower for public sector workers to reflect higher levels of pension provision". Although 85% of public service employees contribute to a pension, he said that these pensions were far from 'gold-plated', with the average pension in payment currently at a 'modest' £7,800 a year. Around half of public service pensioners received less than £5,600 a year. Some private sector schemes are worse than this - with only 35% of workers signing up for a pension - but this is a problem for the private sector and not the public sector.

What about existing pensioners; is this going to affect the pension they get?

No. Pensions in payment will remain as they are, and will not be affected.

What about the pension rights I have already built up will they be affected?

No. Existing accrued pension rights are protected under the remit of Lord Hutton's commission (www.hm-treasury.gov.uk/indreview_johnhutton_pensions_tor.htm). The final-salary link for pensions built up until any change comes into force should also be maintained, Lord Hutton says.

Where will I find out more?

The Fund will publish further details as they become known. DCLG as the sponsoring government department will need to enact changes to the rules of the LGPS, and the Fund will publish details of the consultation on these changes along with the actual changes as and when they happen. The easiest and quickest way to keep up to date is to check the Fund's website which will be updated at regular intervals: www.wmpfonline.com

Other useful web resources

www.bbc.co.uk/news/business-10912958



www.bbc.co.uk/blogs/thereporters/robertpeston/2011/03/public-sector-pensions_lose_pl.html



www.bbc.co.uk/news/business-10840248



www.bbc.co.uk/news/business-10701442



www.bbc.co.uk/news/uk-politics-12700321



THE DEAL

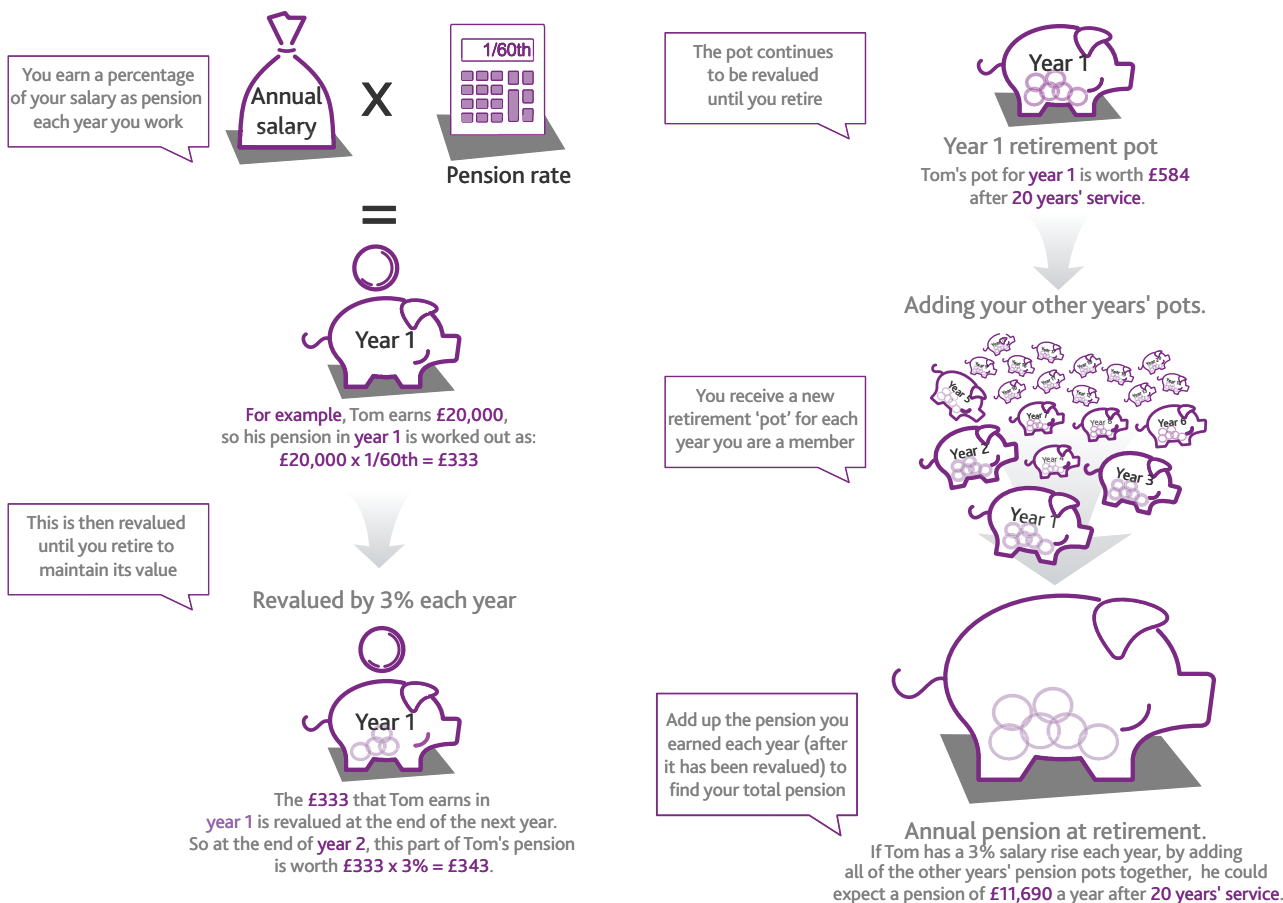
Public service workers

- ✓ **A good pension in retirement:**
a level of pension that at least meets agreed adequate standards of pension - taken together with full state pension this should deliver on average more than two thirds of pre-retirement salary for those below median income.
- ✓ **A defined benefit pension:**
a pension based on average salary indexed by average earnings over your career. The design should benefit the majority of members who do not have the high salary growth rewarded in a final salary scheme.
- ✓ **Accrued rights protected:**
the years you have already worked provide a pension at your current pension age linked to your final salary. This will protect existing staff from full impact of change in proportion to their age and career length.
- ✓ **Fair process of change:**
the details of change should be the subject of consultation with staff and unions.
- ✓ **Better management of schemes:**
improved standards of governance and administration with staff involvement.

Taxpayers

- ✓ **Fairer sharing of benefit of living longer:**
public service workers will over time be expected to work longer - most to state pension age - before they take their pension. This will rebalance the proportion of adult life spent in retirement.
- ✓ **Future-proofed:**
pension age in most public service schemes will be expected to keep in line with changes to life expectancy through a link to state pension age changes.
- ✓ **Fixed cost:**
the Government should establish a fixed cost for the employers' contribution to public service pension schemes. If cost grows beyond this level action will be taken to get back to this level.
- ✓ **Greater transparency of cost:**
figures for the current and future expected cost of public service pensions should be published more regularly, consistently and transparently.
- ✓ **Single legal framework:**
public service pensions should have a new legal framework with consistent approach to control and governance.

CARE – how it works



The parameters used here are purely illustrative and are not recommendations by the Commission.
This diagram has been prepared for the Commission by Hymans Robertson LLP.