



HUTTON INTERIM PENSIONS REPORT PUBLISHED

- **Strong support for good quality public sector schemes**
- **But says costs are too high**
- **Leaves government to decide what is fair and affordable**

Lord Hutton was asked by the coalition Government to conduct a fundamental structural review of public sector pension provision. GMB has supported a measured, evidence-based approach to reviewing pension provision in the public sector. Our initial submissions to this review can be seen at www.gmb.org.uk/pspc

Hutton published his interim report on 7 October 2010 (the final report is due next spring). The whole 170 page report can be seen at http://www.hm-treasury.gov.uk/indreview_johnhutton_pensions.htm, but this bulletin aims to summarise some of the key issues and outline his findings. At this point his review remains very much a 'work in progress'.

In the three months since Hutton was given his brief, he seems to have acquired a good knowledge of pension provision in the public sector, including the diversity of scheme structures, the mechanisms for funding pension payments and recent reforms to the schemes.

He has set himself principles that the objectives for reform should be that public sector pensions are affordable, sustainable, adequate, fair, supportive of productivity, transparent and simple. GMB would support most of these.

Whilst Hutton has welcomed the recent scheme reforms, he has started from the position that the status quo is not tenable. The reforms on cost sharing that were agreed in the main public sector schemes in recent years would have resulted in changes to benefits and/or contributions; and so the status quo would not have applied anyway. He also recognises that the recent Government move to link future pension increases to CPI, rather than RPI will significantly reduce the cost of

public sector pensions. (You can see more on this at http://www.gmb.org.uk/Docs/10130c_CPI%20vs%20RPI.doc)

Encouragingly, Hutton has been keen to dispel the notion that public sector pensions are 'gold-plated'. We are also encouraged by his view that funded defined contribution pension provision remains inappropriate for the public sector, and that the private sector race to the bottom standard of pensions would be a "counsel of despair"

Interim Suggestions

Whilst the detailed view of the Commission is expected in Hutton's final report next spring, the interim report does make some suggestions for consideration by the Government:

- **Employee Contributions** - Hutton thinks that the most effective way of making short term savings is to increase contribution rates. However he makes it clear that it is a matter for the Government to attach a figure to this, dependent on the outcome of their Spending Review. He has been clear however in the need for contribution increases to be structured in such a way so as to be staged and to minimise the level of employees opting out of the scheme. We will contribute to discussions on this with a view to protecting members in what are already difficult times.
- **Fair Deal should be reviewed** - this is the mechanism by which employees who are subject to a bulk transfer of employment to a private provider retain access to a scheme that is comparable with their public sector scheme, for example through admitted body status in the LGPS. Hutton has raised concerns with the fact that Fair Deal provides a barrier to allowing private contractors to bid for public contracts and asked Government to review this. GMB has been a long standing advocate of Fair Deal and will continue to campaign for its retention and improvement.
- **The discount rate should be reviewed** - this is the rate at which the cost of future pensions are rolled back to be valued in today's terms. Due to the effects of compound interest and the long timescales involved in pension saving, even a small change to this rate can have a significant impact on the costs of pensions. The view expressed by Hutton is that he suspects that the current discount rates are too high and that Government should review these. GMB intends to contribute to such a view; our opinion is that the current rates are appropriate.

- **Affordability** - the Government are to be asked what level of pension cost is to be deemed affordable to them.
- **Adequacy of amount of pension provided** - more work is to be done on what level of pension is appropriate for public sector workers, although the report does note that the level of pension when combined with state benefits, yields a pension at a level described as adequate by Lord Turner's Pensions Commission. On this basis, GMB supports the current level of occupational pension provision as a minimum.

Longer Term Ideas

No formal recommendations for the longer term have been made in this report, but Hutton makes it clear that he intends to produce these to deal with the effects of rising longevity and unfair sharing of costs between employees, employers and taxpayers. Among the issues discussed, Hutton mentions:

- **Increased Longevity** - the indication here seems to be that Hutton favours a move away from age 60 retirement ages towards higher retirement ages which could be varied according to general life expectancy increases. GMB's continued argument on this point is that research needs to be done to verify that employees can actually carry on doing their jobs until any higher retirement age, and that these jobs are available. Until this can be proved beyond doubt, any move to increase retirement ages would simply create a new poverty gap.
- **Final Salary Pensions** - Hutton has described the unfairness of final salary schemes and indicated that final salary provision could be scrapped. This unfairness arises from the fact that many high flyers will benefit from promotions towards the end of their careers in a way which the majority of workforces will not. This means that in a final salary scheme they get comparatively more pound in their annual pension per pound of contribution made. A way of evening out this anomaly is to introduce a career average structure. Such a scheme retains the positive aspects of a defined benefit pension but uses a different definition of salary to calculate pension. It can be designed in a way so that average members will not receive any less in their pension on retirement than they would through a final salary scheme. You can see more on career average at <http://www.gmb.org.uk/docs/10150%20CARE%20Guide.doc>

- **Alternative Models** - As well as career average models, Hutton will also look at:

Defined Contribution models that incorporate some form of guarantees on investment returns and annuity rates as well as a collective, rather than individual approach.

Cash Balance schemes - in which a member is guaranteed a pot of money with which to buy a pension on retirement.

Hybrid schemes - that combine features of both defined benefit schemes and defined contribution schemes, meaning that a member will have both types of pension (You can see more on cash balance and other hybrid pensions at http://www.gmb.org.uk/docs/10164_Hybrids%20Bulletin.doc)

At this stage, GMB is concerned at the prospect of members facing contribution increases in the short term before the longer term reforms are considered, especially in light of recent pay freezes and job uncertainty. However this issue has been referred to the Government for a decision, and we will make representations accordingly.

We intend to engage with Lord Hutton and the Government on all aspects of his interim report and in preparation of his final report; as well as press Government to provide our members with the best pension provision possible.

We will keep members updated on progress and publish more guidance as necessary.