

Public Service Pensions Consultation and Update

Statement made on 16 July 2020

Steve Barclay, The Chief Secretary to the Treasurer

Statement

Today I have laid in Parliament the consultation document ‘Public service pension schemes: changes to the transitional arrangements to the 2015 schemes’ (CP No. 253) detailing proposals regarding public service pensions. In December 2018, the Court of Appeal identified that transitional protection arrangements provided to older judges and firefighters in 2015 gave rise to unlawful discrimination. The consultation sets out options to deliver the government’s commitments, made in July 2019 (HCWS1725) and March 2020 (HCWS187), to address the discrimination across the public service pension schemes and for all affected members. It also sets out the government’s intention to move all affected public servants to the 2015 reformed pension schemes from 1 April 2022. The consultation will run from 16 July to 11 October 2020. Furthermore, the government is today announcing that the pause of the cost control mechanism, which was implemented in 2019 (HCWS1286), will be lifted. The government will also proceed with the previously announced review by the Government Actuary as to whether the mechanism is working in line with original objectives.

Proposals for addressing discrimination

The consultation published today sets out proposals to address the unlawful discrimination arising from the transitional arrangements introduced when public service schemes were reformed in 2015. There are two possible mechanisms for achieving this: an immediate choice exercise or a deferred choice underpin. Both will enable all affected members, whether they originally received transitional protection or not, to decide whether to take the legacy or reformed scheme benefits for the period 1 April 2015 to 31 March 2022. These options differ in the point at which the member makes the decision; the immediate choice exercise would be held in the years after the point of legal implementation in 2022, whereas under the deferred choice underpin the decision would be deferred until the point at which a member takes their pension benefits. Until that deferred choice is made, all members would be treated as having been in their legacy scheme between 1 April 2015 and 31 March 2022. Where members are already in receipt of their pension, they would get the choice as soon as practicable after the policy is implemented.

These proposals apply to all members who were in a relevant public service pension scheme on or before 31 March 2012 and remained in a relevant pension scheme on or after 1 April 2015. The public service schemes affected by this announcement are the main public service pension schemes managed by the UK Government, Welsh Government and Scottish Government. Changes to the Local Government Pension Scheme in England and Wales, and the equivalent scheme in Scotland, as well as the UK-wide judicial pension scheme and the public service pension schemes in Northern Ireland will be consulted on separately.

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Future pension provision

From 1 April 2022, all members who are not already in the reformed schemes and who are still accruing benefits in legacy schemes will be placed into the 2015 reformed pension schemes. The reformed schemes are important in ensuring that the cost of public service pensions is affordable and sustainable, whilst providing vital public servants with a generous, inflation-protected income in retirement. The reformed schemes are also fairer to those who do not see their earnings increase greatly during their careers such as many lower and middle earners.

Cost control mechanism update

The 2015 reforms also introduced a mechanism to control the cost of public service pensions. This assesses the value of schemes to members and is designed to ensure members receive fair entitlement whilst ensuring costs remain sustainable. It has both a ceiling and a floor – when costs increase above the ceiling or fall below the floor, member benefits are adjusted to meet the target cost.

Following the Court of Appeal’s judgment, the government announced a pause to the ‘cost control’ element of the 2016 scheme valuations, as the judgment led to significant uncertainty about benefit entitlements, meaning that at the time there was not enough certainty to assess the value of benefits to members.

Progress has now been made in the Employment Tribunals to determine a remedy for claimants, and the government is now setting out its proposals for consultation. As the uncertainties about the current level of benefits have receded, I can therefore announce that the pause to the cost control mechanism will now be lifted, and the government has started the process to complete the cost control element of the 2016 valuations.

When the mechanism was established, it was agreed that it would consider ‘member costs’: i.e. costs that affect the value of schemes to members. As the proposals in the consultation published today will increase the value of schemes to members, this falls into the ‘member cost’ category. As a ‘member cost’, this will be considered as part of the completion of the cost control element of the 2016 valuations process. Current employer contribution rates will not be affected. The government has published an ‘Update on the Cost Control Element of the 2016 Valuations’ today, providing additional details.

In September 2018, the government announced its intention to ask the Government Actuary to review the cost control mechanism to assess whether it is working in line with original objectives. The review has been on hold, but I can today announce that it will proceed and report ahead of the completion of the 2020 valuations.

The government remains committed to public service pensions which are fair to public servants and fair to other taxpayers.

Copies of the consultation document (CP No. 253) are available in the Vote Office and Printed Paper Office, and it is published on gov.uk.