

# The implications of the Coalition Government's reforms to the public sector pensions

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Rethinking the economics of pensions

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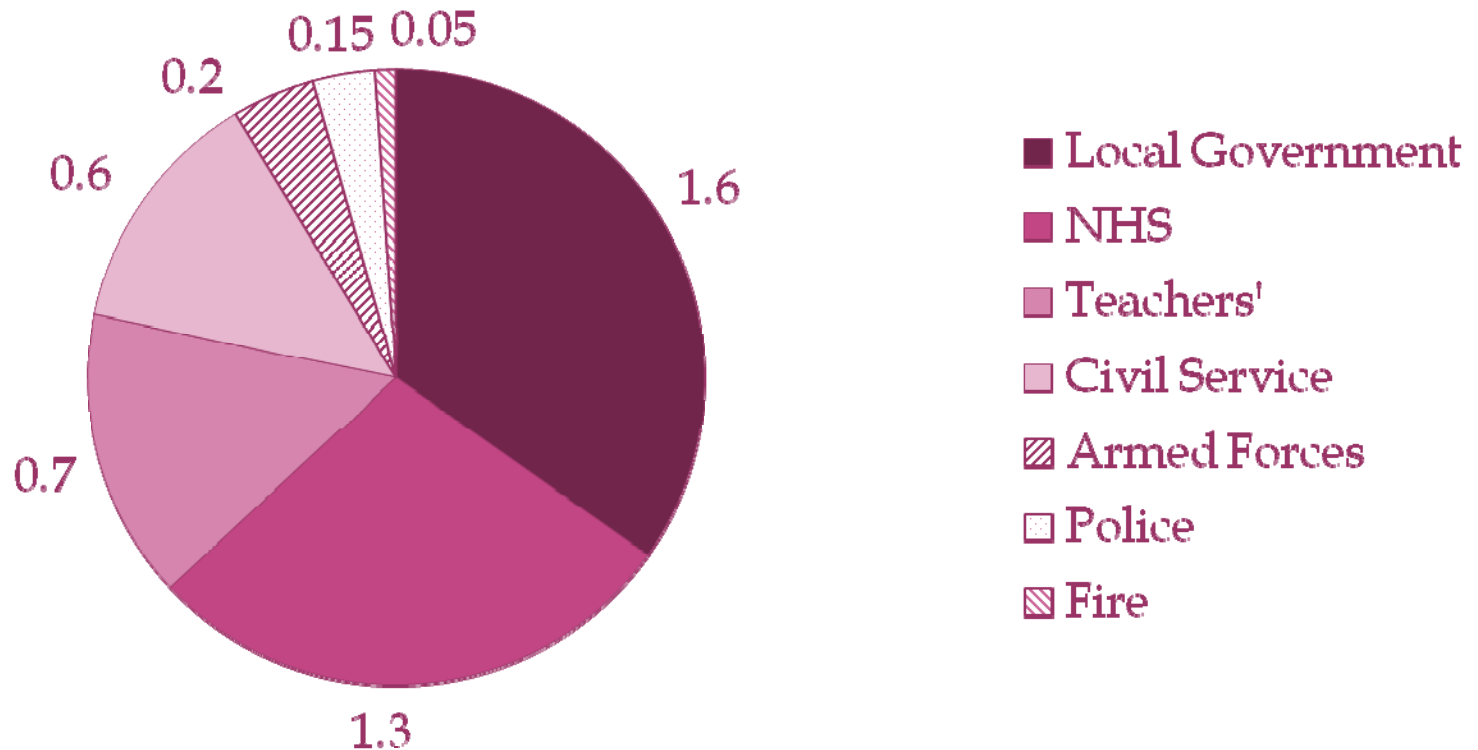
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# Public Sector Pension Reform

- The Coalition Government's Reforms to the public sector schemes
- PPI research methodology
- Implications of the reforms for members of the four largest public sector schemes
- Members of the NHS scheme with particular characteristics
- Conclusions

# There are seven main public sector pension schemes with around 5 million active members

Number of active members of public sector pension schemes as of 31 March 2011 (millions)



# The Coalition's reforms to the public sector schemes

- Switch from Final Salary to Career Average Revalued Earnings (CARE);
- Linking of Normal Pension Age to State Pension Age (except uniformed services);
- Higher rates of contributions from scheme members (+3.2% on average except LGPS) and tiered contributions;
- Reforms apply to all members for future accrual but protections for members within 10 years from their Normal Pension Age on 1 April 2012.

# PPI's Research on Public Sector Pension Reform

- Objective: to provide an independent assessment of the implications of the Coalition's reforms for members of the four largest public sector schemes;
- NHS, Teachers, Civil Service & LGPS
- Research was funded by the Nuffield Foundation – a charitable trust
- Will publish the final stage of the research which looks at the affordability and sustainability of the reforms in summer 2013.

# The largest four public sector pension schemes post reforms

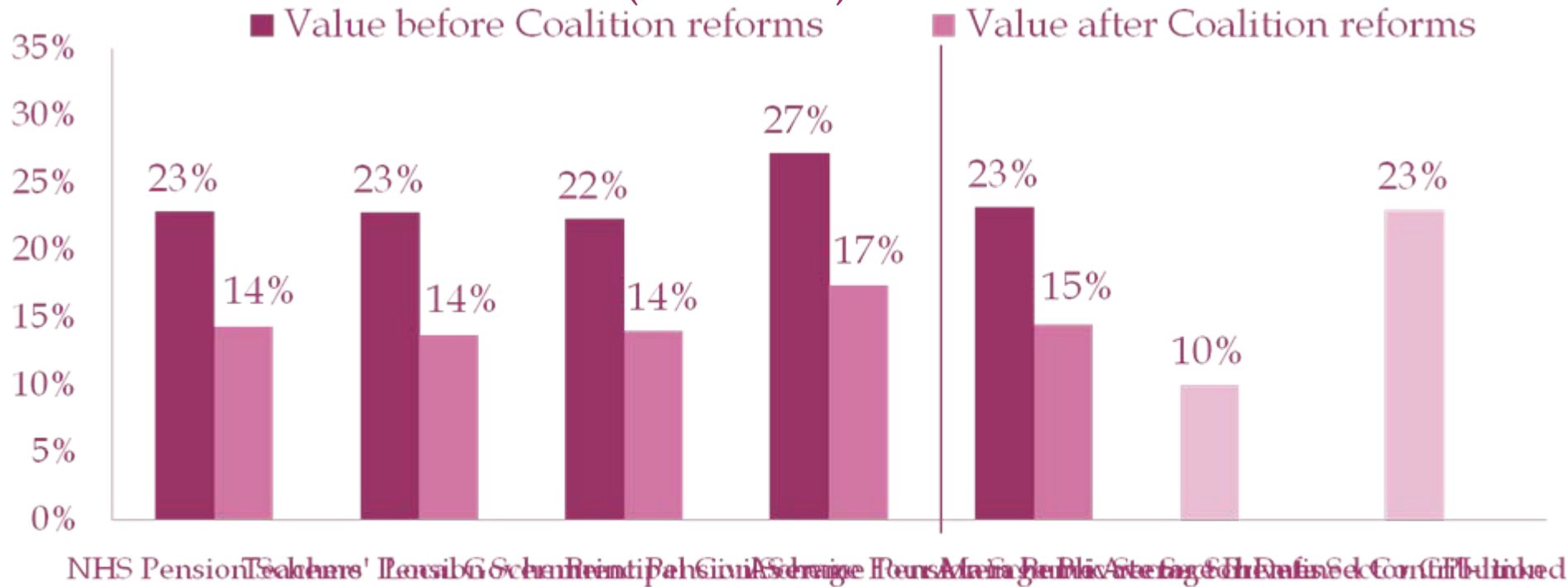
	<b>NHS</b>	<b>Teachers'</b>	<b>Civil Service</b>	<b>Local Government</b>
<b>Normal Pension Age</b>	SPA	SPA	SPA	SPA
<b>Basic design</b>	CARE	CARE	CARE	CARE
<b>Revaluation</b>	CPI + 1.5%	CPI + 1.6%	CPI	CPI
<b>Accrual rate</b>	1/54th	1/57th	1/43rd	1/49th
<b>Member contributions (future service)</b>	5% to 14.5%	6.4% to 8.8%	4.6% to 9%	5.5% to 12.5%
<b>Indexation of pensions paid</b>	CPI	CPI	CPI	CPI
<b>Implementation</b>	1 April 2015	1 April 2015	1 April 2015	1 April 2014 <sup>6</sup>

# PPI's EEBR methodology

- Effective Employee Benefit Rate;
- Factors in CARE accrual & revaluation rate, pensions indexation to project the value of the future pension benefit payment after taking account of the member's own contributions;
- Discounts the value of the future pension benefit back to a present value; ( $DR = CPI + 3\%$ )
- The EEBR is the value of the pension benefit accrued by the member in one-year expressed as a % of the member's salary.

# The Coalition Government's proposed reforms reduce the average value of the public service pension schemes by more than a third

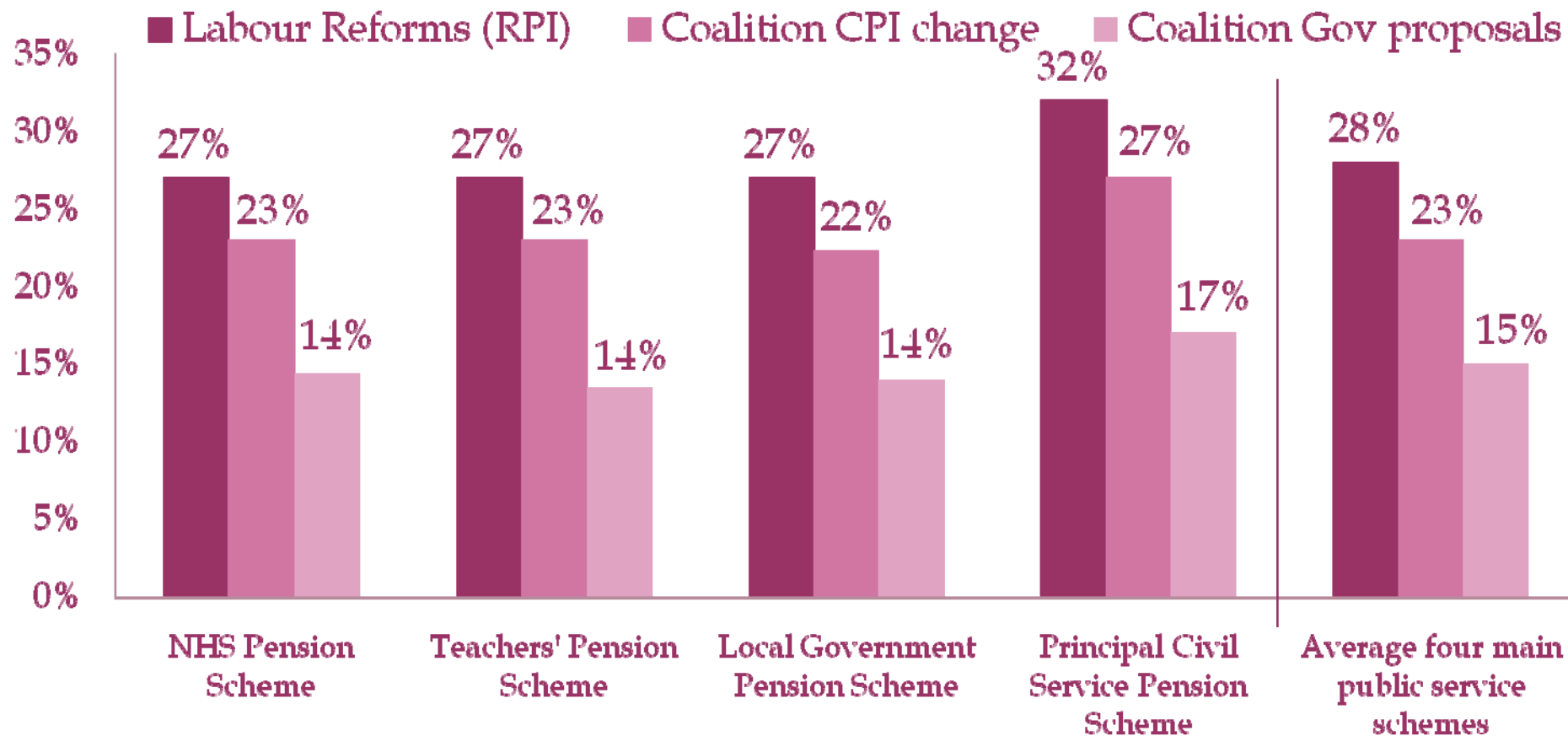
Average value of the four main public service pension schemes as a percentage of the scheme member's salary before and after the Coalition Government's proposed reforms for all scheme members (CPI linked)





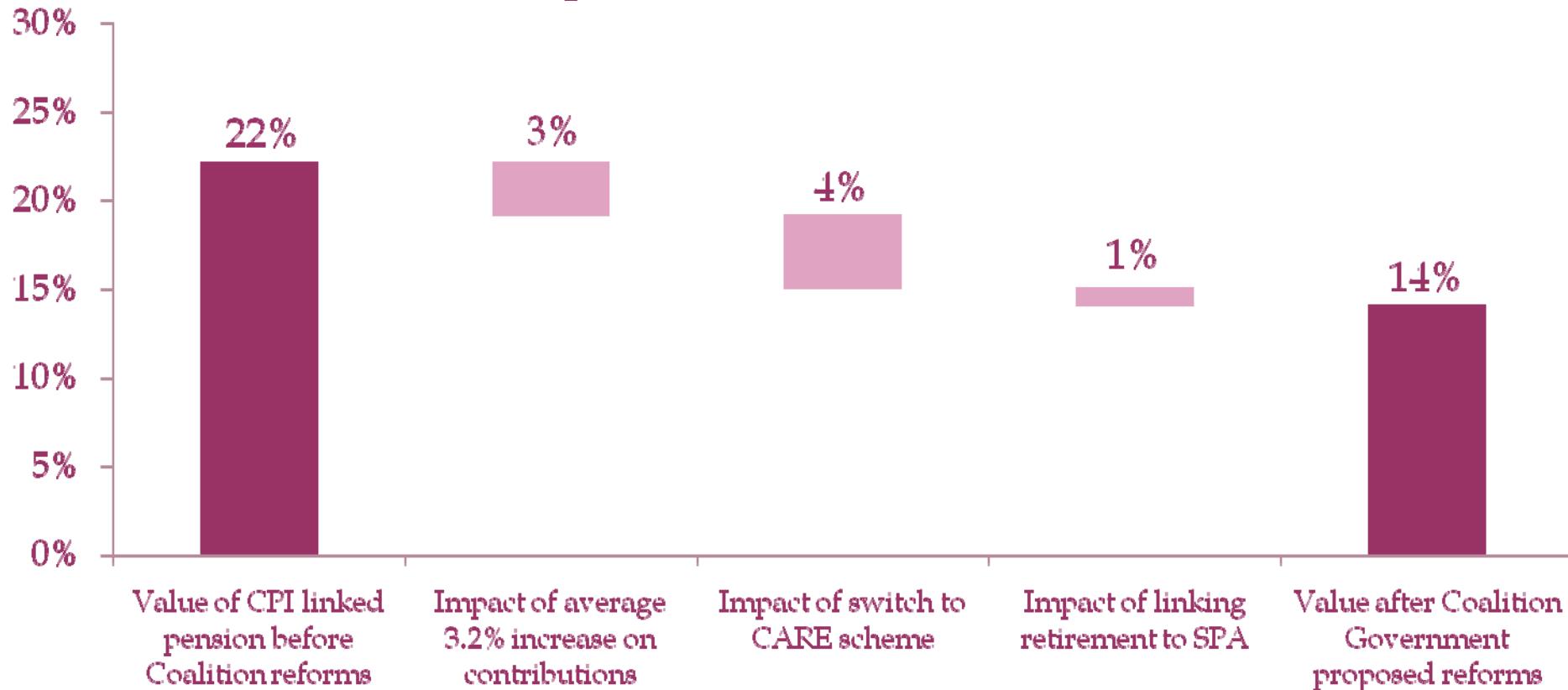
# The reforms of successive Governments have reduced the value of public service pension schemes

Average value of the four main public service pension schemes as a percentage of the scheme member's salary before and after the Coalition Government's proposed reforms across all scheme members



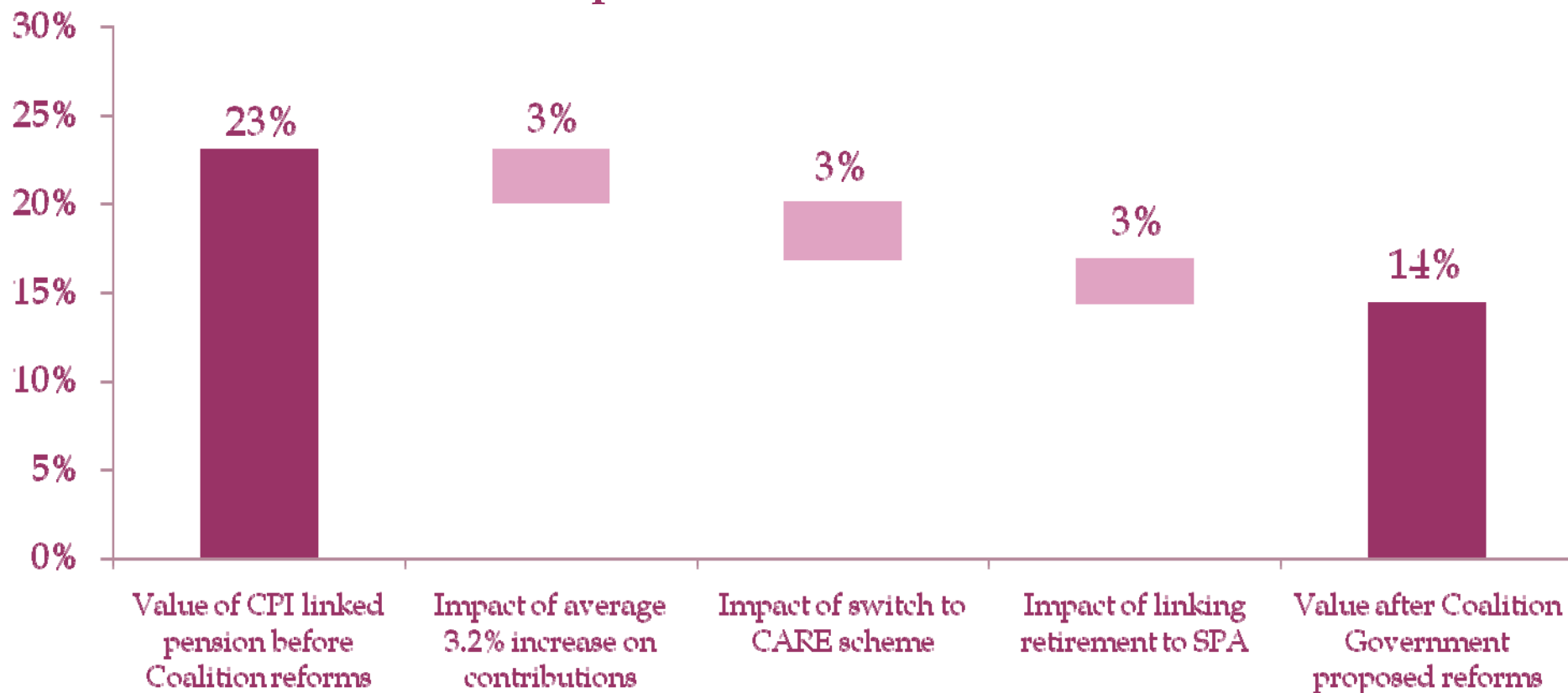
# The Coalition Government's proposed reforms reduce the value to post 2008 entrants of the NHS Pension Scheme by more than a third

Impact of each component of the Coalition Government's proposed reforms on average value of the pension for members who joined the NHS Pension Scheme since 1 April 2008



# The Coalition Government's proposed reforms reduce the value to pre 2008 entrants of the NHS Pension Scheme by more than a third

Impact of each component of the Coalition Government's proposed reforms on average value of the pension for members who joined the NHS Pension Scheme before 1 April 2008

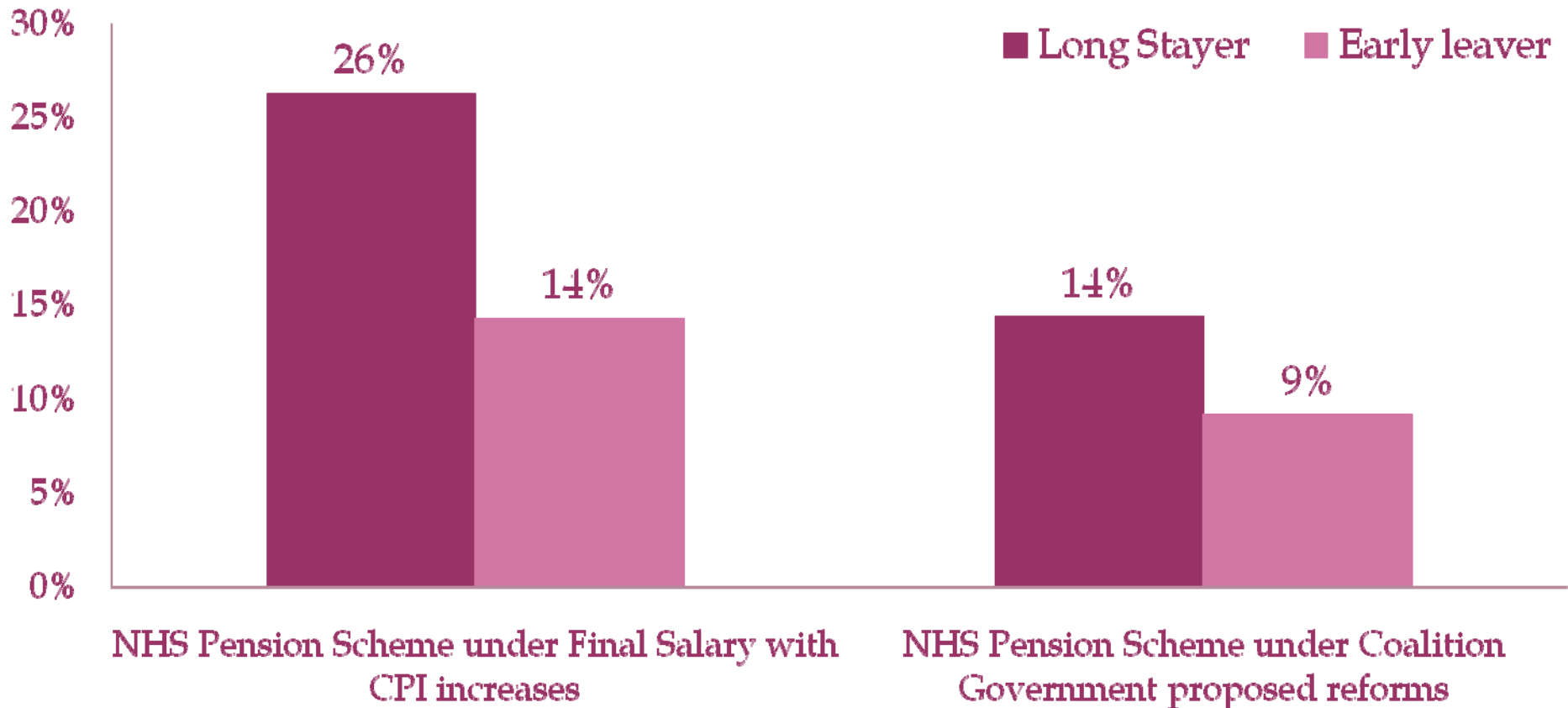


# Impact of the Coalition's Public Sector Pension Reforms for members of NHS scheme

- Long stayers v Early Leavers
- High flyers v Low flyers
- High earners v Low earners

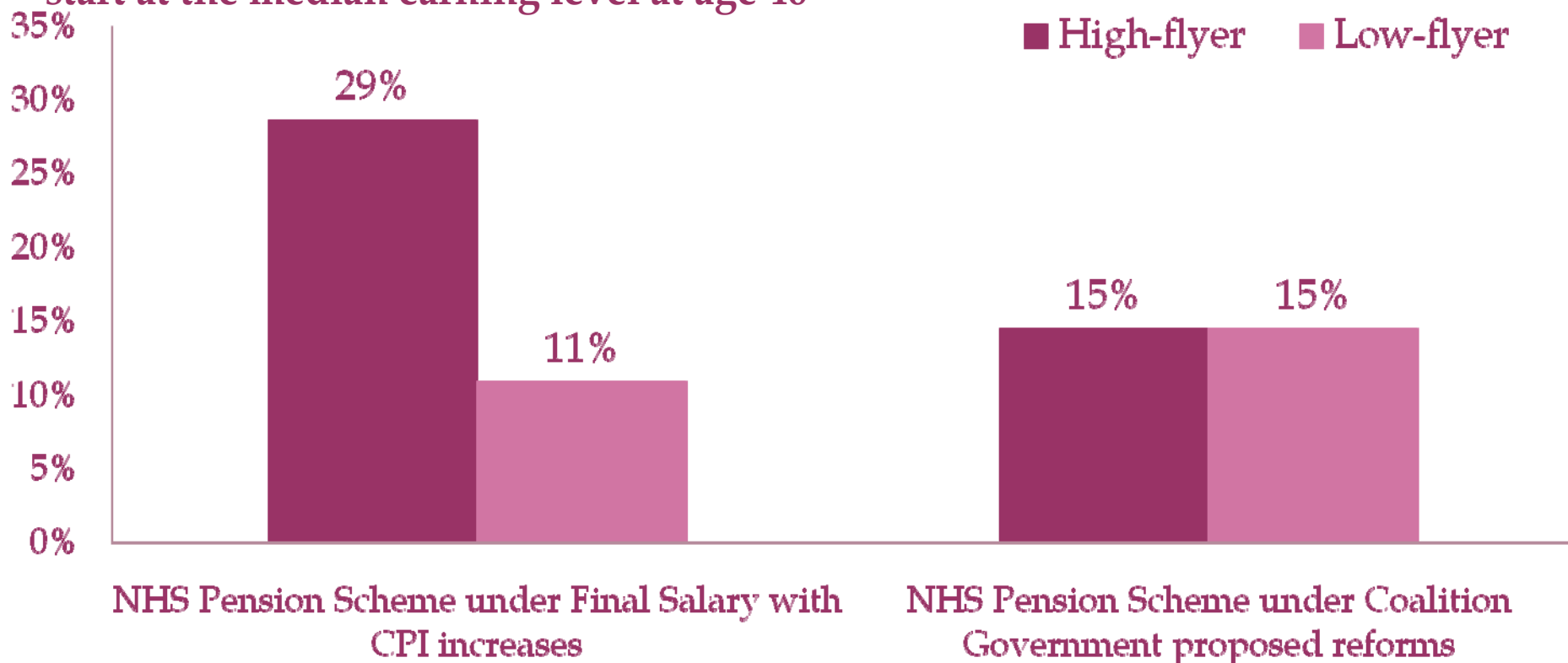
# Under the Coalition Government's reforms there is less difference in the value of pension schemes for early leavers and long stayers

Value of the NHS Pension Scheme for a median earning 40 year old member joining before 1 April 2008 if remaining as active member until NPA vs. a similar member leaving the scheme after 5 years of membership



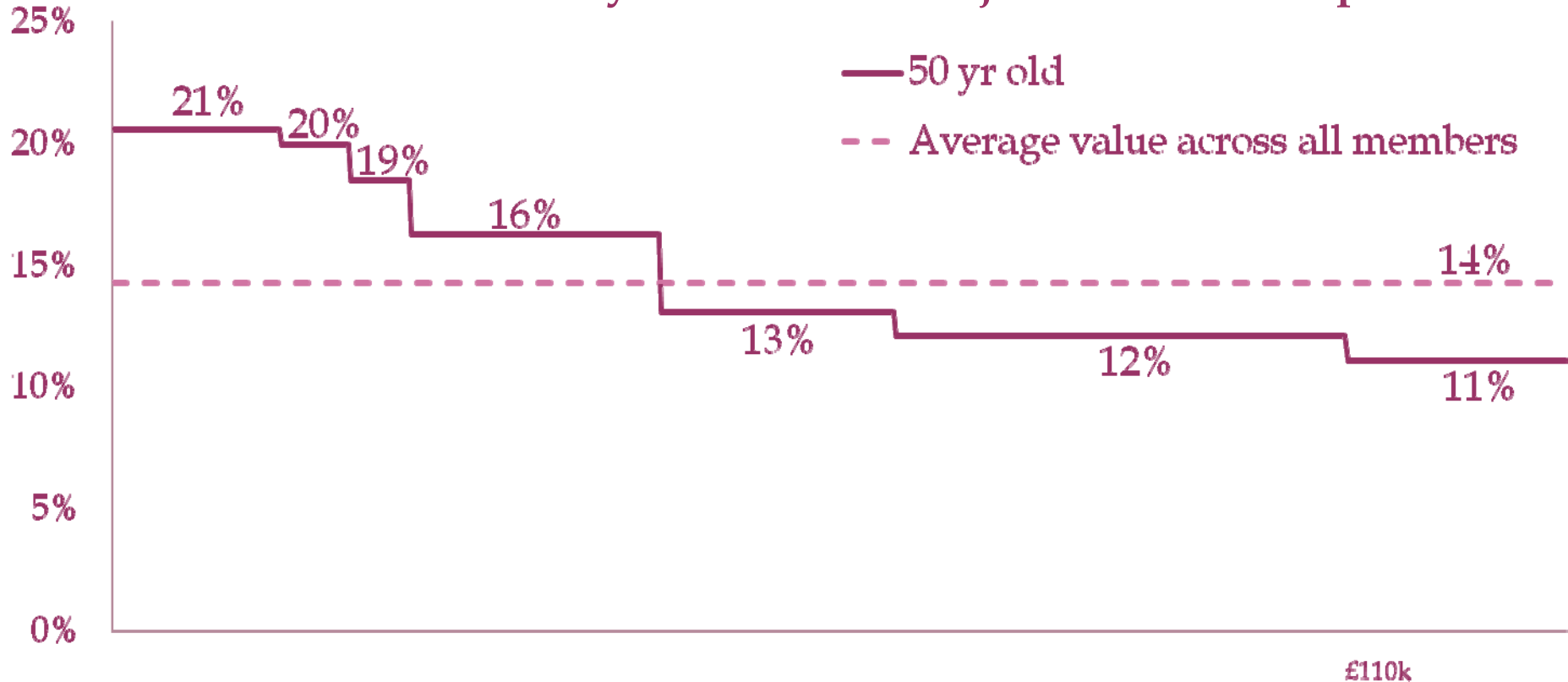
# High-flyers and low-flyers have a pension benefit worth the same percentage of their salary under the Coalition Government's proposed reforms

Value of the NHS Pension Scheme to members joining before 1 April 2008 who are: a high flying 40 year old man compared with low flying 40 year old man who both start at the median earning level at age 40



# The value of the NHS Pension Scheme is higher for lower earners as a percentage of their salary than for higher earners

Value of the NHS Pension Scheme to 50-year-old males earning at each of the tiered contribution salary band levels and joined before 1 April 2008



# Conclusions

- Successive Government's have reformed public sector pensions and have reduced the value of the pension benefit offered
- PPI estimated the Coalition Government's Reforms to the public sector schemes reduce the value of the four largest schemes by more than a third
- Some public sector members will be affected to a greater extent, others to a lesser extent.
- Lower earners/low fliers may do better under new CARE proposals.
- Higher earners/high fliers likely to lose-out from shift from Final Salary to CARE and from higher member contributions
- But the public sector schemes remain more valuable than most private sector DC schemes