

KIRKLEES

UNISON

Pensions – The Truth

The government is insisting that public service pensions need to be cut as they cost too much and the country can't afford them. This isn't true. For example the West Yorkshire Pension Fund took in £1.1 billion pounds last year and spent £0.423 billion – increasing its assets from £7.9 billion to £8.6 billion.

What is the government doing?

- a) The government is wanting to force all but the lowest-paid public service workers to pay, on average, 50% more in pension contributions. This extra money isn't being used to improve pension schemes for workers – it's going straight to the Treasury to pay for the bankers' crisis and for local authorities to keep down Council Tax.
- b) The government are also planning to increase retirement ages for all public service employees to match the state pension age. In the future it will go up to 66, before rising to 68. (The latest suggestion is to put up the retirement age to 66 in April 2014).
- c) Changes to the 'accrual rate' mean that the retirement income earned with every year's contributions to the Pension Scheme could be as much as 25% lower.
- d) Changes from 'final salary' to 'career average' schemes will reduce some workers' pensions further.
- e) Public service workers who have been - or might in future be - transferred to private and third sector employers may be even harder hit, if the current review of the 'Fair Deal' on pensions removes their right to a public sector pension or a 'comparable' private pension. This means that, if your job is privatised, you have no right to take your pension with you or join a 'comparable' private pension – and private contractors can give their staff a smaller, inferior pension.
- f) The Government have changed the cost of living increases for pensions. By using the Consumer Price Index (CPI) instead of the Retail Price Index (RPI) anyone getting their pension could be 8.5% worse off by 2017.

Under these proposals, public service workers like nurses, teaching assistants and social workers will have to pay more and work longer to receive a smaller pension.

This guide highlights the most prevalent and inaccurate myths and sets out the facts.

Some Common Questions

Q. People are living longer, this needs to be addressed

- A.
1. The pension schemes were already adapted for people living longer in the last negotiated revisions. Those changes, along with the change from using RPI to CPI, are already acknowledged to have reduced scheme benefits (and costs) by 25%. What is proposed now is a simple raid on public sector pensions as another way for the government to pay for the bankers' bail out. The government is paying less into pensions cut to the pay freezes already in place.
 2. Life expectancy has increased but much less so for manual or low-paid workers, whose average life expectancy is still several years shorter than that for better off or non-manual workers. Increasing retirement ages, therefore, disproportionately disadvantages the very people who need good quality pensions the most. For example, the average life expectancy of caretakers has not increased in the last 20 years.

Q. Isn't there a big pensions deficit that has to be repaid?

- A.
1. There is no funding gap – the public sector pension schemes were assessed for long-term risk and adjusted accordingly three years ago. They are now secure.
 2. There is no ever-widening 'black hole' in the pensions funds deficit; the government has simply decided to use different factors to assess the value of the scheme. It has decided to compare them to similar private schemes when calculating risk factors – but public sector schemes do not hold the same risk.
 3. Both the Local Government Pension Scheme (LGPS) and NHS scheme (NHSPS) are currently cash-rich with income far exceeding outgoings – some £2 billion in the case of the NHSPS. In 2011 the LGPS took in £10 billion and paid out £5.6 billion. The LGPS already has £165 billion of assets.

Q. My money is going in taxes to pay for your pension. That's not fair.

- A.
1. Everyone's taxes are used to pay for all public services – stethoscopes in hospitals, the salaries of primary school teachers, people to change the light bulbs in street lamps, as well as an appropriate pension for the people who have been dutifully serving the public.
 2. A pension is one part of someone's salary package and is no different than an annual salary, a car, or the London Weighting Allowance. It's not fair to change something in a job contract after someone accepted the job. (In the case of the change from RPI to CPI, you are affecting the pension of someone who has already retired).
 3. A part of every £1 you spend is going to go towards someone's pension. The sale from buying a newspaper, tomato or car is going to be divided up to pay for someone's pension. The only major difference is that, with public services, you know someone

is going to get a fair pension, whereas with a private service sale you might just be lining the pockets of an executive. (The average pension of a Director of an FTSE 100 company is around £212,000 per year)

4. One in 5 people working in the UK works in the public service. They are taxpayers too. It's often claimed that 25% of Council Tax is spent on local government pensions, but the reality is that less than 6% of Council Tax is used to fund the pension scheme.

Q. The 3% increase in contributions is fair, necessary and makes the schemes more stable.

A. Fair – pensions are not “gold-plated” as the government repeatedly tells us. The average public service pension is just £7,800 per year. For women working in local government the average pension is even lower at only £2,800 per year. 82% of local government employees are women.

Necessary – the proposed increase is nothing to do with sustaining the schemes. All public sector pension schemes were reviewed and changed three years ago. Staff were asked to contribute more and retirement ages were changed. These new changes are simply the government paying less because they want to save money. They have decided to get some of that money from public services workers in an additional raid on their pensions on top of the job cuts and the pay freeze they have imposed.

Making the schemes more stable – the Local Government Association said proposals to increase pension contributions by 50% for employees could lead to public sector workers ‘opting out’ of pension schemes and would threaten their affordability. This view was echoed by Mike Taylor, Chief Executive of the London Pensions Fund Authority, the leading pension administrator for local government. Mr Taylor said in 2011 that increasing pension contributions could destroy the local government scheme – which has about £140 billion in shares – and have “unintended consequences” on the financial markets.

Increasing member contribution rates by, on average, 50% could lead to around 350,000 members opting-out of public service pension schemes according to a Pensions Week report. Hundreds of thousands of working-age adults have stopped paying into pension schemes as a result of the recession. 33% of workers in Britain (30% of men and 40% of women) now have no pension provision, (other than the state pension)

Q. Linking cost of living increases for pensions to CPI instead of RPI – what’s the big deal?

A. 1. Government advisors say this change will mean an average of 15% cut in pension benefits and even the Office for Budget Responsibility (OBR) say that this will lead to pensions being 8.5% less by 2017.

2. CPI and RPI are both methods of working out inflation rates, but they use different factors. CPI is consistently around 0.8% lower than RPI. This will mean a cut in pension payments.
3. UNISON are not alone in thinking this will not meet the realistic inflation that a pensioner feels. Statistical experts The Royal Statistical Society do not believe that CPI properly reflects pensioner spending patterns.

Q. Didn't public sector greed cause the financial crisis?

A. It was the banking sector's excessive greed and reckless risk-taking that has caused this global recession. Bailing out the banks has broken all our backs. It suits the government to tell us the public sector is to blame, but they're not. Polls show the public is increasingly worried that the cuts are unfair and that the bankers are to blame.

Q. We're all making sacrifices, why not cut public service pensions too?

- A.**
1. We are all having our services cut and getting less for our tax. Already the proposed budget cuts are hitting the most vulnerable in our society hardest. On top of this public service workers are facing unprecedented job cuts, redundancies and a pay freeze. Now they are being asked to pay an average 3% extra from their salaries as well – in return for a pension with worse benefits. That's unfair.
 2. Staff in the public sector often do emotionally, mentally and physically demanding public service work – nurses and paramedics, social workers and home care workers, teaching assistants and refuse collectors, for example. Many are low paid women – almost 250,000 local government workers earn less than £6.50 an hour.
 3. Everyone will end up paying more tax if people drop out of the pension schemes and end up relying on the state in their retirement instead of contributing from their salary to a pension scheme (or at least those who pay tax will! - many of the rich assiduously avoid paying tax!).

Q. Why should the public sector get good pensions when the private sector doesn't?

- A.**
1. UNISON thinks everyone deserves a decent pension, including workers in private companies. Inequality isn't solved by dragging everyone down to the lowest common level. As with good schools and bad schools, the solution isn't to make the good schools worse so all children are poorly educated. With pensions, the solution is similar: improve the inadequate schemes rather than worsen the good ones. And the more good pension schemes there are, the easier it will be to improve the bad ones.

2. Providing adequate pensions means that fewer people will be receiving benefits from the government after retirement, which would cost the taxpayer more money in the long run.
3. It's a damning indictment of pension provision in the private sector that $\frac{2}{3}$ of employers in the private sector do not even pay a pension contribution to their staff, effectively condemning them to poverty in retirement and relying on the ability of the taxpayer to finance their retirement.

Q. Final salary schemes are outdated and unfair – what about career average schemes?

A. Some scheme plans are clearly hugely risky such as defined contribution schemes, which rely on the state of the market on the day you retire as well as annuity rates, which have halved in the last 20 years. Final salary schemes mean you can plan for retirement with some clear understanding of what your final pension will be – which is why people like them. Career average schemes (CARE schemes) can sometimes be a fair alternative to final salary schemes but only if they are constructed to ensure that they aren't simply a cost-cutting exercise. Ultimately the 'devil is in the detail' and it's very difficult to comment on the appropriateness of CARE schemes without specifics. They are likely to better suit workforces where career progression is limited and salary increases tend to be less than inflation.

Q. A Fair Deal on pensions – should we expect the private sector to contribute to decent pensions?

- A.**
1. Fair Deal is the agreement that when a private sector competes to take over publicly-funded work they aren't able to undercut direct provision simply by not providing the staff with a decent pension scheme. When staff employed directly in the public sector are transferred to a private company, the agreement is currently that their pay and benefits are protected and that there would always be access to a comparable pension scheme. The proposal to take away this agreement means private companies can make profit and provide services on the cheap simply by not having to honour those agreements and by taking benefits away from staff.
 2. Without Fair Deal protection we will see the likelihood of more people being reliant on the state and future taxpayers to ensure dignity in retirement.

Q. All public service workers are given huge pensions and jobs for life.

- A.**
1. The only public service workers who receive big pensions are the top executives – just like in the private sector. The average public service pension is just £7,800 per year. For women working in local government the average public service pension is even lower at only £2,800 per year. The median for women in the NHS is £3,500 per year. To be sure of receiving an

adequate pension a worker needs to work for the same employer for several decades. Even then a pension for a low-paid worker is not going to be very big.

2. Over the next four years the government expects to lose 400,000 public service jobs. They announced this as part of their spending review in October 2010. In addition to those 400,000 jobs will be an estimated 600,000 further jobs lost in areas that serve or cater to the public service (like contractors, cleaners and cafeteria workers.) No one in the public service has a 'guaranteed job for life'.
3. Saving towards an occupational pension in many cases means a worker will receive fewer welfare benefits during retirement – saving the taxpayer money.
4. There has been a pay freeze in the public sector for two years but this is for ordinary workers - 83% of local authority Chief Executives saw a rise in their pay last year, despite the "pay freeze".

Q. Public service workers retire at 60.

- A.**
1. Normal Retirement Ages in many of the public service pension schemes are already 65.
 2. The government wants to increase Normal Retirement Ages for public service workers to match the State Pension Age. If this happens, private service workers will be getting a better deal because most private Normal Retirement Ages are not linked to the State Pension Age, meaning they will be able to retire earlier than public service workers. Highly paid executives in particular are unlikely to retire later than any public service workers.
 3. Raising the retirement age hurts some people more than others. In general we're living longer, but that doesn't mean everyone will have the same quality of life. Many public service workers have jobs that are physically demanding or stressful, making it difficult or even impossible to continue working into old age. Similarly many low-paid workers simply don't have the option of retiring early because they can't afford it. Does the government want workers to retire later or is the argument really that they just want to pay you a pension later, irrespective of when you retire (or do they just want you to have died before you reach pension age!)

Q. This issue doesn't affect me

- A.**
1. One in five people in the UK works in public services, so it's very likely you know someone who is directly affected. It may be a member of your family or a friend.
 2. If people stop putting money into their pension schemes it will cost the taxpayers more money in the long run. In these pension schemes, a percentage of a person's salary gets taken out every month for retirement. That person is saving for their own retirement. But if that person doesn't save or put money into a

pension scheme, if they just took the extra salary and spent it now, they may end up receiving benefits from the government – 100% of which comes from the taxpayers.

3. This debate should not just be about public service pensions but also about pensions saving generally. If public service pensions become a victim of pensions envy, then the future of pensions provision for everyone will be very bleak.

Q. What are the Employers plans?

- A.** The Employers' organisation, the Confederation of British Industry (CBI), has reacted angrily to the EU's call that Defined Benefit (DB) schemes (final salary schemes) should be asked to prove their solvency by having similar capital requirements as insurance companies, which could help to stabilise pension schemes in worrying times. Employers' organisations seem keen to worry workers so that they (the employers) can cut terms and conditions. Employers don't seem keen to help workers to protect their entitlements.

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