

WHY PUBLIC SERVICE WORKERS ARE ANGRY ABOUT THEIR PENSIONS – A UNISON FACTSHEET ON THE REVIEW OF THE PUBLIC SECTOR PENSION SCHEMES

The Government is currently reviewing the public sector pension schemes, including the Local Government Scheme, the NHS Scheme, the Teachers' Pension Scheme, the Police and Fire Service Schemes and the Civil Service Schemes. The reviews are scheduled to be completed by 2006.

Why is UNISON concerned?

The Government wants to raise to 65 the age at which workers are entitled to draw an unreduced pension across most of the public sector pension schemes, including the NHS Scheme and the Local Government Scheme. In addition, they want to raise from 50 to 55 the minimum age that workers can apply to draw their pension for reasons other than ill-health – meaning that workers between 50 and 55 who are made redundant will no longer be entitled to an immediate pension.

As well as the proposed changes to retirement age, UNISON is also concerned about some of the other proposals for change currently being put forward as part of the talks taking place on the different public sector schemes. Such proposals include:

- Possible tighter restrictions on ill health retirement
- A possible move in some schemes (such as the NHS scheme) away from a traditional final salary structure
- Higher employee contributions at a time when scheme benefits are being cut

Why does UNISON oppose increasing the retirement age to 65?

UNISON is not against the modernisation of the public sector schemes – indeed, we have been at the forefront of calling for reform, such as the granting of partners' pensions to unmarried partners. But we are opposed to raising the age at which an unreduced pension is payable to 65, and to the raising of the minimum retirement age to 55. We believe that:

- *The proposed changes are a cut to terms and conditions.* Pension is deferred pay, and makes up a significant proportion of remuneration for workers in the public sector schemes. Increasing the age at which an unreduced pension becomes payable from 60 to 65 will decrease the value of future scheme membership by around 30%. This in turn is likely to make recruitment and retention more difficult.
- *Hard working public service workers will have to work for an extra five years in order to receive an unreduced pension.* Public service workers do stressful and often physically demanding jobs, frequently carrying out vital roles under challenging conditions. Raising the age for receiving an unreduced pension will disrupt the retirement plans of workers like these,

who have worked hard all their lives in the expectation of being able to retire at 60. We know too that, as workers age, their physical work capacity reduces. If workers have to carry on until they are 65, there is a real danger that some may become physically unable to do their jobs, literally continuing to work until they drop.

Having to work an extra five years in order to receive an unreduced pension will also mean a shorter period over which to enjoy retirement for many public service workers. Between 1972 and 1999 life expectancy at 65 of a male caretaker increased by only 1.5 years, whilst the life expectancy of a female hospital cleaner saw no improvement at all. And the length of retirement free from sickness and disability is still very short for many – in 1996-99, the healthy life expectancy at 65 of a women from the most deprived tenth of the population was just 8 years.

- *More pensioners will be forced to depend on means-tested benefits.* Public sector pensions are not large – the average pension paid out by the local government pension scheme is £3800. Reducing public services workers' pensions if they retire at 60 will substantially increase the chances that they will be forced to depend on means-tested benefits in order to survive in retirement. This is especially true for women, many of who are on low wages and have low state pension entitlements.
- *It will be harder to persuade workers to join the public sector schemes.* The first report of the Turner Commission has highlighted the importance of increasing the number of people saving for their retirement. Raising the age at which workers become entitled to an unreduced pension will undermine confidence in the public sector schemes and will make them less attractive for workers to join.
- *The proposed changes will hinder public service modernisation.* Increasing the minimum retirement age to 55 will reduce employers' flexibility to reorganise services, preventing them from retiring workers between 50 and 55 whose jobs become redundant onto an immediate pension. Likewise, increasing the age for receiving an unreduced pension to 65 may mean that staff whose skills are out of date but consider themselves too old to retrain are forced for financial reasons to stay on at work.

What is UNISON calling on the Government to do?

UNISON calls on the Government to:

- Suspend the planned April 2005 implementation of the proposed changes to retirement age in the Local Government Pension Scheme
- Honour its commitment to engage in real dialogue with the trade unions concerning reform of the public sector schemes
- Ensure that all public service workers have equal access to high quality pension schemes, that give them real choice and a decent pension when they need it

SPOTLIGHT ON THE LOCAL GOVERNMENT AND NHS SCHEMES

The Local Government Pension Scheme

The Local Government Pension Scheme covers staff directly employed in local government, but also police support staff, teaching assistants, large numbers of staff in HE, FE, the Environment Agency, and the community and voluntary sectors, as well as a growing number of staff working in outsourced public services. It is a funded scheme, which means that the contributions paid into the scheme are invested into funds which are then used to pay people's pensions when they retire.

Normal retirement age in the Local Government Pension Scheme is 65. However, under the so-called "rule of 85" members of the scheme who are between 60 and 65 can choose to retire early on an unreduced pension if the sum of their age and their number of years scheme membership is at least 85. It is estimated that at least half of Local Government Pension Scheme members are able to retire early under this rule.

The Government is planning to introduce regulations that will amend the Local Government Pension Scheme in England and Wales by abolishing the rule of 85 for future pension service and raising the minimum retirement age to 55. In common with our position on the other public service schemes, UNISON is opposed to these changes on principle. However, we are particularly concerned about the way in which they are being implemented in the Local Government Scheme for the following reasons:

- The changes are due to come into effect in April 2005, a year ahead of the scheduled change date for the other public sector schemes, including the Scottish Local Government Pension Scheme
- The transitional arrangements for current scheme members are significantly less favourable than those proposed for the other public sector schemes, for instance the Teachers' Pension Scheme

In parallel with the above changes, the Government has now published a consultation document on the wider reform of the Local Government Pension Scheme. This sets out a number of proposals, including:

- The retention of a final salary scheme structure, but discussion on whether to allow members to join a defined contribution scheme instead
- A switch from the current 1/80th accrual rate plus a lump sum of three times pension, to an accrual rate of 1/62.5th with no separate lump sum
- Variable employee contribution rates linked to salary, but with a rise in the average employee contribution rate to 7%
- A two-tier structure of ill-health retirement benefits, with no benefit enhancement for members capable of undertaking alternative employment
- A reduction in pensionable pay to basic pay only, excluding bonuses and overtime payments
- Partners' pensions for all unmarried partners

REFORM OF THE NHS PENSION SCHEME

The NHS Scheme covers all staff employed by the NHS. It is an unfunded scheme, which means that the Government receives all employee contributions and pays out all NHS pensions.

The current normal retirement age in the NHS Scheme is 60, with lower retirement ages applying to certain categories of staff who joined the scheme before 1995, such as Mental Health Officers. The Government has said that it intends to increase the normal pension age to 65 for future scheme service and to raise the minimum age for drawing a pension to 55, although it is envisaged that certain transitional provisions will apply.

The NHS trade unions and employers are currently conducting a joint review of the NHS Pension Scheme. The review will result in a consultation document regarding the reform of the NHS, which is expected to be published in December 2004. The main ideas likely to be included in the consultation document are:

- A move from the current structure of 1/80th accrual plus a lump sum of three times pension, to an accrual rate of 1/60th without a separate lump sum
- Partner's pensions for all unmarried partners
- The possibility of a move towards a career average scheme structure

UNISON will be responding fully to the consultation in due course and in the meantime is continuing to lobby the Government against the proposal to increase the retirement age to 65.