WRITTEN MINISTERIAL STATEMENT

CABINET OFFICE

20 December 2011

Minister for the Cabinet Office, Paymaster General: Civil Service Pensions

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Rt Hon Francis Maude

On 2 November the Chief Secretary to the Treasury made a Statement to the House setting out an improved offer on public service pensions to public sector workers (Cm 8214). This offer provided a more generous cost ceiling for scheme-specific discussions to work within, and protected all those within ten years of their pension age from any further change. This generous offer was conditional on the Government and trades unions reaching agreement by the end of the year, including in the Principal Civil Service Pension Scheme, bringing to a conclusion talks that have lasted since February 2011.

Since 2 November I and my officials have been engaged in detailed and intensive talks with the National Trade Union Committee for the Civil Service. I can now report to the House on the heads of agreement on the scheme design for the Principal Civil Service Pension Scheme to be introduced in 2015, on which talks have concluded. The Government have made clear this sets out their final position on the main elements of scheme design, which [the FDA, Prospect, GMB Prison Governors Association and the Immigration Services Union have agreed to take to their Executives as the best that can be achieved through negotiations. There is a specific outstanding issue relating to mechanisms for Prison Officers to retire earlier than state pension age where we are continuing to have discussions with the Prison Officers Association. We will invite these unions to join us in further work on the remaining details in the New Year, and their Executives will consult members as appropriate. The continued union engagement includes a commitment to suspend any further industrial action while the final details are resolved and Unions are consulting their members.

The core parameters of the new scheme are set out below:

a. A pension scheme design based on career average;
b. A provisional accrual rate of 2.28% (equivalent to 1/43.9) of pensionable earnings each year, subject to further agreement on final details.
c. Revaluation of active members’ benefits in line with CPI;
d. a Normal Pension Age equal to State Pension age, which applies both to active members and deferred members (for new scheme service only);
e. pensions in payment to increase in line with Prices (currently CPI);
f. benefits earned in deferment to increase in line with Prices (currently CPI);

g. Average member contributions of 5.6%, with some protection for the lowest paid (the detailed structure of which is still to be agreed);
h. Optional lump sum commutation at a rate of 12:1, in accordance with HMRC limits and regulations;
i. Spouses/Partner pension of three-eighths of pension, in line with the current open scheme ;
j. Lump-sum on death in service of 2 times salary;
k. Ill-health benefits in line with those in the current open scheme;
l. Actuarially fair early/late retirement factors on a cost-neutral basis; and,
m. An employer contribution cap to provide backstop protection to the taxpayer against unforeseen costs and risks and allowance for an improvement in member benefits if the value of the scheme falls beyond a fixed level;
n. The scheme will support the use of partial retirement and will follow the recommended approach set out in the Independent Public Service Pensions Commission final report of 10 March 2011 on abatement (details to be finalised); and
o. A guarantee, outside of the scheme designs parameters set out above, of no further reform for the next 25 years.

Transitional Arrangements

Scheme members who, as of 1 April 2012, have 10 years or less to their current pension age will see no change in when they can retire, nor any decrease in the amount of pension they receive at their current Normal Pension Age. They will be allowed to remain members of their existing schemes up to and including the point at which they draw their pension rights and all current scheme rules will continue to apply.

Members who are within a further 3 .5 years outside this protected group will have an additional degree of protection, in the form of further accrual in their existing schemes. This protection will be tapered in a linear fashion depending on the age of the member.

Areas for further detailed discussion

Discussions with the Trades Unions identified above will continue early next year, to shape the remaining elements of the scheme design such as abatement, re-employment, treatment of re-joiners and public sector transfers and contribution rates structures including years 2 and 3 of the employee contribution increases. Any of these issues that affect the final cost of the scheme will need to be taken into account in the final rate of benefit accrual. The requirement to fit the new scheme within the revised cost ceiling for the Reference Scheme published on 2 November will remain, and agreement on these issues will also be subject to review by HM Treasury to agree the approach taken to risk management and impact on cash flows.

The Government Actuary’s Department has confirmed that this scheme design does not exceed the cost ceiling set by the Government on 2 November. Copies of the heads of agreement and the scheme actuary’s verification have been deposited in the Libraries of both Houses.