



Second Submission to the Independent
Public Service Pensions Commission

Executive Summary

December 2010

FDA's Second Submission to the Independent Public Service Pensions Commission



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1. Introduction

The FDA welcomes the opportunity to make a further submission to the Commission (1.2).

2. The FDA's first submission

Key Points

- pay levels at the more senior grades within the civil service have been set at lower levels than for comparable jobs in the private sector (2.2);
- the gap in pay between the civil service and the private sector represents, in part, the contribution to pensions made by FDA members. This gap has increased substantially in recent years. As a consequence, pay rates in the more senior civil service grades, are:
 - between 21.7% and 97.6% lower than for comparable jobs in the private sector and between 12.2% and 31.3% lower than for comparable jobs in the wider public sector (2.3);
- any consideration of savings and affordability in relation to the cost of civil service pension provision must be undertaken within the context of a review of all aspects of total remuneration (2.6).

Objectives

- accrued rights must be fully protected (2.7);
- any scheme must be defined benefit, and of high quality (2.7);
- pension provision must not be considered in isolation from other elements of total reward (2.7);
- any proposals for change must be subject to detailed consideration and negotiations with the relevant unions (2.7).

3. The Commission's interim report

- the FDA welcomes a number of aspects of the Commission's interim report (3.1);
- the FDA disagrees with the Commission's conclusion that there is little evidence that pay in the private sector is higher than for comparable jobs in the public sector (3.3) and its arguments against the continuation of final salary schemes (3.8);
- the FDA is seriously concerned that the Commission's conclusions in relation to final salary schemes, together with its initial observations on accrued rights suggest the possibility of the closure of final salary schemes to all public servants and their enforced transfer to alternative arrangements (3.16);
- the FDA and its members will strongly oppose any attempt to implement such an enforced transfer (3.17).

4. CSR statement

- the FDA remains strongly opposed to the prospect of increased contributions being imposed upon its members (4.7);
- the Chancellor's CSR statement raises the very real prospect that members may be faced with the prospect of higher pension contributions when their pay has been suppressed over a number of years, will be frozen for at least two years and is significantly lower than pay for comparable jobs in the wider public and private sectors (4.7);
- FDA members will resist the imposition of higher pension contributions, and this resistance will be intensified if the Government's intention is that higher pension contributions are to be followed by an enforced transfer to alternative and inferior pension arrangements (4.7);
- any proposals for increased contributions and/or other significant changes to the existing structure of pension provision can only be fairly considered as part of a wider review of total remuneration (4.8).

5. Scheme design

- FDA members retain a preference for the continuation of final-salary pension schemes. They recognise, nevertheless, that the civil service career average scheme (Nuvos) is a high-quality, defined-benefit scheme and as such one that is consistent with the union's objectives for any future pension scheme design (5.1);
- the Nuvos scheme has a number of key elements that ensure the delivery of high quality pensions. If retained and developed, these may also be attractive to some members of existing final salary schemes. These are:

Uprating

- the use of the RPI in Nuvos for uprating purposes is a key feature (5.4);
- the decision of the Government to uprate pensions in line with the CPI in future will progressively reduce the value of all public sector pensions and is strongly opposed by the FDA (5.5);
- the most significant impact of this decision will arguably fall on those who are members of the Nuvos pension scheme because it will substantially reduce the value of their accruing benefits, as well as the value of the pensions when in payment (5.7) (5.8);
- the impact of the switch to CPI on members of the Nuvos scheme is equivalent to a 25% reduction in the value of pension benefits (5.7);
- the FDA rejects the Government's rationale for switching to CPI for uprating pensions whether they are in payment, on deferment or accruing (5.11);
- the FDA believes that there is a strong argument that a mechanism linked to earnings growth across the whole economy is the most appropriate means of uprating accruing benefits in a career average scheme (5.12).

Rate of accrual

Maintaining an accrual rate of at least the current rate of 2.3% in the Nuvos scheme will be an essential element in reaching agreement on any new pension arrangements that have a career-average structure. Indeed, the FDA believes that there would be a strong case for increasing the rate of accrual above the current rate, given the significant adverse impact on Nuvos of the switch from RPI to CPI for uprating pensions outlined earlier in this submission (5.15).

Same scheme - same terms

- the FDA believes that all civil servants must continue to be eligible for membership of the same pension schemes and on the same terms (5.16) (5.17).

Procedure for change

- the decision to switch to CPI was made without consultation and has undermined the trust in the pension promise that has been made to public servants. The FDA will be seeking a clear and accountable procedure for any changes to civil servants' pensions (5.21).

6. Risk sharing

- the FDA reiterates that any discussions on identifying savings, whether through increased contributions or changes to pension benefits, cannot be in isolation from a review of total reward (6.2).

7. Adequacy

- the FDA believes that scheme members should continue to be allowed to accrue pension up to or around a level of two-thirds of final salary (7.2).

8. Employee understanding and choice

- FDA members place a great value on their pension. This is borne out when considering that in 2005 members voted in favour of a national strike in response to the Labour Government's intention to increase the pension age to 65 (8.1);
- FDA members will constructively consider proposals for change that are fair and have been subject to full negotiation (8.2).

9. Transition Issues

- the FDA does not consider that a case has been made for changing the existing pension provision and any change must be in the context of a review of the overall remuneration package (9.1);
- the FDA believes that there are a number of factors that are crucial to ensuring effective transition to any new pension arrangement (9.2);
- pensions must be recognised as a key element of the 'contract' between the Government as an employer and civil servants (9.4);
- any proposals for change must be subject to meaningful negotiations (9.3);
- pensions cannot be considered in isolation from the wider aspects of total reward (9.5);
- any new arrangements should apply to new entrants and should be subject to a "choices" exercise for existing employees, giving them a choice between remaining on current terms (salary and pension arrangements) or switching to the new arrangements on the total reward package (9.6).

Accrued Rights

- addressing the issue of accrued rights will be crucial (9.10);
- the FDA believes that the best way to deal with accrued rights would be to allow the preserved pensions of those who agree to switch to the new arrangements to be calculated on the basis of final pensionable earnings at the time of retirement (9.10).