CSPA
CIVIL SERVICE PENSIONERS' ALLIANCE

NEWSLETTER

Number 60 16 July 2010

Dear Colleague

INDEX-LINKING OF PUBLIC SECTOR PENSIONS

I said in Newsletter No. 58 that "The index-linking arrangements for public sector pensions are contained in the Pension (Increase) Act 1971. " Whilst the rules of the various Civil Service pension schemes are littered with references to *"increases under the Pensions (Increase) Act 1971, as amended"*, we now learn that the legal position is not quite as simple as that. A note on the H M Treasury website says *"Public service pensions are increased under the provisions of the Pensions (Increase) Act 1971 and Section 59 of the Social Security Act 1975. The latter provides for public service pensions to be up-rated at the same time and by the same percentage as the increase in the additional pension provided under the State Earnings Related Pension Scheme (SERPs), which is based on the September-to-September increase in the Retail Price Index (RPI). The underlying purpose of this legislation is to maintain the purchasing power of state retirement and public service pensions."* In fact, neither of the Acts refers to the Retail Price Index. Rather, the Social Security Act 1975, which has been much amended, now contains the following requirement. *"Where it appears to the Secretary of State that **the general level of prices** is greater at the end of the period under review than it was at the beginning of that period, he shall lay before Parliament the draft of an up-rating order….."* So, each year since 1972, the minister has laid such an order and that order has always reflected the increase in the RPI.

However, the new Coalition Government issued a statement on 12 July 2010, which says *"The order in use in 2011 will also be used to calculate annual increases on pensions in payment for 2011, and these will be in line with CPI. The Government expects to publish the order in November or December 2010."* The statement makes clear that the order will reflect the September 2010 CPI.

The statement goes on to say that the change from RPI to CPI will also be applied to private sector pensions. But, much will depend upon the precise terms of the scheme rules. If the scheme rules specify a requirement to increase pensions in line with RPI, then employers will not be able to change to CPI without the agreement of scheme members. Press articles suggest that the move to CPI will enable employers to reduce scheme deficits by about £100 billion. This will be at the expense of 12 million scheme-members, leaving each of them on average about £8,000 worse off. This attack on private sector pension benefits has, not unsurprisingly, excited the interest of the Times, the Mail and other right-wing newspapers.

Your Executive Council is committed to fighting the proposed move to CPI and this will be our number one priority.

We have alerted MPs to the assurances, which we were given by both the Liberal Democrats and the Conservatives in the run-up to the General Election. We have referred to those assurances in our submission to the Independent Public Service Pensions Commission. We will continue to brief MPs in the run-up to the laying of the necessary order in November or

December. We will respond to Ministers when they deign to reply to our letter of 25 June 2010, protesting about the proposed change. We have issued press releases and we will continue to do so.

The proposed change will affect about 11.5m existing state pensioners, about 8.5 million of whom also have an occupational pension. It will affect all future pensioners and about 9.5 million people with preserved occupational pension rights. Had the coalition parties come clean about their intentions before the election, it is unlikely that they would have been elected.

We are marshalling support for our campaign of political opposition to the change. The Public Service Pensioners' Council, the National Pensioners Convention, the National Federation of Occupational Pensioners and the Civil Service trade unions are already on side. We hope to work in tandem with the wider trade union movement.

The Council of Civil Service Unions is seeking legal advice and has agreed to share that with us. We will seek additional legal advice, should that prove necessary. We will consider the possibility of a legal challenge. We have asked for a trawl of public sector pension scheme literature for references to RPI. Our own Civil Service Scheme literature is littered with references to RPI index-linking. Indeed, the current booklet for our own Classic scheme says *"Your pension is guaranteed to increase in line with inflation, as measured by the retail price index (RPI)."* People will have arranged their financial affairs on the understanding that RPI index-linking will apply and many will have made financial decisions based in that understanding, such as conversion of lump sum into pension, the purchase of added years and acceptance to move on TUPE terms. We will argue that all that adds up to a contract, which must be honoured. We will ask the Pensions Ombudsman to look into the matter.

We will be asking all of our members to write to their MPs. We will put model letters on our website next week and we will send hard copies to our local Groups. We will give advice on this in the Autumn edition of our *Pensioner* magazine.

All of this will take time to arrange. We will continue keep you posted.

INDEPENDENT PUBLIC SERVICE PENSIONS COMMISSION

I attach a copy of our submission to the commission.

Yours sincerely

John Amos

John Amos
Deputy General Secretary

CSPA
CIVIL SERVICE PENSIONERS' ALLIANCE

16 July 2010

Lord Hutton
Chairman
Independent Public Service Pensions Commission
1 Horse Guards Road
London
SW1A 2HQ

Dear Lord Hutton

PUBLIC SERVICE PENSION PROVISION

Thank you for the opportunity to submit evidence and views to your review.

The CSPA

The Civil Service Pensioners' Alliance (CSPA) is a voluntary body recognised by Cabinet Office as representing the interests of all Civil Service pensioners. We have about 65,000 members throughout the UK, organised into 100 local Groups, with membership drawn from all grades and all Departments of the Civil Service and related bodies.

Accrued Rights

We understand that the Government has told you that existing accrued public service pension rights will be protected. We welcome that assurance. Accrued pension rights are protected by both contract law and the Human Rights Act 1998. Additional protection is provided in a myriad of primary legislation relating to particular pension schemes. In addition, in the run-up to the recent General Election, we received written assurances from spokespersons from the three main political parties that accrued rights would, indeed, be honoured.

Index-Linking

The index-linking arrangements for public sector pensions stem from the Pensions (Increase) Act 1971. The law is complicated but it has had the effect of ensuring that, each April, public sector pensions have been increased in line with the Retail Price Index (as recorded for the previous September), so as to maintain their purchasing power. The RPI link has been applied since 1972, employees have been led to believe by pension scheme literature that the RPI link would be maintained and many have made financial choices based on that understanding.

Prior to the election, there was much media speculation about the future of public sector pensions, so we sought clarification on index-linking from each of the three main political parties, so as to protect accrued rights.

Civil Service Pensioners' Alliance • Mike Duggan General Secretary • 1st Floor, 102-104 Park Lane, Croydon, Surrey CR0 1JB
Tel 020 8688 8418 • Fax 020 8760 9806 • E-mail mike.duggan@cspa.co.uk • Website www.cspa.co.uk

We welcomed the fact that all three parties gave their assurances that they had no plans to change the index-linking arrangements.

At a meeting held on 30 March 2010, Angela Eagle said on behalf of the Labour Party *"Following the agreement for change reached with the unions in 2007, we are satisfied that public sector pensions are affordable, sustainable and fair.* ***We have no plans to change the current index-linking arrangements."***

In a letter dated 27 April 2010, Philip Hammond the then Shadow Chief Secretary to the Treasury said: *"Indexation of pensions in payment is an established part of pensions legislation.* ***The Conservative Party has no plans to change the current index-linking of public sector pensions in payment.*** *We agree with the view that the right to indexation of pensions already accrued is part of the accrued pension rights and those rights will be protected."*

The then Liberal Democrat Shadow Pensions Minister, and now Pensions Minister, Steve Webb MP also said in a letter dated 12 April 2010: *"We are very clear that all accrued rights should be honoured: a pension promise made should be a pension promise kept. Therefore we would not make any changes to pension rights that have already been built up.* ***I have confirmed that I regard accrued index-linked rights as protected."***

Furthermore, at a conference held by the Public Service Pensioners' Council in April 2010, all three pensions spokespersons stressed that any changes to public sector pensions would have a long lead-in time and would be subject to full consultation.

After those reassurances, we were amazed to find from the Emergency Budget statement that the coalition Government intends to change the index which pensions will be linked to. It seems that the Government plans no consultation on the move to CPI, even though the move was not outlined in either of the coalition party's election manifestos. Furthermore, we believe that it is fundamentally unwise to make changes to public service pension arrangements before your Commission has even taken evidence and nearly a year before you are due to report. On a wider front, broken promises on pensions will do nothing to enhance people's take-up of the new NESTS.

The CPI is usually less favourable than RPI and, had pensions been linked to the CPI for the past 10 years, they would now be worth about 12% less than they are currently. When the RPI link was introduced in 1971, the unions would have preferred a link to earnings but the Government of the day insisted upon the link to RPI. We have lived with that link for nearly forty years (even though a link to earnings would have been much more favourable) and it would be extremely unfair to change that for a less favourable index, when current pensioners have planned their affairs with an expectation of RPI.

The Scott Report in 1982 dealt with the question of index-linking in considerable detail and we urge you to visit that report during the course of your deliberations. In particular, Scott said *"It is a highly desirable social objective that the standard of living of those in retirement be protected."* This is because pensioners are amongst the most vulnerable in society, with, at best, only very limited options to increase their income and with no industrial muscle to exert. Pensioners do not cause inflation; they are the victims of it and it is the duty of Government to protect them from it. Most pensions currently in payment are modest and public sector pensions are, on average, more modest than those in the private sector.

There appears to be some dichotomy in current Government thinking. On the one hand, paragraph 1.106 of their Budget Report says *"The CPI provides a more appropriate measure of benefit and pension recipients' inflation experiences than RPI, because it excludes the majority of housing costs faced by homeowners (low income households are subsidised separately through Housing Benefit, and the majority of pensioners own their home outright), and differences in calculation mean it may be considered a better representation of the way consumers change their consumption patterns in response to price changes. This will also ensure consistency with the measure of inflation used by the Bank of England."* On the other hand, paragraph 1 of the Coalition Agreement "Our Programme for Government" says *"We will work with the Bank of England to investigate how the process of including housing costs in the CPI measure of inflation can be accelerated."*

We do not accept that CPI is a more appropriate measure for pensioners, because pensioners still have to pay Council Tax and to pay for the upkeep and repair of their property. As they grow older they are less able to undertake these task themselves, so must pay others to do the work for them and to do so from an increasingly limited income. An increasing number of pensioners still have a mortgage. These costs are excluded from CPI, which, in any event, is not truly representative of pensioner expenditure. The proposed move from RPI to CPI for both state and public service pensions is a cynical attempt by Government to save expenditure, at the expense of those least able to afford it.

We urge you to recommend that the Government should honour the long-term commitment to RPI indexation for public sector pension provision or to recommend a quadruple guarantee of increases in line with earnings, RPI, CPI or 2.5%, whichever is highest.

Future Provision of Public Sector Pensions

It will be mainly for the unions to argue for the future provision of public sector pensions, as part of the employment package. However, we offer the following views on the basis of our own experience.

There has been much unfair criticism of public service pensions, led largely by the representatives of those employers who have shamelessly withdrawn from pension provision for their own employees. The reality is that public service employees have paid for their pensions either by way of actual contributions or by way of salary sacrifice. The employer contribution is reasonable and transparent. (All of this was recognised by both the Scott and Megaw Reports in the early 1980's.) The Government should set an example as a good employer and offer a total remuneration package which is sufficient to attract, retain and motivate good quality staff. The Government should encourage people to save for their old age and pensions are an ideal vehicle for doing that. The current state pension is amongst the lowest in the industrialised world. Hitherto, UK Governments of all complexions have justified that by reference to previously good occupational pension provision, but that provision is now rapidly fading in the private sector. Unless the total pension package is addressed as a matter of urgency, future generations of pensioners will be condemned to a late life of means-tested state benefits and/or poverty. That cannot be in anyone's interests, not today's pensioners, nor those pensioners yet to come.

Finally, you should be aware that there has been much reform in public sector pensions, following the Public Services Forum Agreement in 2007. Many of the schemes have already been reformed and others are in the process of reform. People employed since 2007 now typically have a whole career or career average scheme and a pension age of 65. Additionally, many schemes now have cost caps and/or cost sharing arrangements.

The last Government recognised all these changes in the December 2009 H M Treasury report "Long-term public finance report; an analysis of fiscal sustainability" and said that the cost projections "*remain stable as a share of GDP, at around or below 2 per cent, between 2018-19 and 2059-60.*" Costs are not out of control. Indeed, they are very much under control.

We hope that you will be able to address all of these issues in your report. We stand ready to provide any further information and/or explanation you might require or to meet with you, if you would find that helpful.

Yours sincerely

Mike Duggan
General Secretary