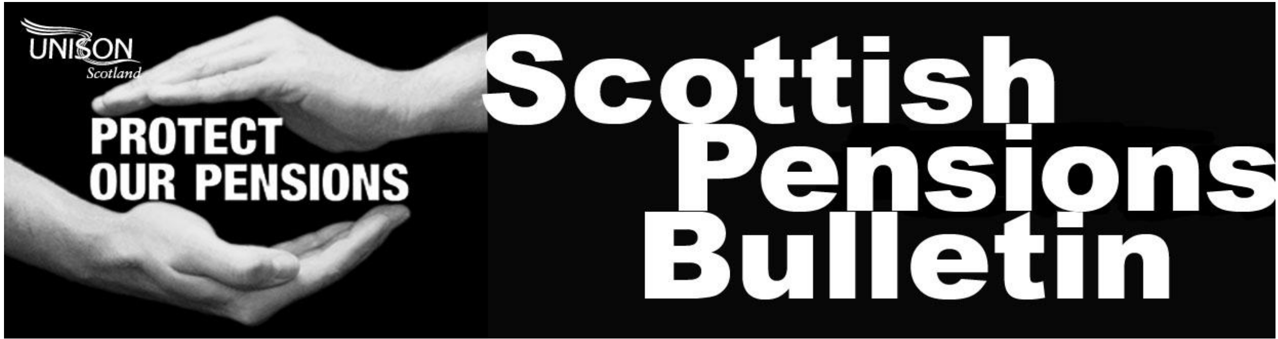

No.20 **February 2011**

Increase in Pension Contributions

In the last Scottish Pensions Bulletin we highlighted the UK government plan to increase pension contributions by 3.2%, grabbing £2.8bn from pension contributions. For Scotland this means around £375m being raided from Scotland's budget. This includes £140m from local government and further £140m from health.

The Scottish Government has now written seeking views on how they should respond. We discussed this at the pension contacts meeting on 7 February and we have now responded to the Scottish Government through the STUC. We have argued that the Scottish Government should not agree to the UK Government's proposal to increase employee contributions to public service pension schemes for the following reasons:

- This increase bears no relation to the actual cost of public service pension schemes in Scotland. It is a simple cash grab from our members salaries at a time when the Scottish Government's pay policy is already resulting in a real terms cut in pay.

- In the LGPS the Scottish Government is a party to an agreement on the funding of the new scheme. That agreement included an increase in average employee contributions and a commitment on cost sharing. We have been working up the details of that arrangement in time for the 2011 actuarial valuations in partnership with the Scottish Government and CoSLA. An increase in employee contributions outwith that provision would be a major breach of that agreement. Our members have a reasonable expectation that government does not break agreements it has signed up to.

- The SG letter raises the issue of differential employee contributions with the rest of the UK. We already have differential contributions in the Scottish LGPS and this is simply a distraction from the real issue. The structure of contribution rates is a matter for each scheme reflecting the different membership.

- We understand that it may be suggested that this cash grab reflects an alleged past underfunding of the schemes. In the LGPS, if there has been any underfunding it has been during the period (mid 80's to mid 90's) when the employers took a contribution holiday. Employees have always paid the full contributions.

- A substantial increase in contributions is likely to result in significant numbers of members opting out of public service pension schemes. This is evidenced by recent polls, including Pensions Weekly, where 62% of staff earning under £25k indicated they would opt out if contributions rose significantly above 6%. UNISON has recently commissioned a You Gov poll with similar results. This will place additional burdens on the benefit system and undermine the Scottish Government's anti-poverty strategy.

- The UK government wants progressive contribution increases. The Scottish schemes already have a progressive contribution system. It will be impossible to recoup these paybill savings simply or even largely from higher paid staff. The balance of staff numbers doesn't add up.

- This proposal comes at a time when members are already noting that the government is breaking the pensions 'contract' they believed they had entered into. In particular the switch from the RPI to the CPI that will result in a cut in pensions benefits of at least 15%. They will reasonably conclude that they are being asked to pay more contributions for a worse pension.

- We would agree with the Scottish Government that this proposal is linked to the recommendations in Lord Hutton's final report in March 2011. It is likely that he will recommend further changes to public sector pension schemes. For example, if he were to recommend moving to a career average scheme, and in Scotland we agreed to adopt that recommendation, then we would be faced with yet another restructuring of the contribution bands that are currently predicated on the benefits of a final salary scheme. This could mean two major changes within a year, with all the consequent administrative costs.

- There are other options to make savings from funded schemes like the LGPS. There is a shared service pension pathfinder project due to report in the next two months. UNISON has commissioned research that would indicate significant savings if the investment management of funds was shared.

Branches may find these arguments helpful in local discussions on this issue.

Indexing of Pension Benefits

The UK Government has announced that it will change the indexing of public sector pension increases each year from the Retail Price Index (RPI) to the Consumer Price Index (CPI). The effect of the change is likely to cut pension benefits by at least 15%. Further evidence for our case comes from the Age UK's Silver RPI that reweights the index to reflect older people's expenditure. This index points to a 2% higher increase for the o/55's rising to more than 4% for those over 75.

The Scottish Government, despite holding a consultation on changes to the Scottish regulations, have decided to implement the change without waiting for the consultation responses. We have prepared a case for legal opinion and will keep branches advised of progress.

Hutton Review

Lord Hutton returned to Scotland on 25 February to discuss his final report and we set out our concerns over a range of issues identified in his interim report. These included the risks of major opt out from the schemes in Scotland if the value and certainty of pension provision is undermined further. His final report will be published in early March, in time for the UK Budget.

The UK pension campaign now has a range of useful materials related to these issues on their activists' resource page: http://www.unison.org.uk/pensions/docs_list.asp

Pensions Contacts meeting

The next meeting for UNISON branch pension contacts has been timed for after the UK Budget when we will have the final Hutton review report and some indication of how the UK government proposes to implement it. The meeting will be held on **Wednesday 30 March 2011** starting at 11am in UNISON House, 14 West Campbell Street, Glasgow G2 6RX.

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