UNISON Scotland

NHS Scotland

Pension Contribution Increases

A UNISON Scotland response to the Scottish Government consultation paper: National Health Service Superannuation Scheme (Scotland) – Employee contribution increases

<u>**November 2011**</u>

UNISON SCOTLAND RESPONSE TO SCOTTISH GOVERNMENT NHS SUPERANNUATION SCHEME (SCOTLAND) CONSULTATION ON PROPOSED INCREASES TO EMPLOYEE CONTRIBUTION RATES EFFECTIVE FROM APRIL 2012

Introduction

UNISON is Scotland's largest healthcare trade union representing over 50,000 members working in NHS Scotland and related services.

Our health members are nurses, student nurses, midwives, health visitors, healthcare assistants, paramedics, cleaners, porters, catering staff, medical secretaries, clerical and admin staff and scientific and technical staff.

All of our healthcare members greatly value the pension benefits they are accruing in the NHS Pension Scheme and the importance of saving for their retirement, which is emphasised by the current high take up rate of the NHS Pension Scheme. The scheme allows many low paid workers the opportunity to save for their retirement so they can retire in dignity and not have to rely on future taxpayers.

Many of our members are relatively modestly paid, are in the midst of a pay freeze, a high inflation climate, fearful of the impact of health spending cuts and are very distressed and angry that the Scottish Government, at the behest of the UK Government, is asking them to pay much more in pension contributions. The reality is that many of our members will simply not be able to afford to make the proposed contribution increases and will have to opt-out of their scheme to their and the State's future detriment.

This paper is also an inadequate consultation as it runs for only 6 weeks instead of the usual 12 week period.

General Comments

UNISON does not believe these proposals to be justified or necessary.

They are not justified because the NHS Pension Scheme is currently cash rich and is actually offsetting the cash deficit in Pay As You Go schemes over the next few years based on the current level of membership being maintained. Even if the scheme was cash poor it is not justifiable to impose a tax or levy on members currently trying to save for their retirement.

Members of the NHS Pension Scheme have paid over £16 billion to the Treasury over the last 10 years alone. All pension schemes mature over time and for decades most Pay As You Go schemes were paying more than they were receiving from the Treasury. The NHS Pension Scheme like all Pay As You Go schemes is notionally funded and contributions are based on assumptions of how much the benefits cost as they accrue; they have not been based on whether the scheme is cash rich or cash poor at any given moment in time.

We have not been shown how the proposed increases are based on any rational assessment of the increase in cost of the scheme, because no such figures exist. These proposals are not necessary because an equivalent consultation could have emerged from the cost-sharing approach to funding the NHS Pension Scheme which was agreed in Partnership in 2007. This approach would most likely have led to a requirement to increase contributions or amend benefit structures and UNISON would have participated fully in any resulting discussions and consultation emerging from this process. Unfortunately this agreed procedure has been unilaterally dismantled by the UK Government.

UNISON have not and still don't accept the Treasury's rationale for imposed member contribution increases which have been devised to counteract the effects of the financial crisis caused by reckless risk taking in the banking sector. The contention that these contributions are necessary to pay for increased longevity is false; this cost pressure is identified in the cost-sharing agreement under which NHS employees (not taxpayers) would stand to pick up the cost of living longer. In essence this is simply a tax on hard working and loyal health service workers. The reality is that the proposed increased member contributions will not aid the funding position of the NHS Pension Scheme as the money will simply go straight to the Treasury to help pay off deficits that have nothing to do with our members.

Furthermore UNISON and the other health trade unions questions the timing of this consultation given that so much is unknown about future reforms. It is clear that the UK Government is driving further member contribution increases in 2013 and 2014 and planning to reduce benefits from 2015.

Given that members face so many unknowns about the future of their pension scheme, it is difficult to see how they can take a considered view on the contribution increase proposals. It is extremely difficult for UNISON to consult members over these when they will not know the possible increases in contributions due in 2013 and 2014 and whilst scheme specific discussions are still taking place. It is UNISON's view that this consultation seriously undermines the NHS Pension Scheme Specific Discussions and once again calls into question the sincerity of UK Government ministers.

Scottish Government's position

UNISON Scotland welcomes the Scottish Government's statement that at a time of pay constraint and pressure on household finances - and in the absence of clear evidence of immediate need – the UK Government's policy of increasing employee contributions is unwarranted and disruptive.

While we understand the financial pressure the UK Government is exerting on the Scottish Government, we believe other options exist for funding the cost of these contribution increases. The Scottish Government's Efficiency Outturn Report 2010-11shows that Health exceeded its 2011 efficiency savings target by over £175m. This is money saved by NHS staff that was not budgeted for by the Scottish

Government. It would more than cover the £55m cost of the first year contributions being levied by the UK Government. In fact it would cover the full three year cost of around £140m.

UNISON Scotland recognises that it is the UK Government that is driving this policy and it would not have been originated by the Scottish Government. However, the Scottish Government has the opportunity to make different choices to those set out in the consultation.

What will be the effect of these changes on membership?

1. **UNSION Survey Results on member contribution increases based on the proposals**

UNISON has run its own survey for our healthcare members to obtain their views on the attacks they face to their pensions including member contribution increases, with the following results:

- 6642 (57% of responders) said cannot afford 2012-2013 proposed member contribution increases
- 2400 (21% of responders) said would opt-out of the scheme if proposed 2012-2013 member contribution increases are implemented
- 4734 (47% of responders) said would consider industrial action on proposed contribution increases alone
- 8664 (75% of responders) said won't be able to afford contribution increases for 2013 and 2014 if follows same split as proposed contribution increases for 2012-2013
- 4324 (37% of responders) said would opt-out of the scheme if likely member contribution increases for 2013 and 2014 took effect

These results demonstrate clear opposition to the consultation proposals to increase member contributions and do little to allay our fears about very significant member opt-outs. Since this survey took place UNISON health members in Scotland have voted to take industrial action over this issue. 88% voted YES, a huge majority for strike action in a service that takes such action with the greatest reluctance.

2. **Increasing member opt-outs and cash flow implications for the NHS Pension Scheme**

The net cashflow in the NHS Pension Scheme in the UK for the years ending 31 March 2008, 31 March 2009 and 31 March 2010 was broadly around £2 billion (positive) in each year.

Research we commissioned from First Actuarial suggested that a 50% member opt-out rate could have a significant effect on the cashflow of the NHS Pension Scheme, taking the balance from cash positive to cash negative. Indeed First Actuarial's research indicates that a 30% (or more) opt-out rate could have a significant negative impact on the NHS Pension Scheme cashflow to the extent that a £2 billion cash surplus could turn into an approximate £580,000 cash deficit.

Also striking is First Actuarial's assertion that a 20% opt-out rate could reduce the cash surplus from £2 billion to approximately £260,000.

Worryingly the characteristics of the membership of the NHS Pension Scheme is such that the cashflow implications of opt-outs could be more significant than for other public service pension schemes. Indeed, if a significant proportion of higher earners choose to opt-out, the projected cash flow position as outlined above would be exacerbated further.

3. The effect on part-time members

The increase in contributions is likely to exacerbate the problem for many part-time workers because the rate of contribution that they pay is based on their notional whole-time pay not what they actually earn so for example a member working whole-time earning £15000 a year would pay a contribution of 5% gross while a member working half-time earning £14,500 a year could pay 9.2% gross from 2014-2015 because their whole-time notional pay would be £29000 a year which could place them in a 9.2% band. This compares to the 6.5% they currently pay.
These proposed increases disproportionately affect these part-time workers whose whole-time pay falls in higher bands.

Sharing the risk - The proposals and intergenerational fairness

The Treasury seems to be of the view that current NHS Pension Scheme members are accruing pension benefits which far exceed the relative value of contributions paid by current active members and that there needs to be a re-balancing of contributions so that these members pay a greater share of the overall scheme costs.

UNISON does not agree that active members should be asked to bear the whole brunt of past underfunding. It is generally accepted that during the 1980s to the mid 1990s employers in particular paid too little based on the scheme assumptions in place at that time. As a result employees paid a disproportionate proportion of the total cost of the schemes going forward.

UNISON does not believe it right that current active members are asked to share in any cost increases that result from a variation in scheme assumptions over which the members have no control. We believe that in line with previously agreed cost-share arrangements that a wide range of factors should be taken into account when determining whether the overall cost of schemes have increased or decreased over a period of time and what appropriate contribution splits should be.

The risks shared should continue to include in addition to longevity, changes in the demographic makeup of the schemes, the rate of staff turnover, the incidents of ill-health retirement, the amount of pension commuted for cash at retirement and the actual average age of retirement.

Consultation Questions

The consultation paper seeks views on how the proposed contribution increases should be implemented.

UNISON Scotland does not have a preferred approach to delivering the required contribution yield for the many reasons we have specified in this consultation response. Quite simply we do not accept these proposals.

UNISON Scotland does not believe that any further increases to member contribution rates are necessary, justified or fair. The NHS Pension Scheme is currently £2 billion cash rich and is sustainable over the longer term as evidenced by the Pensions Policy Institute's research to the Independent Public Service Pensions Commission when expressing both short and long-term public service pension costs as a proportion of economic growth.

The Treasury will simply receive a cash windfall from these proposals and the funds raised will not boost the cash flow or notional funding position of the pension scheme. It is in effect a tax on members which risks the financial viability of the scheme as many members will simply be unable to afford the contribution increases proposed.

On the basis that we do not accept the need or rationale for member contribution increases we do not believe it appropriate to advance alternative proposals.

UNISON Scotland does believe however that it is vital that the lowest paid are protected as far as is possible. This is also essential to address the equality impact issues that arise from this proposal.

Conclusion

UNISON Scotland quite simply does not accept the consultation proposals as ultimately these are a tax on hard pressed NHS workers who in many cases cannot afford to contribute more to their pension and are being penalised through the reckless risk taking of the banking and financial sector. Ultimately these proposals and potential further contribution proposals for 2013 and 2014 risk mass opt-outs which will only serve to increase dependency on the State.

We appreciate that the Scottish Government is only proposing these increases due to financial pressure from the UK Government. However, as set out above we believe the Scottish Government has other options to fund the cost. These should be pursued in partnership through the Scottish Terms and Conditions Committee and the Scottish Pensions Group.

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