Written Ministerial Statement

Public Service Pensions Update

The Chief Secretary to the Treasury (Rt Hon Danny Alexander): The Coalition programme gave a commitment to review the long-term affordability and sustainability of public service pensions, and Lord Hutton's Independent Public Service Pensions Commission has demonstrated that reform is needed. At Budget, the Government made clear that it accepted Lord Hutton's recommendations as a basis for consultation with public sector workers, trades unions and others and that we would set out proposals in the autumn that are affordable, sustainable and fair to both the public sector workforce and the taxpayer.

The Government has already committed to retaining a form of defined benefit pension in the public sector and protecting accrued rights so that all the benefits that members have earned up to the point of change will be protected. Today, I would like to inform the House of the progress that has been made and the process going forwards.

The Government and the Trades Unions Congress (TUC) have held a series of constructive meetings to discuss public service pension reform which have covered Lord Hutton's key recommendations and the Government's proposed employee contributions increase. A basis for agreement has been established in several areas, but differences remain on some of the key recommendations.

The Government and the TUC have agreed that to further inform the discussions on Lord Hutton's recommendations, there should be scheme level discussions alongside the central process already established. Scheme level discussions will ensure a fuller understanding of the implications of reforms, before final conclusions are reached. These scheme level discussions will deliver initial proposals for reformed schemes by the end of October this year, allowing further work to finalise detailed scheme design before the Government introduces legislation in due course.

Lord Hutton's recommendations will inform these scheme level discussions and the Government will provide scheme-specific cost ceilings. These ceilings will be based on Lord Hutton's proposals, but will go further and ensure that the pension individuals receive at normal pension age would be broadly as generous for low and middle income earners as it is now. These cost ceilings will ensure that public service pensions remain affordable and sustainable, by setting a limit on the contribution made by the Government and ultimately the taxpayer.

Further to the rationale for short term savings set out in Lord Hutton's interim report, the Government announced plans to target £2.8bn savings per year by 2014-15 through public service employee pension contributions at Spending Review 2010. The scheme-by-scheme consultations for the unfunded public service pension schemes to deliver the first years' savings of £1.2bn will commence by the end of this month. Reflecting the Government's commitment to protect the low paid, the Government's has set out its preferred parameters for any design. There should be no increase in employee contributions for those earning less that £15,000 and no more than a 1.5 percentage point increase in total by 2014-15 for those earning up to £21,000. This amounts to a 0.6 percentage point increase in 2012-13 on a pro-rata basis. It is proposed that higher earners will pay more but the Government has proposed a cap on the maximum increase of 6 percentage points (before tax relief) by 2014-15. This amounts to a 2.4 percentage point cap in 2012-13 on a pro-rata basis. These consultations will be completed by the end of October, in order to ensure implementation by April 2012.

The Government remains committed to securing the full Spending Review savings of £2.3bn in 2013-14 and £2.8bn in 2014-15, requiring each scheme to find savings equivalent to a 3.2 percentage point increase. Scheme specific discussions will make proposals on how these savings are achieved and will be required to make proposals by the end of October this year. For Local Government, the Government recognises that the funded nature of the scheme puts it in a different position and will discuss whether there are alternative ways to deliver some or all of the savings.

I have today exchanged letters on these issues with the General Secretary of the Trades Unions Congress and copies of these letters have been deposited in the Libraries of both Houses.

HM Treasury
19 July 2011