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Pensions Bill

Briefing for Commons Second Reading 17 June 2013

Introduction of flat-rate state pension 2016 – impact on public sector pension schemes

By ending the Second State Pension from April 2016 the Pensions Bill will see an increase in National Insurance Contributions (NIC) for members and employers of defined benefit schemes (that is any pension scheme that calculates benefits on final salary or career average) that are currently contracted out of the Second State Pension Scheme. This change will impact upon nearly all the pension schemes in the public sector including the Local Government Pension Scheme (LGPS) and the National Health Service Pension Scheme (NHSPS) and many schemes in the private sector.

The loss of the 'contracting out rebate' will mean an increase on NI Band earnings for contributing members of all public service pension schemes. Based on allowances for 2013/14 it means an extra 1.4% on earnings above £7748 pa (upper limit for higher earners of £41,444 pa), contributing 12% instead of 10.6%.

The employer will also lose their rebate of 3.4% on the earnings of their staff over around £7,700 pa so they will see their contributions increased to 13.8% from 10.4%.

For private sector schemes the government has said they will give employer's statutory powers to increase member contributions or reduce future benefits to offset the increased cost of losing the rebate, even over the heads of the scheme trustees if necessary. Employers can use this power once only within 5 years of April 2016.

The government has announced that public service employers should not pass the increased cost to public service scheme members but has remained silent so far as to how employers will be able to afford this change without making cuts elsewhere, either to jobs or services.

The effect on members of the increase in their national Insurance contributions can be expected to increase the number of those opting out of pension schemes. In LGPS England and Wales it may mean increased take up of the 50:50 option as an alternative that could have significant implications on the cost of the scheme.

Although scheme members will be paying more NI they will be earning a higher single state pension. However there will be winners and losers.

UNISON'S Concerns

UNISON supports the points made in the briefing issued by the TUC, which accompanies this briefing.

UNISON would highlight the following issues in this briefing

- The proposed level of the single state pension of around £144 a week is way below the poverty line. The minimum pension arrangements under auto enrolment will not provide sufficient top up for many workers to escape poverty. Restrictions on contributions to schemes like NEST should be removed. A

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combination of increasing the level of the single state pension and increasing the minimum contributions under auto enrolment must be considered.

- There should not be a power for employers to override scheme trustees (Including members with statutory protected person status in the energy industry) to push through changes to recoup their higher NI Contributions by reducing benefits for members. Instead any changes should only be part of negotiations and consultations with members on the scheme as a whole.

- The Treasury will receive a significant a windfall from the additional National Insurance Contributions it will be receiving after April 2016, estimated to be in the region of £3.5 billion a year from public service pension schemes. This should not be used just for deficit reduction but be paid back to public service employers so jobs and services can be maintained and especially low paid workers protected from the increase in cost that could force many to stop saving for their retirement at a time of continuing pay freezes.

- UNISON remains seriously concerned at the affect on workers as a result of the increase in State Pension Age. Workers will either have to work longer, or being unable to obtain work after a certain age, retire on inadequate pensions, survive on job seekers allowance or means tested state benefits. Lowering the age where the SPA of 67 applies as set out in clause 25 will further exacerbate the problem. We are concerned that this decision appears to have been taken solely on the basis of how long this age group is expected to live beyond retirement age. We would call on the government to appoint persons to report on other specified factors including the effect on the workers in this age group having to work longer or retire poorer before this change to SPA is put into legislation.

- Regarding the periodic reviews of SPA under clause 26 we would argue that an essential factor is the impact of working longer on the workforce. This is even more necessary now that the government is linking Normal Retirement Age to State Pension Age in the main Public Service Pension Schemes. We call on the government to set up an independent commission to oversee changes in the SPA with membership of that commission including representatives of the workforce.

- The Bill should also consider increasing the pension for those who have reached state pension before April 2016, for example by easing the means testing for Pensions Credit. It should also consider retaining the savings credit and simplifying it. By abolishing savings credit, existing pensioners who have a small level of savings and currently claim it will be worse off.

UNISON will be working on a number of amendments as the Pension Bill goes into Committee stage.

For further information please contact:

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