HM TREASURY

Press Notice

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Government announces Heads of Agreement on

public service pension reform

The Government today set out the headline agreements reached with trades unions on public service pension reform. After ten months, negotiations on these Heads of Terms are now concluded and the Government has set out its final position on the main elements of scheme design to be introduced in 2015. Trades unions have agreed to take these to their Executives as the best that can be achieved through negotiations.

Heads of Agreement have been reached with the NHS Pension Scheme, the Principal Civil Service Pension Scheme, the Teachers' Pension Scheme and the Local Government Pensions Scheme based on the enhanced offer made by the Government on 2 November 2011.

These agreements all deliver on the approach set out in Lord Hutton's report and will mean that public service pensions remain amongst the very best available . Further work on the remaining details will take place in the New Year and trades unions' Executives will consult members as appropriate. This includes a commitment from most unions to suspend any further industrial action while the final details are resolved and unions are consulting their members.

In all cases the enhanced cost ceilings set on 2 November 2011 remain unchanged and no additional money has been made available. These agreements deliver the Government's key objectives on linking Normal Pension Age to the State Pension Age and moving to career average schemes. While most workers will still have to work longer and pay more, most low and middle earners working a full career will receive pension benefits at least as good, if not better, than they get now. Work will now progress on the implementation of the scheme designs and the Government's intention is to legislate when parliamentary time allows.

As set out on 2 November unions and individual schemes have made their own proposals within these cost ceilings. The details therefore vary for each scheme and have today been set out in Written Ministerial Statements by departments.

In all schemes the accrual rate (the rate at which pension benefits are built up) has been improved. This has been offset by lower revaluation of accruals prior to retirement linked to prices rather than earnings as in the Government's preferred design. This has meant no extra cost to the taxpayer.

The Chief Secretary to the Treasury, Danny Alexander, said:

> "We and the unions agree that this is the best outcome that can be achieved through negotiation. For our workforce, it means they will continue to receive the best quality pensions available in this country. This is a proper reward for a lifetime's commitment to serving the public.
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> "These agreements deliver the Government's key objectives in full, and do so with no new money since our November offer. These reforms will save the taxpayer tens of billions of pounds over the next few decades and significantly improve the long-term fiscal sustainability of this country.
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> "This is a fair deal for public service workers, an affordable deal for the taxpayer, and a good deal for the country."

The Minister for the Cabinet Office, Francis Maude, said:

> "Today is the result of months of intensive talks and shows that – where there is a commitment to engage – real progress can be made. We said from the very beginning that we were committed to ensuring that those people who have given their life to public service should continue to have access to pension schemes that are among the very best available. That is what we have secured with those unions leaders who came to the talks to represent their members' views.
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> "These Heads of Agreements represent fair, affordable long-term reform that will allow public sector workers to face their future with certainty. They are – as we have always promised – a settlement for a generation. I would like to thank again those union leaders in the Civil Service who attended our 14 formal meetings and would say again that I believe it is a great disappointment that the leader of the PCS union did not turn up for a single one of those meetings."

The Government has also today set out its decision to retain the Fair Deal policy, which provides a broadly comparable pension scheme for staff whose roles are outsourced. This decision has only been made possible having reached agreement on wider pension reform.

The long term reforms which the Government has set out will help remove barriers to the plurality of public service provision while still retaining this policy. Following the consultation on Fair Deal earlier this year, the Government will respond formally in the New Year.

As recommended by Lord Hutton, these agreements include a cap on taxpayer costs to provide backstop protection to the taxpayer against unforeseen costs and risks, such as dramatic changes in longevity. This will be set at 2 percentage points above or below the scheme valuation and will also mean that employee benefits will improve if scheme costs fall below this fixed level. The cost cap will be set following a full actuarial valuation.

Schemes have also set out how they intend to meet the Government's objective to protect those public servants who, on 1 April 2012, are within ten years of their Normal Pension Age.

Notes for Editors

1. In July 2011, the Government agreed a process with trades unions for taking forward Lord Hutton's proposals for long-term reform through scheme-specific talks. To provide the parameters for talks with

trades unions, the Government set out initial cost ceilings at the beginning of October. These cost ceilings set out the combined employee and taxpayer contributions.

2. Following these discussions, the Government increased these cost ceilings, making its offer 8 per cent more generous. A deadline of the end of the year was set for trades unions to come forward with detailed proposals for scheme designs within these ceilings.

3. Discussions on police, armed forces, judiciary and firefighters' schemes are a separate process and proposals will be brought forward in due course.

4. The Department of Health, Department for Communities and Local Government, the Cabinet Office and the Department for Education, have today published Written Ministerial Statements setting out details for their pensions schemes, along with the Heads of Agreement with the unions.

5. These agreements remain within the cost ceilings previously set out by the Government, as below:

Pension Scheme	**Gross cost ceiling**	**Taxpayers**	**Employees**	**Key scheme features**
NHS Pension Scheme (England and Wales)	21.9%	12.1%	9.8%	Career average scheme Benefits based on retirement at State Pension Age Accrual rate of 1/54th of earnings Pre-retirement benefits revalued by Consumer Prices Index plus 1.5 percentage points for active members and CPI for deferred members
Principal Civil Service Pension Scheme	22.5%	16.9%	5.6%	Career average scheme Benefits based on retirement at State Pension Age Accrual rate of 1/44th of earnings Pre-retirement benefits revalued by Consumer Prices Index for active and deferred members
Teachers Pension Scheme (England and Wales)	21.7%	12.1%	9.6%	Career average scheme Benefits based on retirement at State Pension Age Accrual rate of 1/57th of earnings Pre-retirement benefits revalued by Consumer Prices Index + 1.6% for active members and CPI for deferred members
Local Government Pension Scheme (England and Wales)	20.4%	10.9%	9.5%	Agreed principles include: Career average scheme Benefits based on retirement at State Pension Age Scheme design within overall financial constraints

Source: HM Treasury following advice from the Government Actuary's Department

6. The Government is not proposing any further increase in the total employee scheme contribution rates in addition to the 3.2 percentage points increase in contributions already announced. The Government will review the impact of next year's increases, including on opt-outs and equality, before taking final decisions on how future increases will be delivered. Interested parties will have the opportunity to provide evidence and views to the Government.