Consultation on Proposed Increases to Contributions for Members of the United Kingdom Atomic Energy Authority Pension Schemes

Introduction

On 19 July 2011 the Chief Secretary to the Treasury (CST) set out the principles that would apply to increases in contributions for members of unfunded public service pension schemes, including the Authority Pension Scheme (CPS and PNISS). This consultation sets out the Government's proposals for how those principles will be applied to the Authority Schemes, and seeks views on whether the proposed contribution tiers meet the Government's principles.

Background

Providing good quality pensions is becoming more challenging given increasing life expectancy. That is why the Government set up the Independent Public Service Pensions Commission (IPSPC) chaired by Lord Hutton to make recommendations on how such pensions can be made sustainable and affordable, whilst remaining fair to the workforce and the tax payer.

The Government has committed;

- to retain a defined benefit scheme;
- to protect accrued rights so that the benefits that members have earned up to the point of change will be protected; and
- to ensure that the pension individuals receive at normal pension age, for low and middle earning members working a full career, will be broadly as generous as they are under the current scheme.

The IPSPC, as part of its review, was invited to produce an interim report by the end of September 2010. The terms of reference stated; "This should consider the case for delivering savings on public service pensions within the spending review period - consistent with the Government's commitment to protect those on low incomes - to contribute towards the reduction of the structural deficit."

In his interim report of 7 October, Lord Hutton recommended that increased longevity and the imbalance between employer and employee contributions are strong reasons to make short-term changes to pension contributions pending a more fundamental redesign of the schemes.

The IPSPC Interim Report stated;

There is a rationale for increasing member contributions to ensure a fairer distribution of costs between taxpayers and members.

It is a matter for the Government to decide the manner and level of any increases in contributions necessary.

If the Government wishes to make savings in the short-term it will be more effective to increase member contributions rather than alter the benefit structure.

It is up to the Government to decide on changes to the structure and level of employee contributions. Since effective benefit levels vary considerably between different schemes, particularly between pre and post reform schemes, then changes to employee contributions could be made to reflect this. However, these differences will, to some extent, be due to historic negotiations around pensions and pay.

The Commission's terms of reference set out that any case for delivering savings should be consistent with the Government's commitment to protect those on low incomes. This is important as an issue of fairness but also because of two important factors:

- it is reasonable to assume that lower paid workers are more likely to opt out of a pension scheme than higher paid workers if they face the same increase in pension contributions as a proportion of their salary. This is in no one's interests, since these people could end up with an inadequate retirement income and could fall onto means tested benefits later in life. The Government would lose revenue in the short-term since these people would no longer be paying any contributions to the scheme; and

- the Commission has shown that in final salary schemes, which still dominate the public service pension landscape, high flyers tend to do better from schemes. People with higher pensions also live for longer and so benefit from pensions for longer. This suggests that there may be a case for targeting contribution increases at high-earners, or to introduce tiered contribution levels; in a similar way that member contributions are currently tiered in the local government and NHS schemes.

To reduce the level of opt-out across the board, the Government should consider staging any increase in contributions, especially in the context of the current pay freeze. Although this might appear to reduce savings in the first few years, if it reduces opt-out levels such staging could in fact maximise extra revenue from member contributions at all income levels. In addition, the Commission does not believe that member contributions should be introduced for the armed forces at this time.

The issues around fairness, sustainability, promoting productivity and the need for transparency and simplicity mean there is a need to consider long-term structural reform of public service pensions. However, that reform will take time. Increased longevity, the imbalance between employer and employee contributions and the fact that total contributions may be too low if the discount rate is too high suggests there is a case to make short-term changes, pending long-term reform.

The Commission considered a range of options that may provide short-term savings, specifically:

- changing the benefits structure;

- contracting public service pension schemes into the State Second Pension; and

- increasing contribution rates.

Of these, the most effective way to make short-term savings is to increase member contributions and there is also a clear rationale for doing so.

It is a matter for the Government to decide the manner and level of any increases in contributions necessary. However, the Commission feels that any increases should be managed so as to protect the low paid and, if possible, increases in contributions should be staged and need to be considered with a view to preventing a significant increase in opt out rates. The Commission does not recommend introducing contribution rates for the armed forces at this time.

The Government announced in the 2010 Spending Review that it accepted the findings of the interim IPSPC Report on public service pensions and that it would therefore seek progressive changes to the level of employee contributions.

The total overall savings are £2.8 billion per annum across the public service pension schemes by 2014-15. These changes equate to an average 3.2 percentage point contribution increase for members of public service pension schemes. These savings were to be introduced incrementally over the three years starting April 2012, on a 40%:80%:100% basis.

The recent Spending Review statement made clear that the Government is keen to discuss with unions and employer representatives the contribution increases, and stated its view that increases should be implemented in such a way as to:

1. protect the low paid,
2. be progressive – so that those who earn more pay more, and
3. limit the risk of increases in the rate of opt-outs from schemes.

Since the Spending Review statement the Government has been in discussions with unions representing the members of the public service schemes, regarding the proposed increase in contributions and the wider reform proposed by Lord Hutton. Those discussions are continuing and on 19 July 2011, the CST announced that consultations would shortly begin on a scheme by scheme basis, on proposals for member contribution increases from 2012. These consultations would relate only to delivering savings required in 2012-13 (i.e. 40% of the 3.2 percentage point increase) and would begin by the end of July in order to allow for implementation by April 2012.

The CST's statement reiterated the Government's intention to protect low earners and set out the Government's proposal that:

- anyone earning less than £15,000 per year full-time equivalent (FTE) will see no increase, and
- those earning between £15,000 and £21,000 per year FTE will see a gross increase of no more than 1.5 percentage points by 2014-15 (this amounts to a 0.6 percentage point increase in 2012-13 on a pro-rata basis).

He further set out the proposal that no individual will see a gross increase of more than 6 percentage points by 2014-15 (this amounts to a 2.4 percentage point cap in 2012-13 on a pro-rata basis).

The Government remains committed to securing the full savings announced in the spending review and the Government expects that further proposals will be brought forward for 2013-14 and 2014-15 by October 2011 following scheme specific talks.

Further details on the Chief Secretary to the Treasury's statement can be found at http://www.hm-treasury.gov.uk/press_83_11.htm

Proposals for the Authority Schemes

To reflect the Government's proposals for the reform of public service pension schemes, the Authority is proposing to introduce a system of tiered contributions in 2012-13.

In developing the proposals the Authority has been working closely with the Government Actuary's Department and HM Treasury to ensure that the design of contribution increases reflects the circumstances of the Authority schemes' membership.

The proposals protect the lowest earners and are designed to encourage maximum participation within the scheme.

The Authority would welcome views about the proposals for the protection of the low paid and the maximum increase for other members. We would also welcome views about the proposals the number of tiers and the salary ranges within the tiers.

The current member contribution rate is 5% (CPS) and 7.5% (PNISS) of pensionable pay. The proposed contribution rates for 2012-13, on which the Authority is consulting, are as follows;

	Current	2012/13	Current	2012//13
	CPS		PNISS	
Earnings less than £15,000	5%	5%	7.5%	7.5%
Earnings £15000 - £20999	5%	5.6%	7.5%	8.1%
Earnings more than £21000	5%	6.3%	7.5	8.8%

A member would pay the same contribution rate on their whole salary

It is proposed that the contribution tier in which a member falls will be determined by reference to their full-time equivalent salary. The rationale for this approach is that it is a member's FTE salary which is used to calculate their pension entitlement and it would be unfair to full-time staff to treat part-time staff differently.

The proposed tiers are designed to be consistent with the Government's principles of protecting the low paid, introducing increased contributions in a way that is progressive and reducing the risk of opt-outs.

The impact of the proposed contribution rates for 2012/13 on members' take-home pay is illustrated in Annex A.

Scope of the Consultation

The purpose of the consultation is to seek views and evidence on whether the proposed contribution increases meet the principles set out by the Government, and the administrative implications of the proposed changes. Consultees are though invited to respond on any aspect of the proposals.

The Authority will, later in the year, be working on the changes to the Authority schemes needed to give effect to the proposed increased member contribution from April.

The Authority would welcome comments on the basis for increasing member contributions as set out above

Responding to this consultation

Responses should be sent no later than 16 October 2011 to:

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Pensions
The Manor Court
Chilton
Oxon OX14 1YJ

or by e-mail to:

richard.stoneham@ukaea.co.uk

Eric Hollis
Chief Finance Office and Secretary
United Kingdom Atomic Energy Authority
5 August 2011

Annex A

The table below shows the reduction in take-home pay of full-time members with no other sources of income. The calculation is based on 2011-12 income tax bands. The reduction shown is an approximate average for the pay band shown in the left hand columns.

Pensionable annual earnings in relevant year (£)		*Reduction in member take-home pay (annually) as a result of proposed contribution structure (£)*	
Lower	Upper	Current member contributions of 5%	Current member contributions of 7.5%
~~Below 15,000~~	14,999	-	-
15,000	15,999	74	74
16,000	16,999	79	79
17,000	17,999	84	84
18,000	18,999	89	89
19,000	19,999	94	94
20,000	20,999	98	98
21,000	21,999	224	224
22,000	22,999	234	234
23,000	23,999	244	244
24,000	24,999	255	255
25,000	25,999	265	265
26,000	26,999	276	276
27,000	27,999	286	286
28,000	28,999	296	296
29,000	29,999	307	307
30,000	30,999	317	317
31,000	31,999	328	328
32,000	32,999	338	338
33,000	33,999	348	348
34,000	34,999	359	359
35,000	35,999	369	369
36,000	36,999	380	380
37,000	37,999	390	390
38,000	38,999	400	400
39,000	39,999	411	411
40,000	40,999	421	421
41,000	41,999	432	432
42,000	42,999	442	442
43,000	43,999	452	452
44,000	44,999	463	463
45,000	45,999	355	473
46,000	46,999	363	376
47,000	47,999	371	371
48,000	48,999	378	378
49,000	49,999	386	386
50,000	50,999	394	394
51,000	51,999	402	402
52,000	52,999	410	410
53,000	53,999	417	417
54,000	54,999	425	425
55,000	55,999	433	433
56,000	56,999	441	441
57,000	57,999	449	449
58,000	58,999	456	456
59,000	59,999	464	464
60,000	60,999	472	472
61,000	61,999	480	480
62,000	62,999	488	488
63,000	63,999	495	495
64,000	64,999	503	503
65,000	65,999	511	511

Pensionable annual earnings in relevant year (£)		*Reduction in member take-home pay (annually) as a result of proposed contribution structure (£)*	
Lower	Upper	Current member contributions of 5%	Current member contributions of 7.5%
66,000	66,999	519	519
67,000	67,999	527	527
68,000	68,999	534	534
69,000	69,999	542	542
70,000	70,999	550	550
71,000	71,999	558	558
72,000	72,999	566	566
73,000	73,999	573	573
74,000	74,999	581	581
75,000	75,999	589	589
76,000	76,999	597	597
77,000	77,999	605	605
78,000	78,999	612	612
79,000	79,999	620	620
80,000	80,999	628	628
81,000	81,999	636	636
82,000	82,999	644	644
83,000	83,999	651	651
84,000	84,999	659	659
85,000	85,999	667	667
86,000	86,999	675	675
87,000	87,999	683	683
88,000	88,999	690	690
89,000	89,999	698	698
90,000	90,999	706	706
91,000	91,999	714	714
92,000	92,999	722	722
93,000	93,999	729	729
94,000	94,999	737	737
95,000	95,999	745	745
96,000	96,999	753	753
97,000	97,999	761	761
98,000	98,999	768	768
99,000	99,999	776	776
100,000	100,999	784	784
101,000	101,999	792	792
102,000	102,999	800	800
103,000	103,999	807	807
104,000	104,999	815	815
105,000	105,999	823	823
106,000	106,999	831	831
107,000	107,999	839	839
108,000	108,999	846	846
109,000	109,999	854	854
110,000	110,999	862	862
111,000	111,999	870	870
112,000	112,999	878	878
113,000	113,999	885	885
114,000	114,999	893	893
115,000	115,999	901	901
116,000	116,999	909	909
117,000	117,999	917	917
118,000	118,999	924	924
119,000	119,999	932	932
120,000	120,999	940	940
121,000	121,999	948	948
122,000	122,999	956	956
123,000	123,999	963	963
124,000	124,999	971	971
125,000	125,999	979	979

Pensionable annual earnings in relevant year (£)		*Reduction in member take-home pay (annually) as a result of proposed contribution structure (£)*	
Lower	Upper	Current member contributions of 5%	Current member contributions of 7.5%
126,000	126,999	987	987
127,000	127,999	995	995
128,000	128,999	1,002	1,002
129,000	129,999	1,010	1,010
130,000	130,999	1,018	1,018
131,000	131,999	1,026	1,026
132,000	132,999	1,034	1,034
133,000	133,999	1,041	1,041
134,000	134,999	1,049	1,049
135,000	135,999	1,057	1,057
136,000	136,999	1,065	1,065
137,000	137,999	1,073	1,073
138,000	138,999	1,080	1,080
139,000	139,999	1,088	1,088
140,000	140,999	1,096	1,096
141,000	141,999	1,104	1,104
142,000	142,999	1,112	1,112
143,000	143,999	1,119	1,119
144,000	144,999	1,127	1,127
145,000	145,999	1,135	1,135
146,000	146,999	1,143	1,143
147,000	147,999	1,151	1,151
148,000	148,999	1,158	1,158
149,000	149,999	1,166	1,166
150,000	150,999	1,174	1,174