



MAY 2011 NEWS BRIEFING

This GMB News Briefing aims to give an overview of recent developments in the Pensions World for Trustees, Activists, Officers and anyone with an interest in pensions news. It incorporates the Member Nominated Trustee News.

IN THIS EDITION:

COALITION WATCH:

- **Green Paper on State Pension Reform**
- **State Pension Age**
- **Merging Tax and National Insurance**
- **Hutton Review of Public Sector Pensions**
- **Fair Deal for Public Sector Staff Pensions**
- **Public Sector Pension Contribution Increases**
- **Discount Rate**
- **CPI**

OCCUPATIONAL PENSION PROPOSALS – More employers are changing their pensions

LOCAL GOVERNMENT PENSION SCHEME – details of GMB survey of participation and actuarial valuations published

EQUALISATION OF INSURANCE PRODUCTS – European Court ruling on equalising insurance company pension provision

TUC – updated TUC MNT news

PENSION PROTECTION FUND – publishes updated statistics and aggregate scheme funding levels.

PAST ISSUES OF PENSIONS NEWS CAN BE SEEN AT

http://www.gmb.org.uk/work_issues/pensions_retirement/gmb_pensions_bulletins/gmb_pensions_news.aspx

COALITION WATCH

In this section, we'll keep you abreast of all of the Government's moves that will affect your pensions:

Green Paper on State Pension Reform

The long anticipated Green Paper on reform of State Pensions finally emerged on 4 April 2011.

The proposed reforms are aimed at 'simplifying' the State Pension System by either:

- speeding up the reforms to the second tier (i.e. second state pension) that would see this lose its link to an individual's earnings over their working lifetime, and becoming a flat rate benefit.
- Moving from a two tier (i.e. basic state pension and state second pension) system to a one-tier system

The proposals also involve fixing the total state pension, for new pensioners, at £140 – an increase for those only receiving basic state pension, a potential decrease for those who would qualify for state second pension and not much difference for those who qualify for full pension credit.

Also, under the second proposal, the possibility of contracting out of the state second pension would be removed, meaning that many employers and employees in defined benefit pension schemes would be faced with higher National Insurance contributions.

GMB Pensions Dept will be responding to the consultation which closes on 24 June 2011.

State Pension Age

Further to previous news of the coalition's Bill designed to speed up the increase to the State Pension Age to 66; the Budget announced an intention to automatically increase to State Pension Age based on regular, independent reviews of longevity.

Merging Tax and National Insurance

Under the banner of simplification, the Chancellor announced in the Budget an intention to consult on merging National Insurance and Income Tax.

Hutton Review of Public Sector Pensions

Lord Hutton published his final report recommending reforms to public sector pensions on 10 March 2011. The 210 page report made 27 recommendations for reform. The Chancellor announced in the Budget that

the Government accepts the recommendations in full and that Government aimed to make proposals for reform in Autumn 2011.

Full details of the Hutton report can be seen at www.gmb.org.uk/pspc, but among his main proposals were:

- Accrued rights should be protected in full and remain linked to future final salary
- Pensions earned in the future should be calculated on a career average basis
- Normal Pension Age should be linked to State Pension Age
- Public Sector Schemes should be available to public sector workers only
- Costs to taxpayers of paying for the schemes should be capped
- Pensions should be designed to ensure that, as a minimum, total income in retirement meets the adequacy levels outlined by Lord Turner in his review in 2005.

Fair Deal for Public Sector Staff Pensions

The Treasury launched a consultation on the Fair Deal policy on 3 March 2011.

This policy, introduced by the Labour Government ensures that public sector workers who are subject to a compulsory transfer of employment retain some protection for ongoing pension provision (either through access to a new scheme that is certified as being comparable to their existing scheme, or – for LGPS – through the new employer entering the LGPS). This policy has benefited numerous GMB members in the past and we can see no reason to reform it or, worse, abolish it.

The consultation runs until 15 June 2011 and GMB Pensions Department will submit a response defending the current arrangements.

Public Sector Pension Contribution Increases

Previous editions reported news that the Comprehensive Spending Review announced the Government's plans to increase employee contributions for public sector pension schemes requiring an additional an extra £2.8bn per annum to be collected in contributions from members of unfunded schemes. The Local Government Pension Scheme, which sits outside this group of schemes, would also be expected to apply a corresponding level of increase to member contributions.

The increase would correspond to members paying on average an extra 3%-3.2% of pay towards their pension. The Government has stated that the contribution increases should be:

- Phased in over 3 years between 2012 and 2014

- Be introduced progressively so that the higher paid pay a higher rate
- Designed to minimise members opting out of the scheme

Discussions have been ongoing between Government and Unions on this policy, although Government still retain their timetable to make an announcement in June 2011 and impose this level of contribution from April 2012. Some individual Government departments have been progressing with work on models to introduce contribution structures that meet the requirements.

GMB is supporting an Early Day Motion in the House of Commons calling for a rethink of this policy and consider alternatives in the LGPS. Details of this can be seen at <http://www.parliament.uk/edm/2010-11/1538>

Discount Rate

Following to the consultation on the discount rate used in valuing unfunded public sector pension schemes (including NHS and Civil Service schemes), the Government announced changes.

In the Budget, the Chancellor announced that the discount rate would be set at 3% above CPI inflation.

This rate is lower than the current rate of 3.5% above RPI inflation, meaning that the perceived cost of accruing pensions will be higher. Government has relied on this fact as justification for the member contribution increases in the unfunded schemes announced in the Comprehensive Spending Review.

CPI

Further to previous updates on the move towards the CPI measure of inflation for providing statutory increases to pensions, there have been the following developments:

- GMB has become a party to a Judicial Review of the decision to use CPI. This is expected to be considered in the High Court in the next few months.
- There have been three public resignations of trustees of the BA Airways Pension Scheme, in protest at the decision to accept CPI (through the scheme's link to statutory increases) rather than amend rules to retain RPI.

Early Access

Part of the coalition agreement indicated that they would explore the potential of giving people greater flexibility in accessing their pension funds

early (i.e. not on retirement). The outcome of this consultation shows there has been little appetite for this, and the idea seems to have been shelved.

OCCUPATIONAL PENSION PROPOSALS

In recent months we have heard of proposed changes at:

- Novartis
- Portsmouth Water
- Babcock
- Northgate
- Indesit
- Scottish TUC
- Stagecoach
- Peel Airports
- Joy Mining
- ATL
- Unilever

Please keep the Pensions Department advised of any proposed pension changes.

LOCAL GOVERNMENT PENSION SCHEME

Specific to the LGPS, there are two specific pieces of news:

- **Participation Survey** – GMB publicised the results of its Freedom of Information Request on employee participation in the LGPS. The results show that, on average, one in four council workers are not in the LGPS; with some councils having fewer than half of their workforce saving for their retirement. More can be seen at http://www.gmb.org.uk/newsroom/latest_news/1_in_4_not_in_council_pension.aspx
- **Actuarial Valuation Reports** – LGPS funds have started to publish the results of their March 2010 actuarial valuations. GMB is conducting ongoing analysis of these and will present findings in due course. The Municipal Journal has run an article on this which can be seen at <http://www.localgov.co.uk/index.cfm?method=news.detail&id=98352>

EQUALISATION OF INSURANCE PRODUCTS

Amongst much publicity regarding car insurance policies, the European Court ruled that from 21 December 2012, gender discrimination in the provision of insurance benefits will be invalid.

This is likely to mean that annuity rates offered to defined contribution pension holders on retirement will have to be equalised between men and women. This would be good news for women (who traditionally get worse rates due to longer life expectancy) and bad news for men.

More can be seen at https://www.gmb.org.uk/docs/11069_ECJ%20Annuity%20brief.doc

TUC

TUC have published their Winter MNT News, which can be seen at http://www.tuc.org.uk/extras/trusteenews_winter2010-11.pdf

Hot off the press, the Spring News bulletin can be seen at <http://emails.unionprofessionals.org.uk/go.asp?/bTUC001/mSCP471F/uK9KH4/x7GIN71F>

In addition, the TUC's Member Nominated Trustee Conference has been scheduled for 15 November 2011.

PENSION PROTECTION FUND (www.pensionprotectionfund.org.uk)

The Pension Protection Fund now has taken on 283 pension schemes, covering about 75,000 members and has paid out a total of £257m in compensation to date.

Continuing to reflect the volatile world of pension funding, the PPF's 7800 index gives estimates of total scheme funding across the UK. The most recent index show that scheme's funding levels as at the end of April 2011 showed an aggregate surplus across all schemes of £2.3bn. This is a decrease from a £45.5bn surplus recorded at the end of March 2011, and the £35.6bn surplus recorded at the end of April 2011.

That's all for now.
More information on our sections of the GMB website at
www.gmb.org.uk/pensions
and
www.gmb.org.uk/pspc