



Public Service Pensions: GMP indexation consultation

Response by Prospect to HM Treasury
consultation on public service pensions GMP
indexation

December 2020

www.prospect.org.uk

Introduction

1. Prospect is an independent trade union that represents over 150,000 people across the UK. We have over 30,000 members in our public services sector who will be impacted by this consultation as will a large proportion of our retired membership. We also represent a significant number of members in the private sector who will be affected by this consultation.
2. Many thousands of Prospect members will be impacted by this consultation and this submission reflects the opinion of Prospect members that the government should introduce a policy which guarantees full increases on public sector pensions for the long term.

Background

3. As a result of commitments given by previous governments since the time GMPs were first planned and which were reflected in legislation such as the Social Security Pensions Act (SSPA) 1975 (as amended), public servants have a right to full indexation of their public service pensions, including the GMP element.
4. Under the arrangements that previously applied the public service pension scheme worked together with the additional state pension, also known as the State Second Pension or SERPS, to ensure that full increases were provided to public sector pension scheme members.
5. The mechanism in place effectively equalised and fully indexed pension payments for public servants, in line with the previously mentioned commitments made to these members by the government. Statutory provisions were legislated for that ensured that the guaranteed minimum pension (GMP) element of a member's pension that was earned during membership of a public service scheme, was increased by the scheme when it was not being increased through the additional state pension.
6. The state pension was reformed and from 6 April 2016 with a new single tier state pension being introduced that removed the previous two-tier structure that comprised of the basic state pension and the additional state pension. With the removal of the additional state pension from 2016, the mechanism put in place to fully increase GMP's for public sector scheme members no longer functioned.
7. A temporary solution was put in place for the relevant public sector pension schemes to fully increase scheme pensions, including the GMP element, so that the promise to fully increase public sector pensions was maintained.
8. This temporary solution will shortly be coming to an end and the government are consulting on how this should be addressed. It is our opinion that a long-

term solution should be chosen so that members can have peace of mind that their pension benefits will be increased fully as promised. A temporary solution would effectively prolong this issue and would require a similar consultation to again take place in a few years' time.

Prospect's position on the consultation proposals

9. As a minimum we believe that the government must come up with a solution that provides fully indexed and equalised GMP's. Of the options given in the consultation we would suggest that option 2 fulfils this objective for the majority of those impacted.
10. The longer that any temporary solution is pursued, the less value there is in terms of GMP equalisation as fewer members will be affected. As the consultation points out, the cost of a project such as this would be significant and delaying conversion is unlikely to lower the cost as changes will be required at a system level.
11. We therefore feel that another short-term fix is not appropriate or in the best interests of members and that a long-term policy of adopting full increases through the relevant pension schemes should be adopted.
12. Part of the reason for the short-term solution was the work pressures that are facing public sector pension schemes currently. Although these were unforeseen, there is no reason to believe that similar pressures will not exist at the end of another short-term extension of full indexation.
13. Anything short of a permanent solution will cause distress for our members who want and are entitled to certainty over the level of their pension. We therefore suggest that full indexation should become the permanent solution, however, the government must address those small number of members where this does not provide equal benefits.
14. Conversion should remain as the desired policy option to achieve equalisation for the small number of members whose benefits are not equal after full indexation and who are yet to take their pension.
15. It is also important that the government consider private sector schemes, such as specific sections of the BT pension scheme, that uprate pensions in line with public sector pension increases.

Impact of consultation proposals on those within the private sector

16. As the consultation document acknowledges, there are private sector pension schemes that pay pension increases in line with public sector schemes and so these need to be considered when devising a solution for how to pay equalised GMP benefits in the long term.
17. Prospect have a significant membership who are existing or former employees of BT with membership of the BT Pension Scheme (BTPS). There are three sections of the BTPS, sections A, B and C. These sections opened following

the closure of the last to new members. New staff to BT were enrolled into section B from 1st December 1971 and then into Section C from 1st April 1986.

18. Sections A and Section B of the BTPS have a pension increase rule that refers to legislation which provides for pension increases in line with those for public sector workers, however there are differences in the wording for the rules of these two sections. The rules of Section A include general mirroring provisions to replicate benefits of the Principal Civil Service Pension Scheme.
19. Our concern is that depending on how the government implement this policy, certain members may be disadvantaged, and it is vital that steps are taken to ensure that this does not happen.
20. Our view is that at privatisation in 1984 it was the policy intention that the rights of BT employees to future pension benefit indexation should be protected, regardless of any future changes in the pension system. The government must therefore implement any proposal in such a way so that BT members of Sections A and B, and members of other private sector schemes in a similar situation, are not disadvantaged.
21. BT wants the government to protect public sector pension scheme members in a way that would not require it to pay for protection for Section B members and challenged this in court by way of an application for judicial review.
22. Prospect were disappointed that BT sought to challenge this protection for Section B members and were pleased to see this rejected by the Court of Appeal.
23. The Government switched from Retail Prices Index (RPI) to the Consumer Prices Index (CPI) for increases in retirement for public sector pensions from 6 April 2011. As a result of the references in the rules of sections A and B in the BT pension scheme (BTPS) to the legislation amended by Government to make this change, members of these sections have also seen their pensions switch to increases in line with CPI. Over time, this will reduce the value of these member's pensions. Whilst members of section C of the BTPS continue receive increases in line with RPI due to a reference to the index itself in the rules of the scheme.
24. We believe BT is advocating an arbitrary approach that is unfair and flawed by wanting members of Section B to only be affected by changes in the legislation which result in a reduction to the liabilities of the scheme. We believe this is not a consistent and fair approach.
25. Given that BT and other private sector employers could legally challenge any decision that the government make over the long-term equalisation and increases to GMP's, we urge the government to consider the pension promises made to these members when making its decision and to implement any policy in a considered and legally sound manner.
26. The government should not be acting against members' financial interests or prioritising the financial interests of employers over those of scheme members, therefore any solution must ensure that the members of private sector scheme

whose pension benefits are updated in line with public sector schemes, are unaffected.

Summary

27. Given the promises and legitimate expectation of public sector workers, to receive full increases to their pension, it is important that the government formulate a policy that achieves this goal.
28. It is our view that the simplest and most effective manner to do this would be to indefinitely extend the current status quo which is for the public sector pension schemes to fully increase members pensions, including the GMP element.
29. As the government is aware and we have demonstrated in this response, there are private sector occupational pension schemes that increase their members pensions in line with public sector pensions and the government must find a solution that does not prevent this from continuing.
30. For those members where option 2 does not achieve equalisation, we believe that a policy of GMP conversion should be followed.

Consultation questions

1. **Do you consider an extension of full indexation until April 2024 to be appropriate to ensure that the government can meet its existing commitments, re-evaluate conversion as a long-term solution and resolve the handling of those cases where conversion could not be undertaken on a £1:£1 basis?**

We believe that although an extension until April 2024 would ensure that members continue to receive full increases and potentially allow the government to re-evaluate conversion as a long-term solution, this option should not be chosen.

This course of action is another short-term solution which will ultimately have to be revisited again within the next few years.

One of the reasons for looking to delay until April 2024 is the current workload for public sector pension scheme administrators, namely the huge undertaking that will come from the McCloud judgement.

Although this could in theory be resolved by this point, there is every chance that another unforeseen event could occur which then means that 2024 is not a good time to pursue conversion and another short-term extension is made to the current practice of the schemes providing full indexation.

Members are concerned about this situation and want certainty over the level of pension that they will receive in years to come. Whilst the situation is clearer for public sector workers due to previous government commitments, it is less clear for those members in a private sector scheme that follow public sector pension increases. We would therefore encourage the government to make a long-term policy decision now to protect all members and ensure that they receive the promised level of pension increase permanently.

- 2. Should the government consider an extension of full indexation to cover those reaching SPa beyond 5 April 2024? If so, how long should the government extend full indexation for, and why?**

See answer for question 1, we believe that temporary extensions should cease, and a permanent solution be delivered.

- 3. Should the government consider making full GMP indexation the permanent solution for all members due to reach SPa after 5 April 2021? If so, why do you think this is the most appropriate solution?**

Yes, please see above for full answer. To confirm, we believe that this solution will provide certainty to members and that it solves the problem for most members. For those where indexation does not achieve equalisation, these should be investigated, and conversion pursued.

- 4. Do you consider full GMP indexation to be an appropriate method in most cases to avoid unequal pension payments to men and women?**

Yes. In the majority of cases, full GMP indexation will avoid unequal pension payment to men and women. For the minority where this is not achieved, the government will need to formulate a solution.

- 5. How could the delivery of any of the policies outlined in this consultation, by way of a direction made under s. 59A of the SSPA 1975, impact on wider public sector or private sector schemes which are not providing 'official pensions' under the PIA 1971?**

We have explored this in detail in the main body of our response.

- 6. If wider public sector or private sector schemes which are not providing 'official pensions' are impacted by any of the policy options set out in this consultation, why were their pensions originally designed to mirror official pensions?**

Already answered above. For our members in BT, this stemmed from privatisation in 1984 which was of course a decision that was taken without consent from the employees concerned. They should not therefore be punished because of this and the government should look to protect their pension rights.

- 7. Should the government take action to avoid any read across, from its decision following this consultation in respect of public service schemes, to any wider public sector or private sector schemes that are not delivering 'official pensions' under the PIA 1971?**

As stated above, the government should ensure that members of private sector pension schemes who follow public sector pension increases should continue to receive the full promised level of pension increases.

8. **What considerations should the government take into account when deciding whether to take such action? In particular, why should government act so that the members of these schemes do not receive the benefits which they would otherwise receive under the scheme rules?**

The government should not be acting against members' financial interests or prioritising the financial interests of employers over those of scheme members therefore any solution must ensure that the members of private sector scheme whose pension benefits are uprated in line with public sector schemes, are unaffected.

9. **Are there actions the government could lawfully take to avoid any read-across, from its decision following this consultation in respect of public service schemes, to any wider public sector or private sector schemes that are not delivering 'official pensions' under the PIA 1971?**

We have no comment to make on this question other than that the government should not pursue this option.

10. **Are there wider issues relating to the GMP that are not mentioned here and which should be considered when the government decides its policy?**

We have no comment to make on this question.