National Audit Office

HM Treasury

The impact of the 2007-08 changes to public service pensions

Changes to the other main public service pay-as-you-go pension schemes

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1 Changes were made in 2005-06 to the other main public service pay-as-you-go schemes to modernise benefit structures and control costs. The key changes by scheme are described below. None of the schemes adopted cost sharing and capping. The Audit Commission has reported recently on the Local Government Pension Scheme[1], which is funded rather than pay-as-you-go.

Armed forces

2 The scheme for new entrants from April 2005[2]:

- introduced benefits for unmarried partners, a three-tier system of ill health benefits and improved widow(er)s' entitlements;
- changed the final salary pension basis from a representative rate for the member's rank at retirement to the best 365 consecutive days in the last three years of service;
- introduced early departure payments from age 40 (after 18 years' service) to replace 'Immediate Pension', which, under the existing scheme, could be received from the age of 38 for officers (after 16 years' service) and from age 40 for other ranks (after 22 years' service);
- retained a normal pension age of 55 years, but with an accrual rate of 1/70 (instead of 1/69); and
- raised the deferred pension age from 60 to 65 years for those leaving service before the age of 55.

3 Ministers expected the changes to be 'cost neutral' in the short term, but anticipated savings of £120 million a year after 20 years, by which time most personnel would be in the new scheme.

1 Audit Commission, Local government pensions in England: an information paper, July 2010. Changes in 2006 removed from all employees the entitlement to retire before age 65 with an unreduced pension under certain conditions, but with full transitional protection to 2016 for existing members and tapered protection to 2026.

2 *Armed Forces Pension Scheme*, Thurley, D, House of Commons Library Standard Note SN/BT/1424, September 2009.

Police

4 The scheme for new entrants from April 2006 addressed the issue of police officers having little incentive to stay on beyond 30 years service (when they had built up a pension two-thirds of final salary) by[3]:

- raising the normal pension age from 50 to 55 years; and
- changing the pension accrual rate from 1/60 for the first 20 years of service and 1/30 for subsequent service to a rate of 1/70 for all years of service, so that a pension equivalent to a half of salary would be built up after 35 years' service.

5 The changes enabled employee and employer contribution rates to be reduced, from 11 to 9.5 per cent and from 26 to 19 per cent of pensionable pay respectively. In addition, new two-tier ill health retirement arrangements, and survivors' benefits for unmarried partners, were introduced.

Firefighters

6 The scheme for new entrants from April 2006 addressed the issue of firefighters retiring with full pension rights in their early 50s (after 30 years service) by:

- raising the normal pension age from 55 (or 50, after 25 years service) to 60[4]; and
- changing the pension accrual rate from 1/60 for the first 20 years of service and 1/30 for subsequent service to a rate of 1/60 for all years of service.

7 The changes enabled employee and employer contribution rates to be reduced, from 11 to 8.5 per cent and from 26.5 to 14.2 per cent of pensionable pay respectively.

3 *Police Pension Scheme*, Thurley, D, House of Commons Library Standard Note SN/BT/700, July 2009.
4 *Public Service Pension Age*, Thurley, D, House of Commons Library Standard Note SN/BT/2209, February 2009.

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