



HM TREASURY

Public Service Pensions: central equalities impact analysis

September 2012



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1

Introduction

Equalities impact analysis

Purpose

1.1 This central equalities analysis has been undertaken by HM Treasury to inform the key changes being made to public service pension schemes.

1.2 The Government has considered the (hypothetical and actual) positive and negative impacts of the common provisions that will apply across all public service pension schemes. This document assesses the impacts of common scheme features on groups protected by equalities legislation, with reference to their protected characteristics: gender, disability, ethnicity, age, religion or belief, gender reassignment, pregnancy and maternity, sexual orientation and marriage/civil partnership.

1.3 The common scheme features will be legislated for in the Public Service Pensions Bill and are based on the Proposed Final Agreements reached with the majority of trades unions (for the three largest unfunded schemes) in March 2012. The Government's intention is that the new schemes for the major public service pension schemes will be in place from 2015 (2014 for the Local Government Pension Scheme).

1.4 Smaller public service schemes will be expected to adopt equivalent reforms that are consistent with changes to the larger schemes. Smaller schemes will be reformed to the same timetable where possible and, in any case, our objective is for all these schemes to be reformed before 2018. These reforms will be completed by a similar procedure to the main reforms; including opportunities for consultation, representations and more scheme-specific equalities assessments where necessary.

1.5 The key elements of the new public service pensions schemes are:

- A fairer basis for calculating public service pensions, based on the average earnings of a member over their career rather than their salary at, or near to, retirement.
- Linking a member's Normal Pension Age to their State Pension Age (with exceptions for the police, firefighters' and armed forces schemes where the NPA will be age 60, subject to regular reviews); and
- Introducing a cost control mechanism to ensure unforeseen changes in cost are shared by members and employers.

Approach

1.6 Where potential differential impacts have been identified we have assessed the public service workforce data to establish causes and determine the level of impact. We have then considered whether the potential impacts are a result of the policy itself or external factors. Finally, we have considered whether alterations to the policy are necessary and appropriate in light of identified equalities impacts.

1.7 Consideration of equalities impacts will continue to take place as the reforms move from policy development through to implementation, via secondary legislation. Further analysis will

take place ahead of the relevant stages of implementation, including the Parliamentary stages of the Public Service Pensions Bill and the subsequent introduction of scheme specific secondary legislation following Royal Assent.

Scope

1.8 There are a number of variations within the new public service pension scheme designs, which will be set out in secondary legislation. Variations include: accrual rates; indexation of active member benefits; and ancillary benefits. This assessment does not consider matters that vary between schemes but instead focuses on those common features that will, broadly, apply to all public service pension schemes.

1.9 Consideration of scheme-specific impacts is being undertaken separately and in discussion with the appropriate trades unions for each workforce. Where Proposed Final Agreements are in place, relevant Departments have undertaken detailed work to assess the potential impacts for members of groups with protected characteristics. These scheme level equalities impact assessments build on those carried out during reform discussions.

1.10 The reforms will affect all members of public service pension schemes. That is:

- Public service workers who are members of their pension scheme or choose to be members in the future;
- Private sector members of public service pension schemes (for example employees of Admitted Bodies in the Local Government Pension Scheme and staff in independent schools who are members of the Teachers' Pension Scheme); and
- Future public service workers.

1.11 Workers who as of 1 April 2012 were ten years or less away from their scheme's Normal Pension Age (NPA) will be unaffected by the reforms. Members in most schemes (not the Local Government Pension Scheme) will continue to accrue benefits under their current provisions until whichever of the following happens first: they retire, cease to be eligible to be a member or elect to leave the scheme.

1.12 This equalities impact analysis focuses on the key common features of the new public service pension schemes; the changes to employee contribution rates, introduced in April 2012, do not form part of this analysis. Likewise, the planned further member contribution increases have not been considered; they will be subject to separate scheme-specific assessments, as appropriate.

Data

1.13 Schemes' equalities impact analysis' have made use of all available data. This available data has been valuable in assessing the equalities impacts; however, schemes have acknowledged where data gaps or limitations exist. Schemes will continue to consider equalities impacts on their workforce, including in the light of new data, as appropriate.

1.14 Based on the available data, a full and rigorous impact assessment has been undertaken. For those protected groups where there is little or no data available, the Government is satisfied that these groups are unlikely to be disproportionately affected by the common framework reforms. We will review and update our assessment as the Public Service Pensions Bill progresses through the required Parliamentary stages, as appropriate.

Background

Involvement and engagement

1.15 In the June 2010 Budget, the Chancellor commissioned an independent fundamental structural review of public service pensions. Lord Hutton of Furness was invited to chair this commission.

1.16 The Independent Public Service Pensions Commission issued two public calls for evidence and commissioned qualitative research to inform two reports; the interim report, published in October 2010 and the final report, published in March 2011. The reports set out the evidence and considerations that the Commission relied on in making its final recommendations. This included detailed analysis and consideration of the most appropriate scheme design to remove existing disparity between groups of members based on their earnings, progression and when they commenced pensionable employment.

1.17 The Commission set out its recommendations for far-reaching reform of public service pensions in the final report. The recommendations were based on detailed analysis of the available evidence on the existing pension schemes and considered a wide range of options for reform.

1.18 The Government accepted the recommendations as the basis for discussion with trades unions and scheme representatives, agreeing with Lord Hutton's view that: "it is possible for public service employees to continue to have access for the foreseeable future, to good quality, sustainable and fairer defined benefit pension schemes. For this to happen there will need to be comprehensive reform – reforms that can balance the legitimate concerns of taxpayers about the present and future cost of pension commitments in the public service as well as the wider need to ensure decent levels of retirement income for millions of people who have devoted their working lives in the service of the public."¹

1.19 The Government has engaged in extensive, open dialogue with the trades unions and other member representatives since February 2011 to develop scheme designs that best meet the needs of the different workforces. The discussions took place both centrally through the Trades Union Congress and at the sector level.

1.20 To structure these discussions, the Government set out its preferred scheme design in November 2011². The key features of the Government's offer included:

- A new scheme design based on Career Average Revalued Earnings (CARE);
- A Normal Pension Age linked to State Pension Age for most members;
- The protection of benefits already earned;
- Linking the past benefits of those in final salary schemes to the member's final salary when they leave the scheme or retire; and
- Protecting those who, as of 1 April 2012, had ten years or less to their current normal pension age from the changes.

1.21 The Government set out cost ceilings for the main public service pension schemes³ and invited trades unions and schemes to put forward alternative proposals to ensure they best meet the needs of the different workforces. Heads of Agreement setting out the main elements of the new NHS, Civil Service and Teachers' schemes were developed in discussion with trades unions and published in December 2011.

¹ Independent Public Service Pensions Commission Final Report, 10 March 2011, page 3 http://treasury.gov.uk/d/hutton_pensions.htm

² Cm 8214 'Public Service Pensions: good pensions that last', HM Treasury, November 2011

³ NHS Pension Scheme (England and Wales), Principal Civil Service Scheme, Teachers' Pension Scheme (England and Wales) and Local Government Scheme (England and Wales).

1.22 Following further scheme-specific discussions between Departments and trades unions, scheme designs were finalised and set out in Proposed Final Agreements in March 2012.

The Public Service Pensions Bill

1.23 The Government announced on 4 July 2012 that it will be taking forward legislation based on the positions reached in March.⁴ The Queen's Speech confirmed the Government's commitment to bring forward the Public Service Pensions Bill in this Parliamentary session. The proposed Bill aims are:

- Enabling the creation of new, fairer, Career Average public service pension schemes to replace the largest existing final salary schemes;
- Linking Normal Pension Ages to State Pension Age to manage longevity risk (with the exception of fire service, police and the armed forces);
- Introducing an employer cost cap to ensure unforeseen changes in cost are controlled to protect the taxpayer;
- Setting out requirements for scheme governance, regulation and administration to deliver transparency and accountability;
- Allowing for the provision of transitional arrangements and protections, where necessary;
- Reforming public body and ministerial pension schemes and closing the Great offices of State pension schemes.

1.24 The Bill will provide the powers to create and amend the new schemes. This will allow for the provision of pensions and ancillary benefits on a sector by sector basis to public service employees and to those non-public service workers who are permitted to be members of public service schemes.

⁴ Hansard source: House of Commons Debate, 4 July 2012, c53WS.

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Public service pensions reform: equalities impact overview

General impact: summary

2.1 The Government does not consider that the common features of the Public Service Pensions Bill will result in any differential impact to persons with the following protected characteristics: disability, ethnicity, age, religion or belief, gender reassignment, pregnancy and maternity, sexual orientation and marriage/civil partnership.

Members will continue to receive a high quality pension with a guaranteed payment in retirement that is protected against inflation regardless of gender, race, age, disability, gender reassignment, pregnancy and maternity, religion or belief, sexual orientation or marital/civil partnership status.

2.2 The overall value of a pension depends on unique individual factors that are outside the scope of the pension scheme structure itself. These factors include period of employment, career progression, salary and personal financial decisions. Provisions may impact on persons differently by virtue of their age and / or gender. However, the Government does not consider that these impacts are unlawful or disproportionate. There is a clear justification for the approach we propose to take, as set out later in the chapter.

2.3 The Government has also considered potential cumulative impacts on members with regard to protected characteristics. While it is very difficult to assess cumulative impacts, the Government does not consider that any exist to a disproportionate extent. Taking full equalities impacts into consideration, the Government believes the proposed reforms are a proportionate means of achieving its legitimate aim.

2.4 The reforms – along with a full state pension – will deliver at least benchmark replacement rates¹ for scheme members who work full careers in public service. In return for working longer most members will see no reduction in the pension income they receive at normal pension age and many low and middle income earners will receive a better pension than they do now. Therefore, the Government believes that the revised scheme designs should not be a disincentive to future participation in the schemes.

2.5 There remains a strong economic rationale for most members to continue active membership in the new schemes.

¹ The Turner Commission said a benchmark replacement rate of 45 per cent for a typical earner was an adequate level of income in retirement. The Independent Public Service Pensions Commission considered this an appropriate benchmark that should be considered when assessing overall impact of the reforms on scheme members.
http://www.webarchive.org.uk/wayback/archive/20070717120000/http://www.pensionscommission.org.uk/publications/2006/final-report/final_report.pdf page 41

Equalities impacts of the key common design features

Transition

Overview

2.6 The Government announced in November 2011 that those closest to retirement will see no change in when they can retire, or any decrease in the amount of pension they receive at their current Normal Pension Age (NPA). Those public service workers who, as of 1 April 2012, had ten years or less until they reach their NPA will be subject to this transitional arrangement.

2.7 Separate transitional arrangements for the Local Government Pension Scheme have been proposed by the Project Group, consisting of employer and employee representatives. Variations from the common framework are being considered as part of scheme-level discussions (schemes would be responsible for undertaking equalities impacts assessment should variations be introduced).

2.8 The intention is for transitional arrangements to mitigate the effect of introducing reformed schemes on those who are closest to retirement. This group would have less opportunity, compared to younger persons, to make financial and lifestyle adjustments to mitigate the impact of scheme changes. Pensions are long term financial instruments; building up benefits to provide an adequate income in retirement is something that is achieved over decades of a full working life.

2.9 In addition to this transitional provision, scheme designs also include mechanisms to provide some protection to those who were between some 10-14 years from their current NPA on 1 April 2012. This tapered protection provides for a delayed transfer to the new public service schemes and allows this group to continue to earn further benefits in their existing scheme post reform. This removes the creation of a 'cliff-edge' of protection where two members who are very close in age receive entirely different treatment under the reforms.

2.10 Other protection policies will apply equally to all other members, regardless of protected characteristics. The accrued rights members have built up in their existing schemes will be protected. In addition, those persons currently in final salary arrangements will continue to have their pre-reform accrued benefits linked to their salary when they leave the scheme or retire, instead of the salary they moved into the new scheme with.

Age

2.11 The Government recognises that, as a group, only older members benefit from the transitional protection. This group is likely to have accrued more benefits in the existing schemes and be in the older public service pension schemes that have an NPA of 60 or below. The effect of these combined measures is likely to be older members will receive pension benefits that are worth more than those of younger members in the scheme.

2.12 Older members are more likely to have a longer period of membership accrued under the current schemes. The continuation of the final salary link for existing service means that the impact of reform is limited proportionately to the length of service in the existing schemes. Therefore, those in their 50s are likely to experience limited changes to their benefits without transitional protections.

2.13 However, the impact would have varied from member to member if the reforms were applied to this protected group. For example, those who experienced relatively low pay progression before retirement may have benefited from joining the new pension schemes. Likewise, those who experienced promotion or pay increases prior to retirement are likely to have been better off in the current pension schemes.

2.14 The transitional protections mean that all members will be entitled to benefits under their current arrangements. They will experience no change in the benefits they receive and thus no impact from the introduction of new schemes. This creates a level-playing field in terms of reform impact on this group.

2.15 In taking forward Lord Hutton's recommendations to reform public service pension schemes, the Government's original intention was to move all current public service employees to new pension arrangements in April 2015. As explained above, these transitional arrangements were put in place to mitigate the effect on those who have the least amount of time to adjust to any changes in their circumstances before retirement.

2.16 Further to this, while younger members outside of the protection may be more affected by the changes, younger members are further from retirement and are therefore more able to respond to changes in pension scheme design. Younger members are also expected to benefit from greater life expectancy than those protected by transitional arrangements. They will have more opportunity to mitigate the potentially negative impacts of the reforms (i.e. through long-term financial planning and saving).

2.17 Therefore, the Government considers that it is appropriate and proportionate for the transitional protections to have a differential impact on members dependent on their proximity to expected retirement age. It believes that this approach is justified as a proportionate means to achieve the legitimate aims of reform (as set out in Chapter 1).

Other protected characteristics

2.18 The Government does not envisage a differential impact of transitional arrangements on persons based on their gender, race, disability, gender reassignment, pregnancy and maternity, religion or belief, sexual orientation or marital/civil partnership status.

2.19 While overall men are overrepresented in the transitional protection group the justification for the policy approach, set out above, applies.

Linking Normal Pension Age to State Pension Age

Overview

2.20 Increases in longevity mean that public service pensions are being paid for much longer than was expected when schemes were designed. The Commission found that, while increases in life expectancy have historically been recognised in future projections, the actual rate of improvements has been consistently underestimated.

2.21 As it is not possible to be confident about what the longevity experience will be in the future, the Commission concluded that the most effective way to manage the longevity risk is to link a member's Normal Pension Age (NPA) (for most schemes) to their State Pension Age (SPA).

2.22 Under the reforms members will be entitled to a full, unreduced pension at their SPA; except for members of the armed forces, firefighters and police schemes. Subject to review, NPA will be set at age 60 for these schemes; as recommended by the Commission, in recognition of the unique characteristics of the work involved within those occupations.

2.23 The policy intention is to ensure that NPA remains in line with future developments in longevity. If the Government does not link NPA in the new schemes to SPA through an automatic longevity mechanism² members contributing the same amount would receive pension

² The Chancellor announced at the Budget that further increases in State Pension age will reflect increases in life expectancy. The Government will publish more details of how this will work in due course.

benefits of differing values. For example, younger people would be contributing the same as older members, but would receive pension payments for longer.

2.24 Further to maintaining an appropriate balance between years spent in employment and years spent in retirement, the link should manage sustainability and affordability better. Members can choose to retire before or after their new pension age, where they do their pension benefits will be adjusted to reflect that.

General impact

2.25 All members, outside of the transitional protection set out above, will see a relative increase in their NPA for their new pension benefits regardless of any protected characteristics. General improvements in longevity across all protected groups mean the impact of this policy is proportionate because people are living longer.

2.26 The Pensions Policy Institute (PPI) published a report on retirement income and assets. It found that a general trend for people working longer in the UK exists already and that in other countries an increase in the state pension age has seen people choose to retire later.³ While we might expect that people will choose to work for longer, it is not possible to anticipate people's behaviour or retirement decisions.

2.27 However, it is reasonable to expect that a greater proportion of adult life should be spent in active employment in light of general longevity improvements. This is consistent with wider government policy to encourage people to work for longer (such as the removal of the Default Retirement Age).

2.28 Of course, not all members will want or be able to continue to work into older age; for example, on the grounds of health or because of caring responsibilities. However, there are mitigations in place. Importantly, those who do not wish to continue working beyond the NPA of their existing scheme will not be forced to; they may choose to take an earlier, actuarially reduced pension. Those who may have no choice but to retire, for example on health grounds, are likely to be entitled to compensatory provision from the scheme.

Gender

2.29 The Office for National Statistics predicts continuing improvement in life expectancy, projecting that cohort life expectancy for those born in 2035 is 94.2 for men and 97.2 for women.⁴ Women, as a group, have a longer life expectancy than men and so will be less affected by this policy. They are likely to spend more years in retirement and therefore receive pension payments for longer.

2.30 However, it has always been the case that men are likely to receive a pension for a shorter period of time than women. This is potentially mitigated by the fact that men are likely to experience faster salary progression than women, receiving a higher value pension as a result. Further to this, existing SPA legislation does not treat men and women any differently. The new NPAs will reflect this established equalities approach.

2.31 Therefore, linking NPA to SPA in the new schemes will not disproportionately impact members on the basis of their gender any differently than is currently the case.

³ Pensions Policy Institute. Retirement income and assets: the implications for retirement income of Government policies to extend working lives.

⁴ Period and cohort life expectancy table 2010-based by ONS can be found at: www.ons.gov.uk/ons/re/lifetables/period-and-cohort-life-expectancy-table/2010-based/index.html.

Age

2.32 Younger members are likely to see a greater increase in their NPA under the reforms than older members. However, the rationale for changing SPA is to manage the relationship with longevity so that people continue to spend an appropriate balance of years in retirement and years working. Longevity is likely to improve the most for younger members, so it is right that this group's NPA is subject to the greatest change.

2.33 The impact of the increase in NPA on younger members is, therefore, considered to be proportionate. There is no anticipated overall negative impact, because younger members have a projected greater life expectancy. While younger members are expected to work for longer, they will be accruing pension benefits during this time and will spend a comparatively similar period of time in retirement than members currently in receipt of pension benefits.

2.34 Further to this the Commission concluded that younger members are more able to take on pensions risk than those closer to retirement, because they have the ability to respond to adverse outcomes. It said that younger members have more time to address any shortfalls in pension saving caused by changes such as longevity.⁵

Race

2.35 The Department for Work and Pensions (DWP) considered the impact of the SPA increase to age 67 on ethnic minorities in its Impact Assessment, published December 2011. DWP found that robust projections of life expectancy data by ethnicity are not available (principally because a person's ethnicity is not recorded on the death certificate). Instead, it considered available evidence in relation to life expectancy by social class as a means of determining the potential impact on different ethnic groups.

2.36 DWP found that life expectancy for all social classes has increased in recent decades. Therefore, we can assume that ethnic minorities will spend comparatively similar periods of time working and in retirement as White British scheme members. Based on the data available, the Government considers that ethnic minorities are unlikely to be disproportionately affected by increases in NPA under the reforms.

Disability

2.37 DWP also considered the potential impact of SPA increases on those with disabilities. Available data suggested that there could be a relatively greater impact on some disabled people in terms of their ability to adjust to the change, due to facing greater obstacles in remaining in employment. Therefore, we might assume that disabled people may find it more difficult to work to their new NPA and would receive an actuarially reduced pension as a result. Although, this would only be the case if the member was not entitled to ill-health benefits or any other arrangement that compensates them for being unable to work (such as incapacity benefits).

2.38 Data specifically relating to life expectancy trends based on disability status is unavailable; but shorter life expectancy is linked to a number of health conditions that may cause disabilities. Therefore, we might assume that disabled people will receive pension payments for a shorter period of time than non-disabled scheme members. Measures to support disabled people in remaining in work may mitigate this impact to an extent, along with other scheme benefits such as early retirement on ill-health grounds.

2.39 However, it is important to note that life expectancy is not a reliable indicator of mortality. Mortality could be influenced by a number of factors unrelated to disability or any

⁵ Independent Public Service Pensions Commission Final Report, 10 March 2011, page 43 http://treasury.gov.uk/d/hutton_pensions.htm

other protected characteristic (i.e. health and lifestyle choices, such as smoking). It is not possible to say definitively what the disproportionate impact of an increased NPA would be on a disabled person compared to a non-disabled person, if any.

Other protected characteristics

2.40 The Government does not envisage that changing normal pension age would have a differential impact on members based on their gender reassignment, pregnancy and maternity, religion or belief, sexual orientation or marital/civil partnership status. Pension benefits will accrue to members equally and irrespective of the existence, or otherwise, of these characteristics.

2.41 However, the Government acknowledges limitations in the availability of data in relation to those sharing the above protected characteristics. Pension scheme data on these groups is not, generally, available. Where partial information exists it is not comprehensive enough to influence further considerations.

Career Average Revalued Earnings

Overview

2.42 As part of the Commission's comprehensive review of public service pension schemes, seven distinct types of scheme design were identified and analysed. Following the analysis, the Commission produced a short list of possible scheme designs. It concluded that a scheme design relating to average earnings over the whole of a member's public service career provided the fairest and most sustainable scheme design.

2.43 The new public service pension schemes will, therefore, continue to offer a guaranteed retirement income that it is protected from inflation. However, benefits will be based on the member's earnings for each year of employment, rather than on his or her salary at the point of leaving the scheme (as is traditionally the case with public service pension schemes).

2.44 There will continue to be scope for defined contribution schemes to be provided to certain groups, as an alternative to defined benefit schemes. This is unchanged from the current position, so there are no policy impacts arising in respect of those schemes.

2.45 The intention is to address the fairness gap that exists in final salary arrangements between those with flatter career paths and higher earners. The Commission found that higher earners tend to benefit disproportionately from the traditional final salary arrangements. The Government wants to ensure a fairer distribution of benefits across the scheme membership than is currently the case.

2.46 The Government also wants to ensure public service pension costs are sustainable going forward. The Commission found that a CARE scheme structure offers a fairer balance of risk between the employer and the member. In a final salary arrangement the salary risk lies with the employer, whereas the salary risk is controlled in the new scheme through the CARE design. The CARE design prevents a sudden increase in earnings at the end of the career from greatly increasing the overall value of pension benefits.

General impact

2.47 All members, outside of the transitional protection group(s) discussed above, will move to a CARE scheme structure in 2015 regardless of any protected characteristics (2014 for LGPS members).

2.48 A CARE structure links the accrual of pension over a member's career to the final benefits paid, which means member entitlements are calculated on the same basis. The value of benefits will be different for each member because of variable factors such as salary progression, but a

consistent scheme structure will apply to all. Members will be treated equally under this scheme structure, regardless of any protected characteristics.

Gender

2.49 As set out above, a CARE scheme structure is likely to benefit those with lower salary growth more than higher earners⁶. A larger proportion of males reach higher salary bands than females across the public service pension schemes, therefore men are likely to receive relatively less under a CARE scheme structure. Whereas the relatively slower salary progression of women means this group is likely to benefit more from the new scheme design than is currently the case.

2.50 The policy to introduce CARE as the basis for calculating pensions for public service workers removes existing differential impacts for future service under the new schemes. The transitional provisions that maintain the final salary link for the accrued pension benefits of members of those schemes will maintain this historical effect for past service. The impact will depend upon the extent of an individual's accrued service, future salary growth and career progression.

2.51 The introduction of CARE does not in itself create differential impacts on different groups. However, moving from a final salary scheme to a CARE scheme means those who previously disproportionately benefited from the final salary scheme structure will cease to do so. Those who historically received proportionately lower benefits under a final salary scheme will receive proportionately more, equalising the effective benefit rate of the two groups going forward.

2.52 The Commission found that the lowest paid decile of public service workers could benefit by around 30 per cent under a CARE design if working a full career, whereas the top decile of earners could lose around 4 per cent of benefits compared to a final salary design. Higher earners will benefit more than those with lower salary progression from the retention of the final-salary link, because their earnings increases are likely to be greater.

2.53 Therefore, as a group, men will receive a higher value pension in a final salary scheme overall than women. This potentially higher pension is balanced by the fact that men have shorter life expectancies, so are more likely to receive pension payments for a shorter period of time.

2.54 A CARE structure is considered to offer the fairest outcomes overall for members as a collective group. While those with slower salary growth may benefit more than high flyers from this scheme design, evidence submitted to the Commission suggested that higher earning individuals are better positioned than lower earners to bear some of the risks associated with pension provision. Due to their higher disposable incomes, higher earners have a greater capacity for self-provision of pension benefits than lower earners. It is likely that they will have additional forms of savings and investments that they can use to provide capital and income in retirement.⁷ High earners also live longer, on average, than lower paid workers.

2.55 Taking the above into consideration, the relative negative impact of a CARE scheme design on male members compared to women is considered proportionate.

Race and disability

2.56 A CARE scheme structure is also likely to offer relatively fairer outcomes to ethnic minorities and those with disabilities who, like women, tend to experience lower salary progression.

⁶ Independent Public Service Pensions Commission Final Report, 10 March 2011, page 27 http://treasury.gov.uk/d/hutton_pensions.htm

⁷ Independent Public Service Pensions Commission Final Report, 10 March 2011, page 43 http://treasury.gov.uk/d/hutton_pensions.htm

Other protected characteristics

2.57 The Government does not envisage a differential impact of the introduction of CARE on persons based on their age, race, disability, gender reassignment, pregnancy and maternity, religion or belief, sexual orientation or marital/civil partnership status.

Cost control mechanism

Overview

2.58 Moving to CARE scheme structure from final salary will remove much of the cost risk associated with final salary pensions. Adjusting NPA in line with longevity increases through an automatic SPA link will also remove much of the cost risk of future increases in longevity.

2.59 However, the Commission recommended that consideration should also be given to an overriding mechanism to ensure that public service pensions remain affordable and sustainable. It suggested a mechanism be introduced to act as a safety valve should costs within the new scheme increase due to factors not taken account of in the new scheme design.

2.60 The Government therefore intends to introduce an employer cost cap to cover unforeseen events and trends that significantly increase scheme costs. The cap will be based on a proportion of pensionable pay that the taxpayer will contribute to employees' pensions over the long term. The employer cost cap is intended to provide backstop protection to the taxpayer and will be based on already agreed 'cap and share' principles. It will be symmetrical so that if reductions in member cost fall below a 'floor', or rise above a 'ceiling', there will be a period of consultation with relevant groups before changes are made to bring costs within the ceiling and floor.

General impact

2.61 All members will be affected by the cost cap and floor arrangements, regardless of any protected characteristics. Members should, in fact, benefit from the new mechanism compared to the current 'cap and share' arrangements, as the new cost cap will also have a floor. The floor will ensure that any reductions in scheme costs will result in improved benefits for members; 'cap and share' arrangements were designed to redress increased expenditure only.

Reform of smaller schemes

Overview

2.62 In addition to the major public service pension schemes, there are approximately 300 smaller public service pension schemes. The Government accounts show the current liability for pensions under these small public service schemes to be, currently, around £20billion.

2.63 Most of these smaller schemes provide equivalent benefits to those under the major schemes. The majority of the schemes have very few members, through to comparatively large schemes for Research Council staff and for the UK Atomic Energy Authority.

2.64 Many of these schemes are operated 'by analogy' to the Principal Civil Service Pension Scheme. Where amendments are made to the civil service scheme the convention is that equivalent changes are made to those schemes as well. Therefore, members of the smaller schemes are not expected to experience any different impact to members of the wider public service workforce.

2.65 The Commission's review and its recommendations were explicitly applicable to all public service pensions, including these small schemes. The UK Atomic Energy Authority and Research Councils are the largest of the schemes and were also specifically identified as being in scope of the review.

2.66 The Government will require all small public service pension schemes to adopt reforms that are consistent with those adopted by the major schemes. In implementing the Commission's recommendations, the Government has focussed initially on the major schemes. As a consequence, direct discussions have not yet been undertaken with members and employers for the small public service schemes. In recognition of this different policy development timetable, reforms may be made to the smaller schemes later than the major schemes. The Government's intention is that reform of these schemes should be completed by 2018.

2.67 The intention is for reform development to follow a similar process to that undertaken for the larger schemes. There will be consultation, consideration of scheme designs appropriate to the workforce and assessment of the equalities impacts of reform at workforce level prior to any changes being made to the schemes.

2.68 The Bill provides for the same transitional arrangements to apply to members of those schemes as apply to members of the larger schemes. Persons who were within ten years of their normal retirement on 1 April 2012 will not see any change in when they can retire, or any change in the amount of benefits they can receive at their current NPA.

General impact

2.69 The Commission's review and the Government's response in November 2011 explicitly included the smaller public service pension schemes in the scope of reform. The Government made further statements in July 2012 to reiterate the application of reforms to those schemes. The Government, therefore, considers that members of those schemes have received the same period of notice as members of the major schemes.

2.70 HM Treasury does not hold information on the membership of the smaller public service pension schemes. However, the Government does not envisage any different impact of persons or groups with protected characteristics within the smaller schemes than those set out above for the public service as a whole. Further analysis will be undertaken as discussions progress. The Government will review and update the impact assessment in light of further progress on smaller public service pension scheme reform.

A Public service workforce data

Method

A.1 The high-level impact of the reforms on public service workers has been estimated using a combination of sources; information provided by the public service pension schemes; the 2012 Q1 Labour Force Survey (LFS); and the 2011 Annual Survey of Hourly Earnings (ASHE):

- From pension scheme data we can break down the membership of public service pension schemes population by age and gender.
- From LFS we can break down the working public service population by ethnicity, religion and disability. LFS does not record if the individual is a member of a pension scheme, so we cannot identify those directly affected by the changes.
- From ASHE we can break down the active membership of public service pension schemes population by age and gender. ASHE does not enable us to identify private sector employees who are members of the public service pension schemes and excludes the Armed Forces. For these reasons, ASHE has not used to compile totals but to verify accuracy of other data if applicable.

High-level equalities impact on groups

Gender impact

A.2 A greater proportion of public sector employees are women than in the population as a whole, as shown in Table A.1. There are more female members across the public service pension schemes than men; therefore women will be, generally, more affected than men by the reforms. There is not, however, any differential impact on either group other than those set out in Chapter 2.

Table A.1: Gender demographics

	Working population	Public sector population
Male	53.5%	35.1%
Female	46.5%	64.9%

Source: LFS Q1 2012

Table A.2: Total membership, by gender (scheme data)

	Active	Deferred	Pensioners & Dependants
Male	35%	35%	40%
Female	65%	65%	60%
Total	5,400,000	3,000,000	3,500,000

Source: Analysis of ASHE, only available for active members and exclusive of private sector employees and the Armed Forces, is broadly consistent with scheme data on gender where applicable.

A.3 In some schemes, such as the civil service pension scheme, there is an even split between male and female members. Broadly, in these schemes males and females will be affected by the reforms to the same extent.

Age impact

A.4 As shown in Table A.3, those aged 40-55 are over represented within the public sector and those aged 30 or less are under-represented. This is consistent across the public service pension schemes. For example: 54 per cent of the civil service were aged between 30 to 49; over 25 per cent fall between the age of 50 to 60; and some 12 per cent are aged between 20 and 29.

Table A.3: Total membership, by age (scheme data)

	Active	Deferred	Pensioners & Dependants
Under 29	14%	5%	1%
30-39	25%	20%	0%
40-49	31%	32%	2%
50-54	14%	14%	3%
55-59	11%	14%	7%
60-64	5%	5%	21%
65-69	1%	3%	18%
70 plus	0%	7%	50%
Total	5,400,000	3,000,000	3,500,000

Source: Analysis of ASHE, only available for active members and exclusive of private sector employees and the Armed Forces, is broadly consistent with scheme data on age where applicable

A.5 A considerable proportion of the public service workforce is over 40 years of age (just over 60 per cent). Therefore, those aged 40-55 will be more affected by the reforms; with those aged 30 or under being less affected.

A.6 However, transitional protection means that workers who, as of 1 April 2012, have ten years or less until they reach their Normal Pension Age (NPA) will not be impacted by the changes. Schemes have also designed tapering mechanisms to provide further protection to those between 10-14 years away from their NPA.

Ethnicity, religion, disability and marital status impact

A.7 There is limited membership data available across the public service pension schemes on ethnicity, disability and marital status. However, we know that the civil service has broadly the same level of representation of ethnic minorities as the UK population as a whole. It would, therefore, seem sensible for this assessment to use the Labour Force Survey to reveal the total breakdown of ethnicity, religion, disability and marital status of the public sector workforce. As the LFS has no information about pension membership, Tables A.4-7 show only the distribution for the public sector population, alongside the total population for comparison.

A.8 Although there are limitations with formal ethnicity, disability and marital status data, the Government recognises the need to continually monitor the ethnic and disability status of public service workforces and the relationship with scheme membership. It also acknowledges the importance of using any new intelligence obtained to inform reviews and ongoing development of pension policy.

A.9 Table A.4 indicates that, generally, Black or Black British people are slightly over represented within the public sector and so, we would assume, within the public service pension schemes.

Therefore, a slightly larger than expected proportion of those affected by the reform of public service pensions will be White and Black or Black British people, but not to a large extent.

A.10 Pakistani, Bangladeshi and Chinese people are slightly under represented within the public sector, as are those from ‘other ethnic groups’. We can assume, therefore, that the reforms will have less of an impact on Pakistani, Bangladeshi and Chinese people than might be expected.

Table A.4: Total and public sector population, by ethnicity

	Working population	Public sector population
White	90.2%	90.2%
Mixed	0.9%	0.8%
Indian	2.4%	2.4%
Pakistani	1.1%	0.7%
Bangladeshi	0.5%	0.4%
Chinese	0.4%	0.3%
Other Asian	1.0%	1.2%
Black or Black British	2.2%	2.8%
Other ethnic group	1.3%	1.2%

Source: LFS Q1 2012

A.11 Table A.5 shows that Christians are over represented in the public sector and that Muslims, Sikhs and those with no specified religion are underrepresented. Therefore, a slightly larger than expected proportion of those affected by the reform of public service pensions will be Christians. Conversely there will be less of an impact on Muslims, Sikhs and those with no specified religion than might be expected.

Table A.5: Total and public sector population, by religion

	Working population	Public sector population
Christian	60.3%	64.0%
Buddhist	0.4%	0.4%
Hindu	1.6%	1.4%
Jewish	0.5%	0.3%
Muslim	2.8%	2.1%
Sikh	0.6%	0.5%
Other	1.2%	1.2%
No specified religion	32.6%	29.9%

Source: LFS Q1 2012 (Great Britain only)

A.12 Table A.6 shows the distribution of those with disabilities, as defined under the Equality Act 2010. It suggests that persons with disabilities are over represented in the public sector and therefore, the reform of public service pensions will have a larger than expected effect on those with disabilities.

Table A.6: Total and public sector population, by disability

	Working population	Public sector population
DDA disabled and work	5.9%	5.7%
DDA disabled	6.0%	7.4%
Work-limiting disabled	2.9%	2.8%
Not disabled	85.1%	84.2%

Source: LFS Q1 2012

A.13 Table A.7 shows that people who are married, cohabiting or in a civil partnership are over represented in the public sector and therefore, the reform of public service pensions will have a larger than expected effect on those people.

Table A.7: Total and public sector population, by marital status

	Working population	Public sector population
Married, cohabiting or in civil partnership	67.6%	72.6%
Not married	32.4%	27.4%

Source: LFS Q1 2012

A.14 Data on sexual orientation; gender reassignment; and pregnancy and maternity (other groups covered by the Equality Act 2010) is not available.

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This document can be found in full on our website: <http://www.hm-treasury.gov.uk>

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