HM TREASURY

Catherine Little
Director General, Public Spending
Head of Government Finance Function
Tel: 020 7270 5524
Catherine.little@hmtreasury.gov.uk
www.hm-treasury.gov.uk

1 Horse Guards Road
London
SW1A 2HQ

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Meg Hillier MP
Public Accounts Committee
Houses of Parliament, Westminster
SW1A 0AA

Dear Meg Hillier MP,

Public Accounts Committee – Session of 22 April 2021

I am writing to address four areas raised by the Public Accounts Committee in relation to the affordability of public sector pensions.

<u>Transitional protection</u>

Following requests from trade unions, the coalition Government agreed to allow those within 10 years of retirement to remain in their existing pension schemes when reformed schemes were introduced in 2015. The Court of Appeal found this to be discriminatory against younger members of the judicial and firefighters' pension schemes. You asked me to write with further details of the legal advice ministers received on transitional arrangements, specifically on the probability of challenge under the Equality Act 2010.

In the lead up to the parliamentary announcement of transitional protection in November 2011, Ministers received advice to evaluate different policy options for transitional arrangements, including legal advice. Due to legal advice privilege, I am unable to disclose the precise details of the legal advice ministers received. However, in general terms I can confirm that legal advice was produced on a range of options for transitional arrangements. This included discussion of the potential risks of challenge, including challenge under the Equality Act, along with advice on ways in which those risks could be mitigated. As ever, Ministers considered the risk of legal challenge alongside all other relevant factors ahead of making policy decisions.

Pensions data and analysis

The Committee asked me about data Government holds regarding levels of public service pension participation and savings amongst different groups with protected characteristics, and what analysis has been conducted of this data in the context of wider public service pension policy.

Data on members of public service pension schemes is collected at scheme level. Schemes are required to collect and hold all data on scheme members that is necessary for the calculation of pension entitlements and for conducting scheme valuations. Apart from age and gender (which are required to project schemes' liabilities at scheme valuations as they relate to longevity assumptions) schemes do not typically hold data on members' other protected characteristics, as these characteristics are not relevant for calculating pensions, although some schemes allow members to provide additional information on a voluntary basis. Under data protection regulations, schemes can only hold personal information where it has a lawful basis to do so.

Participation rates across the public service pension schemes are very high, with many schemes reporting participation rates over 90%. This reflects the highly valuable nature of public service pensions and the important role they play as part of public sector workers' remuneration package. Based on latest statistics, employees who participate in public service pensions continue to benefit from a significant public sector earnings premium after pensions are taken into account, with the highest premium for low-skilled workers. Most public service schemes also operate tiered member contribution structures so that the lowest earners make the lowest contributions towards their pensions.

In some schemes, such as the NHS Pension Scheme, participation is lower among both the youngest employees and higher earners, with participation increasing as employees age. Given the high levels of overall participation, the limited proportion of employees choosing to opt-out can be accounted for by the fact that individuals hold different savings priorities at different stages of their lives, and the anticipated effect of features of the design of public service schemes and the pension tax. The Treasury is not aware of any evidence to suggest that participation rates have decreased or that participation is disproportionately lower among groups with other protected characteristics.

As there is limited data linking members' personal characteristics with their pensions savings, it is not possible to assess whether members of protected groups have disproportionately higher or lower pensions savings. However, most public service pension schemes do not allow members to vary their pension savings rate; any differences in pension savings are therefore likely to be a product of historic differences in earnings rather than as features of the design of public service pension schemes.

The Treasury and employers have a responsibility to communicate the value of these pensions to employees and ensure their value of these benefits are understood. Where particular participation issues have been identified, schemes have taken steps to address this, including through efforts to collect information on reasons for opting out and campaigns to ensure that members understand the value of the benefits they are declining and are aware of how to join the scheme if they decide to do so.

The Treasury will continue to work with employers and schemes to identify where the collection of additional data may be beneficial to their aims while having due regard to the sensitivities involved, and will continue to monitor scheme participation data for any emerging trends while expecting schemes and departments to raise any concerns with us.

Armed Forces remuneration policy

The Committee asked for further details of how the value of the Armed Forces pension scheme reflects the unique nature of their roles.

All members of the Armed Forces are automatically enrolled into the Armed Forces Pension Scheme (AFPS). At retirement members receive one of the most generous pensions in the UK. This fairly reflects the unique sacrifice they have provided their country throughout their career. Unlike all other public schemes, members do not make contributions, while employer contributions for future service are approximately 43%, which is significantly higher than most other public service pension schemes. If a member dies in Service, their spouse, civil partner, or eligible partner will receive a lump sum worth 4 times the member's final pensionable earnings. Government estimates that a typical member of the armed forces will retire after 30 years with a pension worth around £19,000 per year in today's money compared to a typical private sector employee getting less than £10,000 per year.

Armed Forces pay also takes into consideration the unique nature of their work. All service personnel receive supplementary 'X-factor' pensionable pay on top of their basic pay package which is intended to recognise the special conditions of military life as compared with civilian employment. The Ministry of Defence also offer a suite of allowances that are designed to compensate personnel working in challenging working conditions.

Pensions education

Finally, I committed to provide further details on pension education. I have looked into this, and while I can't say that pensions specifically are part of the curriculum, financial literacy is for all 11-16 year olds in England. As part of this, pupils are taught the functions and uses of money, the importance of personal budgeting and the need to understand financial risk.

Yours sincerely,

Catherine Little