**From:** publicsector@kpmg.co.uk
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**To:** Bernard Clarke
**Subject:** KPMG Alert: Lord Hutton's Final Report - Public Service Pension Reform

# Lord Hutton's final report – on the road to public service pension reform

Lord Hutton's final report published today presents a huge challenge to everyone involved in delivering public services. But this is not just as a result of Lord Hutton's recommendations. If we also consider the wider changes to public service pensions currently underway a perfect storm is looming, unlike anything we have seen before.

We believe that many public service employees will be forced to re-think their future, especially taking into account the wider context of pay freezes and tax changes such as the increase in National Insurance contributions. As part of this re-think, some employees might consider opting out of the scheme, particularly as a result of having to pay higher employee contributions, which is one of Lord Hutton's major concerns.

All **employees**, with very few exceptions, can expect to be worse off as a result of the wider reforms, but the higher flyers in mid career will be the most significantly affected. For example, a newly appointed hospital consultant or a talented secondary school head of year in their late 30's might have to save 20% or more of their pay in order to maintain the same overall level of benefits. For more details in relation to how this additional contribution amount has been calculated please follow the

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link.

For **employers**, these reforms should lead to improved finances as a result of better cost control and the impact should be fully understood and budgeted for. However, the main challenge for employers will be to understand and manage the wider implications for their organisation due to the impact of these changes on their workforce. We set out the actions employers can take to address these issues in the following link.

The Independent Public Service Pension Commission's primary purpose was to look at the long-term structural reform of pension provision. Today's final report gives no final answers – it makes recommendations about pension scheme design, but leaves the level of benefits and contributions for the Government to decide. So there will be a lengthy period of uncertainty about the level of future pension benefits whilst consultation takes place – this is likely to take at least three years. For further information in relation to Lord Hutton's recommendations please follow the link.

In addition to Lord Hutton's recommendations, there are at least five other changes of immediate and major concern to employees and their unions. These are summarised below and if you would like more detail on each please click on the associated link.

- **Increased employee contributions:** as part of the Spending Review, employees will have to pay an average extra contribution of 3% of pensionable pay by 2014, but it is not yet clear how this will be shared between the different schemes and groups of employees. How many employees will decide to leave their pension scheme?
- **Discount rate:** the Treasury's consultation on the discount rate used to set employer contributions has just concluded: the outcome is more likely to be a reduction in pension benefits rather than an increase in employer contributions
- **Fair Deal:** consultation was launched on 3 March which could lead to lower pension benefits for employees who are transferred to a contractor
- **Tax changes:** for most public service schemes 1 April 2011 is the start of the first assessment period for the much reduced £50,000 annual allowance
- **CPI:** In April the first pension increases in line with CPI rather than RPI will be awarded, bringing home the fact that last July's announcement has already significantly reduced the value of employees' pension benefits

Given the impact and uncertainty surrounding this issue there will be a series of ongoing communications and events from KPMG.

In the meantime, if you have questions or would to discuss any of the issues raised please contact your usual KPMG contact or one of the regional specialists from the contact details shown above.

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