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

Increased employee contributions

When the Government asked Lord Hutton to review public service pensions, part of the brief was to consider the opportunity for short-term cash savings to support the Spending Review. In reality, for unfunded schemes, unless current accrued benefits, including pensions in payments, are reduced or tax free cash is no longer allowed to be taken the only scope for raising additional funds is to ask employees to pay more contributions.

This is the conclusion that Lord Hutton came to. He also acknowledged in his interim report that it was not unreasonable to ask members to pay more given that members are living much longer than they were when the current contribution levels were set. However, he said that the amount of any increase was for the Government to decide.

The Government subsequently announced in November 2010 that the Treasury would be seeking to raise £1.8bn a year. This equates to 3% of pensionable pay on average across the public sector. However, the Armed Forces are to be protected from any increase as are lower earners. This means that for higher earners the impact could be 5% or more.

The increase is to be phased in over three years from 2012 so the full increase will be effective in 2014/15. The details are expected to be announced in the summer.

This is already becoming a very sensitive issue as the increases could cause members to opt-out of their pension scheme. GMB have indicated that as many as 40% of Local Government employees could opt out if a flat-rate 3% additional contribution is required. If there are significant levels of opt-out this change could end up being counter-productive for Government, with overall employee contribution levels reducing rather than increasing.

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