transferring public sector pension risk

protecting staff pension rights

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overview

- transferring pension risk from "public" to "private"
  - future service ("broad comparability")
  - past service ("bulk transfer values")
- private sector closing final salary pension schemes
  - but public sector exporting final salary benefits
- situations covered (focussing upon NHSPS)
- problems encountered in the past
- fair deal June 2004 (aims and principles)
- § 24 of "fair deal" (June 2004)
- key points

situations covered

compulsory TUPE transfer of employees out of NHS

many names but effectively same for staff

- privatisation
- market testing
- private finance initiative (PFI)
- public private partnership (PPP)
- joint ventures (relatively new but fascinating)
- machinery of Government

protection required for all such cases

broad comparability (1 of 3)

still required under "fair deal 2004"

future service pension rights

to be tied to ***final pay*** and ***service (****"final salary"****)***

benefits equivalent in overall value to NHSPS

determined by joint long-term cost

- dynamic over time (new knowledge reflected)

member's contribution rate to be protected

- take-home pay is critical

broad comparability (2 of 3)

- individual member's benefits may be different
- can't guarantee no-one worse off
  - mirror image not required
- any minuses to be offset by pluses
- no systematic losers
  - gender
  - age
  - service length
  - working pattern
  - pay (such as bare LEL deduction)

broad comparability (3 of 3)

GAD's aim is to be constructive

…not obstructive

Morris said GAD not to be sole "BC supplier"

GAD statement of principles integral to FD (HMT)

level playing field

GAD have often rejected inadequate proposals

- we will continue to do so
- we will help enhance designs to reach requirements

bulk transfer values in principle

past service pension rights

protection of link to future pay increases

individual options on special terms (*"put" option*)

overall bulk transfer value might be material

funds required have come from NHSPS

- original employer pays associated expenses

terms formerly negotiated by GAD for NHSPS

- as opposed to representing Trust

BTVs still required as part of "fair deal 2004"

some contractors quite risk-averse

- seeking bond-based returns

member's principal options (past service)

bulk transfer pensionable service to next scheme?

- individual cash equivalent wouldn't allow that

preserve (defer) benefits in former scheme?

bulk transfer not always the better option

…future real pay increase expectations crucial

other relevant factors

process might take a year from TUPE transfer

new employer has to wait for any "certainty"

- because of employee's put option against scheme

problems encountered (1 of 2)

NHS Trusts (mostly) **should** instruct GAD

sometimes too late

- deal already agreed (attitudes entrenched)
- because potential cost impact not already considered

sometimes too limited

- broad comparability alone, but BTV vital!

sometimes not at all

- ignoring crucial protection of staff pension rights
- so contravening HMG policy (really not good)
- there is no way we can know that (until afterwards)

problems encountered (2 of 2)

contractors **should** be cooperative

- most are but following situations sometimes met

have tried to delay pensions until "preferred"

- to be strongly discouraged (no inducement to be "helpful")

have demanded more than considered reasonable

- given that payments are being made from public funds

have refused even to respond to approaches

have asked Trust for last minute changes

- Trust to meet "balance of cost"
- but Trust won't understand financial impact

fair deal June 2004 (aims)

very clear aims, to be warmly welcomed

awareness of cases where pensions considered late

- or not at all

provide greater reassurance

- to public sector staff about pensions
- on compulsory transfer (mainly to private sector)

better bid transparency

clear-cut comparisons between bids

fair deal June 2004 (principles)

bulk transfers to be handled early on

- in the procurement process
- true competition is essential

employer to provide membership data

- sufficient for ballpark estimates

opening terms are reasonable final position

- not an opening bid (no negotiations with NHSPS)

§ 24 of “Fair Deal” (June 2004)

§ 24 of fair deal (June 2004)

proposed price adjustment to be indicated in bid

adjustment to show reasoned statement of need

price adjustment sought must be reasonable

to be rigorously tested by contracting authority

together with public sector scheme actuary

- responsible for setting bulk transfer terms
- transparent consistency across transactions

current terms considered full

- modest equity risk premium included

key points

new system running for around a year

… bedding down (greater market understanding)

some contractors quite risk-averse

…pensions now being priced competitively

"final salary" schemes will be around for a long time

ensure any clients are aware of guidance

- so they can follow it

good advice not cheap

poor advice even more expensive