ASLEF Response to the Independent Public Service Pensions Commission: Interim Report

1. The Associated Society of Locomotive Engineers and Firemen (ASLEF) is the UK's largest train driver's union representing approximately 18,000 members in train operating companies and freight companies as well as London Underground and light rail systems.

2. ASLEF do not have any members in Public Service Pension Schemes who are directly covered by this report. The nature of the Railway Pension Scheme and the Transport for London pension (which is a Public Sector Pension scheme) means that they are often affected by public service scheme changes which, as noted in the report, often lead the way regarding pension reform and changes across the whole economy. ASLEF therefore believes that it is important that the Union expresses its concerns and thoughts over the proposals and assumptions made in this Interim Report.

3. There are some areas within the report with which the Union agrees. We share the opinion that the divergence between the public and private sectors in regard to pension provision is of great concern. But fundamental to ASLEF's policy on pensions is that everybody deserves a comfortable and dignified retirement no matter what sector they work in. The flaw is therefore not that public sector workers received a "gold-plated" pension that offers too much, but that the private sector has maximised profit at the cost of its staff by eroding pension provision. Pensions are not a luxury that can be scrapped at will. They are deferred wages that allow independence and comfort to those who may otherwise depend on the state to assist them in their old age. Reducing any occupational pension is likely to simply shift the cost onto the taxpayer at some point through pension credits.

4. ASLEF feels that is is extremely important to quash any fallacy off bulging public sector pensions. Local Government workers account for 29% of all public service pension members (the biggest group) and receive on average £3,048 per annum. The next biggest group is NHS staff who receive £4,087. In fact, the average pension for public service pensioners is £5,603 which is somewhat distorted upward by the Judiciary and Police force. This means that someone relying on an average local government pension and a full state pension for their old age would be living off £8125.80 a year. This would leave many in poverty. When compared to an average pensioner income of £14768 (ONS) the pensions begin to look less gold plated.

5. It is important to ensure that all people including the low paid (of whom many work in the public sector) have good occupational pension schemes to try and reduce the amount of pensioners living in pensioner poverty. According to the Office of National Statistics, 2 million pensioners are living below the poverty line. Reducing pension provision is therefore only going to inflate this figure.

6. The blame for the pensions crises if often placed upon the increase in life-expectancy. Within the private sector, too often the pension holidays enjoyed by employers during the years of surplus are forgotten. Whilst it is undeniable that life expectancy has increased, it is also fair to state that technology has dramatically improved efficiency and thus saved costs over this same period. These savings could go along way to ensuring reasonable standards of living over a longer life. It is also important to consider the type of work when predicting life expectancy. For example, shift workers such as nurses, police officers, paramedics etc, have a lower life expectancy. This is also the case for staff in the rail industry

7. The document comments upon the change to the measure of annual price movements so that from April 2011 onwards, pensions uprating will move from RPI to CPI. As with many private sector pensions, the Railway Pension Scheme's annual increases are in line with the Pension Increase Review Orders, where by it is the Secretary of State who can determine an increase and therefore the RPS will also see an increase by CPI annually. This is a perfect example of where public service scheme changes effect all occupational pensions. This has the potential to significantly reduce the pensions of nearly all those in occupational schemes. Whilst

CPI tends to be 0.5% to 0.75% less than RPI, forecasts suggest the difference will be far greater over the coming years. It is important to remember that these changes have a cumulative affect and could lead to someone receiving up to 25% less pension in their final years.

8. The union is aware that this change is not directly under the sphere of this commission having been decided in the Budget but of course the issue of provision and cost are and so this point needs examination.

9. The justification given for the change by the Chancellor George Osborne to CPI is that, “The government believes the CPI provides a more appropriate measure of pension recipients' inflation experiences and is also consistent with the measure of inflation used by the Bank of England." This however completely ignores the common consensus that pensioner inflation runs far higher than even RPI. In fact, research undertaken by the Conservative Party themselves in February 2009 demonstrated this. At the time RPI was 0.1% but the Conservatives calculated that “pensioner inflation” was as high as 8.6% for single pensioners and 6.7% for couples. It therefore seems that this is an incredible u-turn that an even lower measure of inflation (CPI) than the one used at this point (RPI) is now being termed as “a more appropriate measure of pension recipients' inflation experiences.”

10. The Conservative Party have introduced a triple guarantee on the State Pension which states that that the basic State Pension will rise by the highest of the following:
    - earnings – the average percentage increase in UK wages that year
    - prices – the percentage the cost of living increases by that year
    - 2.5 per cent

11. ASLEF completely supports this but is curious as to the logic of increasing the state pension in line with earnings (or higher) but cutting the increase in occupational pensions to CPI. Surely if one method of pension rises is good for the state pension, the same method should be used across all pensions as all pensioners share similar inflation figures.

12. This method was of course introduced in the Budget and is not up for debate in this commission; however it demonstrates that those in occupational pensions are already taking huge cuts to benefits which will lead to smaller pension deficits. For example, accountants KPMG say this could reduce UK private sector pension liabilities by 10% or about £100bn and could amount to a reduction in private sector pensions deficits of around £45bn. The change will therefore also save huge amounts in public sector pensions. The Commission's report itself explains that the change will lead to the value of the pension reducing by 25%.

13. These reforms, alongside public sector pay freezes, and planned workforce reductions will reduce the future cost of pensions. The interim report explains that such measures will take many decades to have an effect. It is important to remember that pensions are long term investments and must be considered in terms of decades, not years.

14. Another area of concern is the report's belief that pensions should not be an unintended barrier to the outsourcing and mutualisation of public services that could drive productivity and efficiency in those services. On the contrary, mutualisation and outsourcing must not be used to start a race to the bottom in terms of conditions including pensions. Efficiency and productivity should not include reducing pension provision for those providing vital public services.

15. The report claims that the most effective way to make short-term savings is to increase member contributions. This is a dangerous game to play. Many public service workers are low paid. The median FTE Basic pay rate for full-time staff was £22,732 in Local Government according to the Local Government Earnings Survey compared to a £25,948 across all workers. If workers are asked to contribute more pay to their pension, they may well decide that it is unaffordable and therefore opt out of the scheme. With less contributions coming in to the scheme, the deficit will in turn increase. If members are asked to pay more, to work longer to receive less this may lead to many leaving the schemes all together, something that would have a negative effect on everybody.

16. ASLEF are concerned to see the Report simply dismiss the concept that lower pay in the public sector should be made up for by good pension provision. The report states that "there is no evidence that pay is lower for public service workers to reflect higher levels of pension provision." This is simply not true when you consider

the two work forces. It is true that public sector worker receive an average age of £554 per week compared to £473 per week for the private sector but public sector workers are far more qualified. The Office for National Statistics demonstrates in its labour force survey that 8.6% of private employees are graded as professionals, in the public sector this forms 24.5% of employees. Therefore if one averages up all jobs, regardless of qualification, the public-sector figure is higher. For example, one in five in the public sector is a teacher. Managers, professionals and skilled trades are paid an average of 70p more an hour in the private sector. Therefore to claim that public sector and private sector earn similar sums is not true at all. They earn far less for equivalent work.

17. Whilst bearing this in mind, as stated before, there must be no attempt to play off private sector workers against public sector workers. All working people deserve good pension provision and the Union is concerned that Government rhetoric is attempting a divide and rule policy against working people in order to cut pension provision for everybody.

18. Another consideration is that greater longevity does not automatically mean the ability to work for longer. For example, on the railway, our members may be living longer, but they will still begin to have a deterioration of eye sight, develop diabetes or lose hearing. The imposed aging of the train driving population due to later retirement age will therefore be of concern. This is also the case for public service workers.

19. ASLEF are concerned that the suggestions in this report will lead to negative changes within all occupational pensions. The changes will lead to the population paying more, for longer to receive less. This will lead to pensioner poverty and therefore more money coming from the taxpayer in the form of pension credits and the welfare state. In a wealthy country we owe it to those who have worked their whole life to enjoy a dignified old age. All workers in occupational schemes already face 25% cuts in their pension due to the change from RPI to CPI. It would be wrong to take more away from people who pay large sums of their salary into pension schemes and ASLEF will do what it can to stop this happening.