Northern Ireland Assembly

Committee for Education

OFFICIAL REPORT (Hansard)

Teachers' Superannuation Regulations: DE Briefing

6 February 2013

NORTHERN IRELAND ASSEMBLY

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Members present for all or part of the proceedings:
Mr Mervyn Storey (Chairperson)
Mr Danny Kinahan (Deputy Chairperson)
Ms Michaela Boyle
Mr Jonathan Craig
Mrs Jo-Anne Dobson
Mrs Brenda Hale
Mr Chris Hazzard
Mr Trevor Lunn
Miss Michelle McIlveen
Mr Sean Rogers
Mr Pat Sheehan

Witnesses:

Mr Seamus Gallagher	Department of Education
Mr Mark Mawhinney	Department of Education

The Chairperson: I welcome to the Committee Mr Mark Mawhinney, head of the teacher negotiating and pensions policy team in the Department of Education, and Mr Seamus Gallagher from the teacher negotiating and pensions policy team. Gentlemen, you are very welcome. Thank you for coming to the Committee. We will ask you to make a presentation, and members will then ask questions.

Mr Mark Mawhinney (Department of Education): Thank you, Chair. We are very pleased to have the opportunity to brief the Committee on the increase in contribution rates for members of the Northern Ireland teachers' pension scheme and to answer any questions that you may have about the consultation on the responses. You have the consultation document and a summary of responses to the consultation, which closed on 16 January. This is the second year of a three-year programme that is designed to deliver savings from pension contributions that the coalition Government require. The Northern Ireland proportion of the savings is likely to be in the region of £140 million a year by 2014-15. Those savings were to be introduced incrementally over the three years starting in April 2012 on a 40%, 80% and 100% basis, and the share of the savings that is attributable to the teachers' scheme amounts to roughly £11 million, £22 million and £28 million a year respectively over the three years.

As you know, the Executive discussed the issue in September 2011 and agreed to commit to the principle of delivering the targeted level of savings to the cost of the public sector pension schemes in Northern Ireland, subject to the detail of how those savings would be delivered being worked through over time. We agreed to adopt that approach consistently for all the different public sector schemes and to authorise engagement with trade unions to discuss a graduated approach to protect lower-paid public sector workers. In that context, in October 2011, the Department consulted on proposed increases to contribution rates for members of the teachers' scheme, and having taken all views into account, the Department decided to proceed with implementation of the employee contribution rates for 2012-13 in line with the tiering design that was proposed in that consultation document.

In light of the limited evidence that we have to date on opt-outs, we consider that the structure and distribution of the contribution rates implemented in year 1 achieve the Executive's aims. However, having noted the concerns that stakeholders raised during consultation in year 1, the Department has considered whether changes to the structure would provide further protection to some groups. Therefore, we consulted on three options this year. The first option comprises a structure that rolls forward the existing tiering structure from year 1 with the same distribution approach, with the exception that the second tier has been capped at 7% to ensure that those earning up to £26,000 will not face any further increase beyond the 0·6% that was applied in April 2012. We believe that that provides greater protection for the lower paid.

The proposal also introduces a new tier of between £40,000 and £50,000 that is intended to address concerns that the previous tier 5, which was between £40,000 and £75,000, was too broad. It also addresses an anomaly that tax relief created that meant that teachers earning between £40,000 and £45,000 faced a greater impact on their take-home pay than those earning between £45,000 and £50,000. The downside is that providing that protection requires a slight increase of 0·5% for those earning from £45,000 to £75,000 and a lowering of the salary at which teachers face the maximum increase — that is the top band — to deliver the savings foregone by giving those additional protections.

The Minister asked us to include two further options in the consultation to extend protection for the lowest-paid teachers. The second option includes the proposal that those earning up to £32,000 would have no increase beyond year 1, as opposed to £26,000 in the first option. Again, providing that additional protection would require an additional increase of 0·3% over and above what is set out in option 1 for those earning from £45,000 to £70,000.

The third option reduces contribution rates to the pre-April 2012 rates for those earning up to £32,000. In other words, the increase that that set of teachers suffered last year would be reversed. Again, providing that protection requires additional increases for all those in tiers 4, 5 and 6, which is around 89% of the scheme's membership.

We completed the eight-week consultation on the details of the proposals on 16 January. We believe that the consultation set out proposals for how the savings for 2013-14 could be delivered for the teacher scheme in a way that protects lower-paid teachers and limits the risk of any increases in the rate of opt-outs from the scheme.

There were 17 responses to the consultation. As in the previous year, a number of respondents chose not to comment on the preferred approach or to put forward alternative ways of structuring the pieces. They instead set out their opposition in principle to the policy of increasing member contributions. Although that is understandable, they did not address the specific questions in the consultation or comment on the proposals for distributing the required increase. So, effectively, the views were outside the consultation. You have a summary of the responses in your briefing pack.

The consultation set out proposed contribution rates based on the average increase of a further 1·28% that is to be applied to the scheme in England and Wales. As I explained, we also consulted on two specific variations for the teacher scheme here that provide varying degrees of additional protection for a limited number of teachers. Full details of that are in the consultation.

Of the 14 respondents who indicated a preference for one of the options, 12 supported option 1, which is the same structure as in England and Wales, one respondent supported option 2, and one supported option 3. The Minister has, therefore, decided to implement option 1, subject to any views that the Committee may put forward. The Department proposes to publish its response to the consultation as soon as we have any views from the Committee. We will subsequently send the SL1 to the Committee.

I should explain the time frame for implementing these reforms. Like last year, the timetable for the changes to the regulations is very challenging. To comply with the 21-day rule and to bring the legislation into operation on 1 April, it is necessary to lay the statutory rule in the Assembly by 9 March. If we delay implementing the increase beyond April 2013, there may be a proportionate impact on the education budget. Every month that implementation is delayed could create a new pressure of upwards of £930,000 on the 2013-14 education budget. We, therefore, ask for your co-operation, please, in meeting a very challenging timetable.

We have provided a summary of the issues that were raised in the consultation, and we welcome any views that you may have. If any further clarification is required, my colleague and I will be happy to deal with any questions. We are very grateful for the time that you have given us.

The Chairperson: Thank you very much. Obviously, this is not the first time that the Department has come to the Committee saying that there is a very tight timescale and that there might be implications, and so on, with these matters. I think that we have been here before. I do not think that, in trying to allow things to progress, it was ever the Committee's intention to be deliberately awkward or evasive. However, we unfortunately get caught, because everybody's timetable does not always match. It is a bit like the school timetable and the buses issue, in that that creates challenges and difficulties for us all.

A couple of things come out of this. First, given the impact that this would have on teachers' salary, it is absolutely unbelievable that were only 14 responses to the consultation. It has always been said that if you start to affect somebody's pay, they will make some comment. This will have an impact to a lesser or a greater degree, depending on how you interpret the figures. It is neither my place nor the Committee's to always defend the Department. We are here to challenge the Department. However, you wonder why, when there is a consultation of this nature, only 14 teachers responded out of a working population of thousands. That may be because they believed that the unions would accurately reflect their views. Given that there are at least six unions in Northern Ireland, however, you could have six opinions and then maybe six opinions within that. That is because when it comes to presenting a particular case or argument, they are not unified organisations. Other than having conversations with teachers in our areas, that leaves us in a very difficult position when determining the impact that this will have. It seems from the consultation that the first option looks to be the favoured option. I think that that is because it seems that it will have the least impact on the lowest-paid workers in the system. Do you have any comment on why the response rate was so low? What do you believe will be the practical impact of this change on a teacher in a school?

Mr Mawhinney: We had a similarly low response rate to the consultation last year. I am not sure what that reflects. There has not been complete acquiescence on this. Unions have set out their objections to the principle of policy increases, and one of the unions here and in GB remains on industrial action over pensions, among other issues. Either of their own accord or having been prompted by the unions, a number of teachers have written to Ministers here and in the coalition Government to protest about the policy of increasing pension contributions. So, there has been some dissent, although I agree that its scale has been fairly muted. That maybe reflects a recognition that this is something that the coalition Government are imposing and that there simply is not much that anybody can do about it, given the financial penalties that the devolved Administrations have been threatened with.

In the consultation document, we have set out what this means for the percentage increases and contributions for individual teachers. Obviously, it will mean a reduction in take-home pay across the board. The intention is that, by the end of the process beyond the third year, the reduction will be an average of 3·2%. Where teachers were paying, on average, contributions of 6·4% prior to April 2012, they will be paying, on average, 9·6% by April 2014. That is part of the Hutton recommendations and the wider reforms that say that public servants in general should be paying that additional level of contributions to ensure the sustainability of the schemes. That is the argument that the coalition Government put forward. All that we have been able to do is seek to mitigate the impact of that on lower-paid teachers, if, indeed, you can judge any teachers to be low paid. Beyond that, there is not a lot that we can say about the impact on teachers.

Mr Kinahan: Thank you very much for the presentation. It is sad that you got such a poor number of responses, and I take on board what you said about why that is. Years ago, I was involved in Short Brothers when the pension policy changed in the late 1980s. I had to stand up in front of the whole workforce to present that change. Getting people interested in something that is quite complicated may need more than our formal consultation system. Does anyone listen and get a bit of the feeling on the ground? I know that we mentioned that that is part of our job, but does the Department have any feeling from the people on the ground about whether it is too complicated, whether it is fully understood and whether they really know what is coming? Alternatively, is it, as you hinted, that you think you think that it is being imposed from Westminster and, therefore, you cannot do anything?

Mr Mawhinney: Through the consultation process, we have sought to explain the changes as best we can. In the consultation documents, we have set out the background to what the coalition Government are trying to achieve. To be fair, the issue of contribution increases is fairly straightforward compared with the wider reform of public sector schemes that we are going to get in the next few years, when we will be moving from a final salary scheme to career average. That is a big change, and I think that it will require a lot of engagement with teachers and their representatives to explain what is going on. That process has already started with the teacher unions. Compared with the changes that were made a couple of years ago to the premature retirement arrangements, this is a fairly straightforward contribution increase. On that occasion, my colleague and I talked to some of the teachers' associations and to members on the ground.

Mr Lunn: A couple of years ago, in a different capacity, I had reason to ask for a comparison of the various public sector schemes. I remember that, at the time, it was fairly obvious from the teachers' scheme that teachers were the poor relations in public sector schemes. They seemed to pay more for less and to receive a lower contribution from the employer than those in other schemes. With the final salary scheme, the final salary fraction was less generous than in some other schemes. Will there be any change to the employer contribution as a result of this?

Mr Mawhinney: Not as a result of this. Employer contributions are unchanged as a result of employee increases. Part of the wider reform process will seek to provide backstop protection from April 2015 for the taxpayer by ensuring that employer costs are limited within a specific range. The thrust of the coalition Government's reforms is that employees could be paying more and that the taxpayer, through the employer contributions, should be protected from any volatile swings as a result of the performance of various schemes. Seamus may want to comment on the comparison with the other schemes, as he will be more familiar with them.

Mr Seamus Gallagher (Department of Education): The teachers' scheme, I would imagine, is a very good scheme. It is just as generous as the Civil Service scheme and the health service scheme. The final salary schemes are all more or less comparable — there is very little difference in them.

Mr Lunn: You said that you would imagine —

Mr Gallagher: I am sure. The health service scheme, the Civil Service scheme, the teachers' scheme, and even the Northern Ireland Local Government Officers' Superannuation Committee scheme, which is the local government scheme, are all comparable.

Mr Lunn: It might be of interest to us to see again the comparison between the various schemes, including those for police, prison officers, the Assembly, public servants and the Civil Service and to then compare those with the teachers' scheme. My recollection — you are an expert and I am not — is that the employer's contribution was considerably less in the teachers' scheme.

Mr Mawhinney: We can draw up a table showing both the varying levels of contributions by employees and employers and the benefits.

Mr Lunn: I am prepared to be corrected.

Mr Gallagher: The employer's contribution is maybe slightly less in the teachers' scheme. However, the benefits obtainable at the end of the scheme are equivalent. When you bring in the likes of firefighters, the police and the Assembly, you move into different territory. Those people have special arrangements and, by the very nature of their job in the police and the Fire and Rescue Service, have lower retirement ages and, therefore, a different accrual rate.

Mr Lunn: I do not want to go off on a tangent, but I am looking at the employer's contribution, the employees' contribution and the fraction for year of service at the end of all this. What is the overall health of the scheme at the present time? You said that the arrangements for early retirement had to be remade. At that time, the scheme was not in the rudest of rude health, and I imagine that market conditions have improved in the past couple of years and that it should be looking better. Does the Department provide a backstop guarantee if the scheme is unable to meet its liabilities?

Mr Mawhinney: No. It is an unfunded scheme, which means that the pot that is used to consider valuations of the scheme is virtual — it is not real. Contribution rates are set following valuations to reflect what is liable to be paid over the coming 15 years or more in benefits. The reforms on premature retirement were made because it was recognised that the money going out in benefits was simply unsustainable compared with the level of revenue coming in.

The situation is slightly different with the current reforms. Under the most recent valuation, employer contributions are set, and the Government believe that the existing cap-and-share arrangements are no longer fit for purpose, in that they do not take account of all the past cost and service benefits that members have to pay for. That is why they are reforming the schemes.

Mr Lunn: Judging by the number of responses, it does not seem as though those paying into the scheme are unduly concerned, although the unions' response represents quite a lot of teachers. I will leave it at that. I would be interested to see that comparison.

Mr Mawhinney: We can provide that for you.

The Chairperson: That would be useful, Mark. Elements of Hutton are not being implemented here, although that is a decision for the Executive. Perhaps, Trevor, you could have a word with your colleagues in the coalition Government in Westminster, as they may be able to help us on this one.

Mr Lunn: I was not aware that I had any colleagues in the coalition Government.

The Chairperson: The Lib Dems are a sister party of your own.

Mr Lunn: I will have to cross swords with you there; they are no such thing.

Mrs Dobson: Thank you for your presentation. How much did the consultation exercise cost?

Mr Gallagher: Advertising costs were about £2,000; after that come the costs of staff preparing and issuing it. Everything is issued electronically.

Mrs Dobson: Do you have any detail on how long it took staff to prepare it?

Mr Gallagher: We have not done an analysis of it.

Mrs Dobson: How many staff were involved?

Mr Mawhinney: Four, principally.

Mrs Dobson: For how long?

Mr Mawhinney: It did not take us as long as last year, as we were going over the same ground.

Mrs Dobson: It would be useful for the Committee to have an idea of the cost, given that there were so few responses. If you divide the cost by the 17 responses, I am sure that it was substantial.

The Chairperson: I have no difficulty in our getting that information. However, if we use it as a benchmark and if we take the responses to the Education and Skills Authority Bill, which was 27,000, and divide that by the number of people, it does not really tell you much about the cost. I think what you are asking is what was the cost to the Department of carrying out the consultation.

Mrs Dobson: Yes, given that the responses were so few. It would be useful to speak to teachers at first hand to address the issues rather than undertake an expensive consultation to which hardly anyone replied. It is important, because so few replied, that we speak directly to teachers to find out their concerns. Even a ballpark figure would be useful.

Mr Gallagher: We are statutorily obliged to consult.

Mrs Dobson: I know that. However, I am curious about the cost.

Mr Mawhinney: We can look at that.

Mrs Hale: Thank you, gents, for coming here this morning. I note that the Department states in the paper that it is trying to protect lower-paid employees. Going back to Danny's point, do you see the relatively small opt-out being due to school staff not understanding the restructuring and its impact on the pension scheme and that not all new staff in 2007 were even aware that the pension age has been extended to 65? We got our folders on Monday night, and as soon as I got to the pension paper, I phoned a couple of teachers whom I know, and they told me that they were not aware that this was going on. Perhaps, as Danny suggested, the low opt-out is due not so much to people agreeing to the restructuring but because they just do not know or understand what is going on.

Mr Mawhinney: It is interesting that opt-out is less than one per cent of the teacher workforce. I think that there were 185 opt-outs in the current year; only two teachers gave the reason as the increase in contributions. Others may have cited the constraints as a reason, and the contributions increase may play a part in that even though they have not explicitly mentioned it. However, I think that teachers will understand the impact when they see their pay packet. That is when you ask why more teachers are not asking about this. If they do not understand what is going on, teachers' colleagues who issue the payroll would have been inundated with queries from teachers asking why their take-home pay has gone down. That has not happened.

Mr Gallagher: Teachers are not that annoyed because it remains an attractive scheme even with the contribution rates as they will be in 2015.

Mr Rogers: You are very welcome to the Committee. How representative of the teaching profession is the number of respondents? The four unions responded. Which options did they go for?

Mr Gallagher: Only one of the four unions indicated an option, and that was option 1. The other unions mainly expressed opposition to the policy of increasing contributions, which was outside the remit of the consultation.

Mr Rogers: My next question is on the point that Brenda made about protecting the lower paid. You used the example of a part-time worker on a 50% timetable earning £30,000. Many part-time teachers on a 50% timetable earn £15,000 rather than £30,000. Will a part-time teacher who earns £15,000 for a 50% timetable also face an 8% gross reduction?

Mr Mawhinney: Under the proposals, their contribution rate will be based on their full-time equivalent salary rate. We set out at some length in the consultation why we believe that is justified and, in fact, is fairer to full-time and part-time teachers than a contribution rate based on their actual earnings.

Mr Rogers: Many of our women teachers share jobs, particularly in primary schools. If you are on a 50% timetable and have a relatively low take-home pay, it does not seem to protect you.

The proposals are based on the data that you have collected. I get some suggestion that there is a lack of accurate data from the voluntary grammar school sector, and since such a considerable proportion of our teachers are in that sector, how can you say that it is based on accurate data?

Mr Mawhinney: We believe that the banding of teachers in the voluntary grammar sector is likely to be comparable to that in other schools or at least not so dissimilar as to have any material impact on the banding of contribution rates. We do not routinely collect detailed information such as the gross salary of every teacher in a voluntary grammar school. That information is readily available to us for all other schools because we administer the payroll for teachers. Each voluntary grammar school runs its own payroll, so obtaining that information would be a large exercise that would considerably increase the cost.

Mr Rogers: Therefore, it is based on an assumption that the voluntary grammars have a similar pay scale to —

Mr Mawhinney: It will at least not be so dissimilar as to have a significant impact on the banding.

Mr Rogers: The Minister of Finance and Personnel announced towards the end of 2012 that the Pensions Bill will come to the House. How do the proposals fit in with those in the Northern Ireland Pensions Bill?

Mr Mawhinney: The proposals are part of Hutton's interim report. Part of the prerequisite for pension reform was that contributions should be increased by an average of 3·2%. That is an integral part of the reforms, and it is expected that a feature of reform schemes under the Pensions Bill will be that contributions are, on average, 3·2% higher than they were in 2012.

The Chairperson: A paper by the Research and Information Service on the Pensions Bill might give a slightly wider context. We will try to get it for members, and we will then have the overall view of where this sits in relation to the Pensions Bill and the pension reforms in the Hutton report, which we referred to earlier. That will be useful in providing context and will add to the information that has been provided today.

Mr Hazzard: Thank you for your briefing so far. I am not sure whether you can tell us, but which union opted for option 1? I share some of the unions' concerns and, indeed, those of many of the onlookers and people in the sector who see the reform of pensions not so much as positive reform but as an attack on low-paid workers and as part of the austerity regime in Westminster. It is an extra taxation to tackle debt rather than to reform the pension system. Can you outline some of the positive changes that this will have for the pension scheme or the rationale that it will have a positive effect? At a time when these workers are having minimal or non-existent pay increases as well as this reduction in take-home pay and facing an increase in the cost of living, what will the long-term impacts of these changes be?

Mr Mawhinney: I do not know which union did not respond to the consultation. Seamus, do you know which one elected for option 1?

Mr Gallagher: I will check for you.

Mr Mawhinney: The Minister's position is clear on pension reform and the contributions increase. He believes that it is being imposed by the coalition Government and that it is not an acceptable means of addressing the deficit in public finances. That is as far as I can comment on the positive benefits of the reforms. The reforms are not being promulgated by the Department; they are being promulgated by the coalition Government.

Mr Gallagher: The Irish National Teachers' Organisation expressed a preference for option 1.

Mr Hazzard: Was an impact assessment carried out on the damage that this will do?

Mr Mawhinney: We monitor the opt-out rates from the scheme. We will continue to do that. In looking at the contribution rates for 2014-15, we may come up with proposals to further mitigate the impact on lower-paid workers. However, the main assessment at present is on how many people are leaving the scheme because they cannot afford the contributions.

Mr Craig: We need some perspective. Perhaps you can outline how the pension scheme works for teachers. What percentage of their final salary do they receive or how does it operate? More important, how does it compare with other sectors, including private sector pensions? My instinct tells me that teachers probably have a very good pension scheme, and that may explain the low percentage of opt-outs. Is that the case?

Mr Gallagher: Yes; it is a very good pension scheme. Most of the private sector no longer operates final salary schemes. Up to 2007, teachers' pension was calculated on their final salary multiplied by their years' service over 80. Therefore, if they fulfil 40 years, that is half of their final salary and a lump sum of three times that. That is the same for members in the classic Civil Service scheme and in the health service scheme before 2007.

Since then, teachers' pensions, and the other schemes, have been calculated on the basis of the number of years' service over 60, times their final salary, but there is no automatic entitlement to a lump sum.

Mr Mawhinney: That is teachers joining since 2007.

Mr Gallagher: Teachers joining since 2007. Teachers in the other Civil Service schemes, such as novus, as well as those who have joined the health service since 2007, are in the sixtieth scheme. That does not give you an automatic entitlement to a lump sum. However, you can "commute" pension and lump sum in a ratio of 12:1. When you balance it out, it is slightly more beneficial than an eightieth scheme; however, to compensate for that, the normal age of retirement was increased from 60 to 65. I do not think that you could buy a scheme like it in the private sector for anything like the contributions that teachers make.

Mr Craig: Many of the terms and conditions in the public sector are very good. I was one of very few in the private sector who had a final salary scheme; it is a very good scheme. We need to put things into perspective. I take it that, in the overall UK budgets for pension schemes, there must be a shortfall somewhere. Otherwise, why are central Government messing about with terms and conditions?

Mr Mawhinney: The coalition Government believe, on the basis of the recommendations from Hutton's Independent Public Service Pensions Commission, that the schemes need to be made more affordable in the longer term. That requires savings of £2.8 billion across the UK over the three years.

Mr Craig: Thank you. That puts it in perspective.

The Chairperson: Thank you, Mark and Seamus. We will take on board the time issue that you raised at the start. We will discuss how we proceed, but, as I say, we will take on board the timescale in relation to when it has to be a statutory rule before the Assembly. Thank you for your time this morning; we look forward to seeing you again. The sooner we have the comparator paper, the more helpful it would be to us.

Mr Mawhinney: OK.