NASUWT
The Teachers' Union

CONSULTATION RESPONSE

Northern Ireland Assembly Public Service Pensions Bill
Response to call for Evidence by the Committee for Finance and Personnel
August 30th 2013

1. The NASUWT welcomes the opportunity to comment on the Northern Ireland Public Service Pensions Bill.

2. The NASUWT is the largest teachers' union in Northern Ireland representing teachers and school leaders.

3. The Public Service Pensions Bill brings about the most significant reform to Northern Ireland public service pensions for decades, deteriorating public service workers' pensions in a number of ways. This will impact enormously in Northern Ireland because of the high percentage of the population working in the public sector. The Northern Ireland Statistics and Research Agency (NISRA) reports that 31 per cent of workers are employed in the Northern Ireland public sector, compared with 19.3 per cent in the UK as a whole.[1]

4. Despite the initial welcome stated intention to seek to avoid adopting the British Government's approach to pensions, the Northern Ireland Assembly risks adopting the punitive elements of the British Government's Public Service Pensions Act, deteriorating public sector workers' pensions on the spurious claim that they are "unaffordable".

[1] *Public Sector Employment Statistical Bulletin*, March 20, 2013

5. Despite the pressure being exerted by the British Government the NASUWT urges the Northern Ireland Assembly to adopt its own approach.

Is there a need for Public Service Pensions Reform?

Affordability – myths and realities

6. During the debate on the Second Stage of the Public Service Pensions Bill, on 25th June 2013, the Minister for Finance and Personnel stated that, *'The Bill provides a necessary reform to manage the long-term costs of public service pension provision…It is also an equitable and fair way to ensure a fairer and sustainable distribution of the costs of public service pensions between employees and employers, with employers in this instance ultimately being the taxpayer.'*

7. However, it is simply untrue to say that public service pensions are unaffordable and need to be reformed.

8. Along with other public service pension schemes in Britain, the Northern Ireland Teachers' Pension Scheme (NITPS) underwent substantial change in 2005/6 which was designed to ensure that it remained viable, sustainable and affordable in the long term.

9. A number of significant amendments were agreed in 2005/6, including: the raising of the retirement age to 65 for new entrants to the profession; the change in the accrual rate from 80ths (with an automatic lump sum entitlement of three times salary) to 60ths for all future service; and significant increases in employee contributions from 6 per cent to 6.4 per cent for all scheme members. These have now increased to a maximum of 11.2 per cent, with only very few teachers who earn less than £15,000 per year paying 6.4 per cent (all contributions are based on a full-time equivalent pay level). In this respect, the summary of the NITPS in Annex C (Page 21) of the

Department of Finance and Personnel's Response to Consultation (7th June 2013) is incorrect.

10. The changes included specific provision to cap future employer costs in the form of 'cap and share' arrangements, under which increases in costs due to demographic factors, such as increases in longevity, would be shared equally between employee and employer contributions, with the employers' contributions subject to 'capping'. Employees would therefore bear the cost through increased contributions, following pension scheme valuations.

11. It was asserted at the time by unions, employers and ministers that the changes represented *'a good and fair balance between the interests of teachers and taxpayers'* while *'ensuring the long-term sustainability and affordability of the TPS'*[2].

12. The changes agreed in 2005/6 will still result in significant savings over time - worth around £1.25 - £1.5 billion a year across the public service schemes and substantially more in the long term.

Changes to accounting

13. In 2011, the British Government reduced the discount rate for unfunded public service pension schemes, including the teachers' pension scheme, from Retail Prices Index (RPI) plus 3.5 per cent to Consumer Prices Index (CPI) plus 3 per cent, which affects all public service pension schemes apart from the Local Government Pension Scheme (LGPS). The discount rate governs the amount by which a notional public service pension fund '*grows'* in value, because a notional fund cannot be invested in the same way as funded pensions.

[2] TPS Joint Statement issued by the Department for Education and Skills (DfES), the teachers' side of the Teachers' Superannuation Working Party (TSWP) and the employers' side of the TSWP, 2005.

14. Despite previous governments agreeing the RPI + 3.5 per cent discount rate, the British Government refused to listen to the views of the NASUWT and the TUC and proceeded with the reduction in the discount rate. This increases the cost of public sector pensions and enables the British Government to claim that there is an affordability crisis.

The Hutton Review

15. In 2011, the British Government accepted the findings of the Independent Public Services Pensions Commission (IPSPC) it had set up under the Chairmanship of Lord Hutton to carry out a fundamental structural review of public service pension provision, and declared that it would implement the recommendations of the IPSPC Report *'without cherry-picking'*.

16. In the foreword to the Interim Report of the IPSPC, Lord Hutton made clear that while there was a case for reform, he rejected the downward drift in pension provision in the private sector as justification for *'a race to the bottom'* with pensions in the public sector and expressed his hope that reformed public service pensions *'can be seen as once again providing a benchmark for the private sector to aim towards'*. The proposals for reform to public service pensions in the Public Service Pensions Bill disregard the IPSPC's recommendations in this respect.

Public Sector pensions are not gold-plated

17. The average pension in local government is currently around just £4,000 per year and just £2,000 for women. In the Civil Service the average is £6,500. The average pension for a female NHS worker is £5,000 but the median pension for women is much less. In fact, half of all women pensioners who have worked in the NHS get a pension of less than £3,500 per year. These can hardly be described as gold plated.

Resisting the threats from Westminster

18. The British Government is threatening to reduce the Block Grant by a figure of between £262 million and £300 million per year if the Public Service Pensions Bill in Northern Ireland is not passed. This is unacceptable.

19. The Minister for Education in Northern Ireland is on record as saying that he does not believe that public sector pensions should be a means by which the Treasury can increase its revenue, especially at a time of a public sector pay freeze, increases in national insurance contributions, higher VAT and rising inflation.

20. The NASUWT welcomes the Minister's opposition to the British Government's policy of using public sector pension reforms to increase revenue for the Exchequer.

21. It remains the case that the administration in Northern Ireland has a choice and the NASUWT believes that the choice should be made to refuse to implement the public service pension changes.

22. The Northern Ireland Assembly should join the NASUWT's call for the true financial position of the Northern Ireland Teachers' Pension Scheme, together with other public service pension schemes, to be established through the long overdue actuarial valuation of the schemes to enable a sound financial appraisal to be made. This should be carried out allowing for a discount rate of RPI + 3.5 per cent, so that the Northern Ireland Assembly genuinely can evaluate whether there is a need to reform public service workers' pensions.

The impact on the Northern Ireland Economy

23. The Public Service Pensions Bill will bring about a number of key deteriorations to public service workers' pensions. Public service workers will have to work longer to receive reduced benefits and will have to pay more for them. For example, In spite of a 50 per cent increase in pension contributions, on average, teachers will face a 33per cent decrease in the value of their pension benefits after 2015[3].

24. The impact across all members of the Teachers' Pension Scheme will be to reduce, on average, the value of the pension benefit (based on the Effective Employee Benefit Rate) from 23 per cent of a member's salary before the proposed reforms to 14 per cent of a member's salary after the British Government's proposed reforms, a reduction of more than a third. The Effective Employee Benefit Rate of a particular pension scheme is calculated by translating the value of the pension benefit offered in the scheme into an equivalent percentage of salary that the scheme member would need to be given to compensate for the loss of the pension scheme.[4] The British Government's unilateral decision in 2010 to change the basis for public service pension indexation from the RPI to the lower CPI has already reduced the value of the pension benefit received by members of the four largest schemes by 5per cent from around 28 per cent of salary, on average, to around 23 per cent of a member's salary before the other changes are made.

25. One of the key features of the Public Service Pensions Bill is to make the public service pension age and the state pension age the same. This pre-supposes that public service workers will wait to take their pensions until they receive a state pension. If they try to access their public service pension before this, it will be actuarially reduced.

[3] according to the latest research from the Pensions Policy Institute into the implications of the Coalition Government's public service pension reforms
[4] www.pensionspolicyinstitute.org.uk/default.asp?p=12& publication=332

26. However, the British Government has fully accepted that many public service workers will need to take their pension at the age that they do now. In its assumptions about the Teachers' Pension Scheme in England and Wales, the Government assumes that this will be the case for most teachers for the foreseeable future.

27. Therefore in addition to receiving lower pension benefits as a result of scheme reform, public service workers will then suffer an actuarial reduction in their pensions, reducing the value of their pension even further. For example, if a teacher with a state pension age of 68 retires at 60, they will lose approximately one third of their pension benefits through actuarial reduction, benefits which have already been reduced through pension reform. This problem will worsen if the state pension age continues to increase beyond 68, which the current British Government Pensions Bill allows.

28. Given the already low values of many public service workers' pensions, particularly for women who often take time out of pensionable service to raise families, the Public Service Pensions Bill will plunge many public service workers into pensioner poverty. The impact of the Public Service Pensions Bill will therefore be to reduce dramatically public service pensioners' spending contributions to the Northern Ireland economy.

29. Despite this, the Department for Finance and Personnel considers that it is unnecessary to carry out a macro-economic analysis of the impact of the Public Service Pensions Bill, despite admitting, in correspondence to the Committee for Finance and Personnel on 7th June 2013, that, *'…it is accepted that public sector pension reform will have impact in the longer term of the disposable incomes of those public sector employees affected.'* The NASUWT considers this to be reckless.

The Impact of increasing the Pension Age on Recently Qualified Teacher Employment

30. The General Teaching Council for Northern Ireland (GTCNI), which is the statutory, independent, regulatory body for the teaching profession, has stated, *'The significant increase in the number of unemployed teachers over the past four years or so has been a growing concern.'* Even without carrying out a detailed analysis of the impact of increasing the pension age for teachers, it is clear that the continuing scandalous position of the high level of recently qualified teacher unemployment will be exacerbated by the reduction in teacher vacancies caused by teachers having to work for many more years before they receive an adequate pension.

The Equality Impact of the Public Service Pensions Bill

31. The Department of Finance and Personnel has decided not to carry out an Equality Impact Assessment (EQIA) on the impact of the Public Service Pensions Bill, although it admits that it has not collected data to be able to assess the impact of pension reform on different categories of public sector worker.[5]

32. The Public Service Pensions Bill has considerable equality implications. Young teachers face particular discrimination, because of the equalisation of the state pension age and the normal pension age. In particular, the design of the post-2015 pension schemes includes costly *'flexibilities'* which can be purchased to ensure that public service workers can retire at a reasonable age by taking an actuarial reduction. These *'flexibilities'* will have to be bought by pension contributions made in addition to the increases of around 50 per cent which many public service workers have already had to endure. Women, young and minority ethnic workers and those with disabilities are

[5] *DFPNI Equality Screening,* 29 January 2013

disproportionately represented in lower paid categories and will be unable to afford the *'flexibilities'*.

33. In addition, the uniformed services pension age is set at 60 in the Public Service Pensions Bill. This is far more favourable than the pension age for the Teachers' Pension Scheme, which will be 68 (and rising) for younger teachers. The uniformed services tend to be predominately male, whereas in Northern Ireland 75.9 per cent of all teachers are female[6].

34. The NASUWT believes that an EIA should be carried out immediately.

Other Features of the Northern Ireland Public Service Pensions Bill

35. Clause 8 in the Bill gives express new powers to the DFP to define and redefine at will the arrangements for public service pension provision in future, on the basis either of 'defined benefit' schemes (as described in the Proposed Final Agreement for implementation in 2015) or on the basis of a 'defined contribution' scheme or 'a scheme of any other description' as may be determined at any time by DFP. The power to redefine the types of pension scheme that may in future operate for Northern Ireland public service employees, by reference only to a negative resolution, is excessive in the extreme and would make it impossible for teachers and other public service workers to plan with any degree of confidence for their future retirement. The DFP defines a negative resolution as follows: *'A statutory rule going through this procedure will automatically become law unless the Assembly objects.'* The NASUWT believes that changes to pensions should require the full consideration of the democratic process and not be vulnerable to a negative resolution process.

[6] *Teacher Workforce Statistics in Grant Aided schools in Northern Ireland 2012/13*, Northern Ireland Statistics and Research Agency, 20 June 2013

36. The NASUWT believes that the discretion sought by the Northern Ireland Executive to allow the DFP to determine the type of pension scheme arrangements will be damaging to the confidence of actual and potential scheme members.

37. The NASUWT believes that the Bill should be amended to limit the powers of the DFP in this regard.

Clause 9

38. This clause deals with the annual revaluation of pensions entitlements earned by serving members. The Bill as drafted provides the DFP with extensive discretionary powers to control and change the basis for pensions indexation with reference to the general level of prices or earnings or any other measure. Seeking to grant the DFP such considerable scope to determine and to vary the pension indexation measure to be used as envisaged, will increase levels of uncertainty and unpredictability for scheme members and further undermine the confidence of teachers and other public service employees in the value of public service pension schemes.

39. Such a provision is contrary to the recommendation of the IPSPC that *‘pension benefits should be uprated in line with average earnings during the accrual phase for active scheme members’* (Recommendation 8).

40. Furthermore, the draft Bill allows for accrued pensions to be increased or decreased as specified by the DFP, in effect reducing the members’ accrued benefits. This is a further breach of the commitment set out in the British Government’s agreement and programme for government to protect accrued pension rights, which the Northern Ireland Assembly has agreed to adopt.

41. The NASUWT does not believe that such matters should be remitted to the DFP. They are too important and too significant to be left to a negative resolution. The Bill as drafted should be amended to protect the retirement commitments and provide stability and certainty for workers.

42. Linked to clauses 8 and 9, is Clause 24 (2), which enables further deteriorations to be made to pension provision without having to introduce new legislation. This mirrors the provisions in the British Government’s Public Service Pensions Act, so even after extensive reform and detrimental change, public service workers’ pensions remain vulnerable to further detrimental change. The Northern Ireland Assembly has the power to reject Clause 24 (2) and the NASUWT calls upon it to do so. If in future, further change is needed, full legislative provision should be required.

43. The NASUWT is particularly concerned that Clause 10(4) requires that future changes to the normal pension age (NPA) *‘must ... apply in relation to all the benefits (including benefits already accrued under the scheme)’*, further breaking the commitment previously given by the British Government to protect accrued pension rights and contradicting the view of the IPSPC that *‘protecting accrued rights is a prerequisite for reform both to build trust and confidence and to protect current workers from a sudden change in their pension benefits or pension age’*.

44. This clause of the Bill should be substantially amended to remove the automatic link with the state pension age, to allow for a lower pension age than 68 for teachers (to be determined, in consultation with stakeholders, in light of emerging evidence and trends) and to preserve the commitment to protect accrued pension rights in respect of any future changes to public service pension scheme arrangements. The NASUWT opposes any increase in the existing normal pension age and the link to the state pension age.

Conclusion

45. The principles for reform of the teachers', NHS and Civil Service pension schemes agreed by the NASUWT and other trade unions in 2005 recognised:

- the role of good pensions as a key element of the overall remuneration package and in supporting recruitment and retention;
- public service pensions are a key benefit of public service employment and should be celebrated as such;
- schemes should continue to guarantee defined benefit provision, linked to an individual's earnings;
- schemes should also offer indexation to protect retired members against rises in the cost of living;
- the accrued pensions rights of the existing workforce will be fully protected in the event of transition.

46. The NASUWT urges the Committee for Finance and Personnel to consider carefully the implications of this submission in the context of these principles and the need:

- to use the flexibilities available to mitigate the detrimental post-2015 features of the NITPS.
- to ensure, at the very least, that the transitional protection for existing members of the NITPS, consisting of 10 years transitional protection and 3½ years of phased protection, should be applied to all existing members of the Teachers' Pension Scheme **as at 2015**.

47. The NASUWT believes that the current Northern Ireland Teachers' Pension Scheme is a sustainable scheme which has already been through the significant reforms necessary to ensure that it remains viable in the long term.

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