Northern Ireland Assembly

Committee for Education

OFFICIAL REPORT (Hansard)

Public Service Pensions Bill: Department of Education

9 October 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
Mr Stephen Moutray
Mr Robin Newton
Mr Sean Rogers

Witnesses:

Mr Ian Gallagher	Department of Education
Mr Seamus Gallagher	Department of Education

The Chairperson: I welcome Mr Ian Gallagher, who is the head of pay remit and pensions policy team, and Seamus Gallagher from the teacher negotiating and pensions policy team. You are very welcome. Ian, is this your first time here?

Mr Ian Gallagher (Department of Education): It is my second time, Chair.

The Chairperson: Seamus has been with us in the past. You are both very welcome. I want to say a word of appreciation and thanks for the information that has already been provided. It has been very helpful and valuable. Thank you for your attendance. Who wants to kick off?

Mr I Gallagher: In your preamble to members, you stole most of my thunder and what I was going to say. Without further ado, Seamus and I are here today to talk members through the paper that we provided and answer any questions that you may have. I will ask Seamus to go through the detail of the information that was provided and clarify any questions that you may have.

Mr Seamus Gallagher (Department of Education): First, it might be useful to give a brief overview of the teachers' pension scheme as it stands. It is currently a final salary scheme. It is a defined benefits scheme, and it is not funded, which means that there is no pot of money. It is similar to the health scheme and the Civil Service scheme, but the local government scheme has a fund. That is the only funded scheme in the North of Ireland.

I will give you some information on what is contained in the scheme statements. The key things are that the cash requirement, ie the net drawdown from the Assembly each year, has been increasing, and, as it currently stands, it is £163 million. That has increased from £139 million the previous year. Even though member contributions have increased, the number of active teachers in the scheme has dropped, so employers' contributions have been reduced in the same period, and because more people have retired, the amount of money going out of the scheme is increasing. That gap continues to increase year on year.

The scheme liabilities have increased from £7·5 billion five years ago to £9·5 billion now. In the most recent year, the increase has been about half a billion pounds. There are a lot of factors that play into that. The most recent increase has been caused primarily because of a change in the discount rate, which is a notional rate. There is no actual pot of money, but the notional scheme assets are projected to grow in the same way as a fund would grow. It is set by Treasury, and it has been reduced over the years from 3% to 2·35%. So, the rate at which your assets grow in excess of inflation has been reduced by over 0·5 percentage points. That affects the amounts of your notional assets. In turn, that means that your liabilities have increased because your assets, notional as they are, are worth less.

In the paper itself we have attempted to set out some scenarios. I do not know whether they are typical teachers or not, but we have attempted to set out some of the extremes, such as a teacher who starts their career and does not really make any progression but just moves up through the normal salary increases and stays as a normal classroom teacher. At the other extreme is someone who is promoted at the first opportunity every time and who ends up right at the top of the teachers' pay scale, which is £105,000, reasonably early in their career. Just to be clear, there are not many teachers on that kind of money. You are talking about maybe the principal of one of the big grammars. We have also put in an example of a teacher who is promoted part way through their career, but not to the same extent as someone who is promoted at the first opportunity every time. The final example is of a teacher who is promoted right at the end of their career, in the last five years.

What the figures show is that, in almost all cases, the teacher is better off under career average. It is only when the person is promoted right at the end of their career that they actually prove to be worse off. Having said that, under the new provisions, all those teachers will have to wait longer before they get their pension. In most instances, it may be higher, but they will not get it until later, perhaps until they are 68, rather than the current age of 65 for new entrants and 60 for existing members.

I do not know that there is much more that I can explain. It might be better if I answer questions that you have on it.

The Chairperson: Just on that last point, I appreciate that the Department has given us considerable information. Obviously, as we set out at the beginning, the reason why we are doing this is because the Department of Finance and Personnel (DFP) is carrying out the exercise, but because it impinges on teachers, we have undertaken to do it on behalf of DFP. What happens if, after the passage of the Bill, teachers go for early retirement, say at 60? To what extent will their pension be reduced?

Mr S Gallagher: It would be reduced by roughly 5% for every year early they take it — if they take it before 65. There will be a provision in the scheme for a reduced reduction of 3% for a maximum of three years when they take it at age 65 and above. So, if the normal pension age is 68 and they take it at 65, the reduction, as it is proposed in the England and Wales scheme, would be 3% for those final three years. There will also be provisions in the scheme for teachers or employers to be able to pay additional contributions throughout their career to buy out some or all of that reduction, but that is down into the detail of where the schemes might go, rather than what is in the Bill.

The Chairperson: Is it then 5% if you go between 60 and 65?

Mr S Gallagher: Yes, it is roughly 5% for every year early you take it.

The Chairperson: In general terms — if we look at the examples you have given us, we have the answer to this question — will teachers be better off or worse off under the proposed pension arrangements?

Mr S Gallagher: As I think I said the last time, the thrust of the pension reform is for the Government to save money, so the scheme is going to cost less. Although most teachers' pensions might be higher, they will have to wait longer before they receive it. So, instead of receiving it at 65, they will receive it at 68. It is those three years later that create the saving. They will probably end up being worse off, because the whole thing is about saving money. Their pension will be higher, but they will not get it until a later stage.

The Chairperson: You mentioned that the only other comparator for how pension provision is constructed is the health service. Obviously, the provision for those workers will be the same as the provision for teachers, but is there any caveat that makes it teachers different from someone employed by a trust?

Mr S Gallagher: I am not sure of the exact detail of the scheme-specific health proposals, but I can use the Civil Service proposals as an example. At scheme level, the proposal for teachers is an accrual rate of one fifty-seventh. That increases by the rate of the consumer price index (CPI) plus 1·6%. Therefore, each year's pension increases every year by the rate of CPI plus 1·6%. For civil servants, the proposed accrual rate is one forty-third, which is significantly better, but those chunks increase only by the rate of CPI. What we are saying is that teachers are different, in that their accrual rate is lower, but the amount by which the accrued pension increases until it comes into payment is greater. It may well balance out, but there is a difference at scheme level.

Mr Rogers: First, from listening to what you said, Seamus, is this based on a 45-year teaching career?

Mr S Gallagher: Yes. It is based on a teacher starting at age 22 or 23 and leaving at age 68. Sorry, I think that it is at 65. It is based on about 43 years, so it is quite a lengthy career. The figures quoted are probably not typical of the amount that a teacher would receive, because not all teachers are in for the full length of time. It is the amount of pension that teachers would receive if they started when they were 22 and worked right through, full-time and permanently, until they were 65.

Mr Rogers: I should have said thanks for the figures. They are very useful.

Have we thought through the impact of this on women, particularly married women, who take time off to have a family?

Mr S Gallagher: We have not done any examples for people who have taken time out. However, I think that the principle is the same, in that the amount of pension that most people receive will probably be greater but paid later. The people that it will affect adversely are those who get significant salary increases at the end of their career. If you are promoted in the final four or five years of your career, or if your pay increases significantly for some other reason, you will end up with less pension under the career-average scheme, but if your passage is steady, even if you get right to the top of the scale, you will end up with a higher pension under the career-average scheme.

Mr Rogers: I know that you are particularly concerned about financial management and saving money, but have you looked at what effect this will have on the teaching profession if teachers have to stay in the job until they are 68? Teaching is a very demanding job. I know many teachers in their sixties who are still doing a very good job, but have we looked at the consequences for teacher morale and for the quality of teaching and learning in the classroom if, say, a 67-year-old is in front of a class of 30 people? I know that you cannot generalise about 67-year-olds.

Mr S Gallagher: As I said, we are aware of the concerns out there about teachers having to work longer. We are not here to defend the Government's policy that people should work longer. The thrust of Hutton's report was that, if we move the pension age to equate to state pension age, people will spend roughly the same proportion of their life in retirement as they did 20 years ago, because life expectancy has been increasing. There is no proposed special treatment for teachers in the Bill. The only people for whom special treatment is proposed with retirement age are those in fire services and the police, who have to meet physical criteria to continue working.

Mr Rogers: If we expect our teaching force to work to 68, a lot fewer will pick up their pension.

Mr Craig: Seamus, I must admit that you surprised me with your statement that, in moving to a career average, most people will end up better off. I looked through your examples: what percentage of the teaching workforce comes under the teacher D scenario? Teacher D loses quite a bit. My experience of teaching is that if someone moves into senior management or some high-level management position in the teaching workforce, it normally happens in the final five years of that person's career. How realistic are the figures in front of us?

Mr S Gallagher: I do not know how many teachers fall into the category of teacher D, and I do not know how easy it would be to obtain that information. We can see whether it is available.

Mr Craig: I am just playing devil's advocate, because I can see that the group who move into senior management, albeit only a percentage of the workforce, will be losers in this scenario. We have to be honest about that.

Mr S Gallagher: A percentage will be losers, yes. Career average is seen as a fairer system. For example, compare the contributions made by teachers who have paid throughout their lifetime and do not get promoted and those who are promoted at the end of their career. The amount of additional contributions that the latter will have paid will be very small, but the amount of additional pension that they would get will be quite large under a final salary scheme.

Mr Craig: I have some experience of people going on to permanent night shift before they retire. I have seen that happen. Given that teachers in category D will be losers in this scenario, has there been any anecdotal evidence that some people are taking the opportunity to get out as quickly as possible, given the changes that are coming?

Mr S Gallagher: Not really, because the transitional protections protect anybody aged 50 or over on 1 April 2012. Those are the types of people who you would probably expect to jump ship. They have 10 years' protection from that point. I do not think that there is any evidence that people are jumping ship because of the pension changes.

Mr Craig: That is fair enough. Therefore, the Government have thought about that one.

Mr S Gallagher: That was really to give people time to adapt.

Mrs Dobson: Thank you for your briefing. In table G in the Department's 'Teachers' Superannuation Annual Scheme Statements 2012-13', you estimate the cost of pensioners living on average two years longer at £430 million. How have you arrived at that figure, and were you able to use the experience of changes in England and Wales to help?

Mr S Gallagher: That figure was arrived at by a Government Actuary's Department (GAD). I do not have the expertise in that area, but the rationale behind it is that the mortality assumptions have changed, and the latest data that GAD would have used for this shows that people will live longer than they when the previous assumptions were made. That is where that swing came from.

Mrs Dobson: Are you looking at any other factors that could influence the future pension scheme deficit?

Mr S Gallagher: A lot of factors influence it, and a lot of assumptions are made by GAD in arriving at those figures: future assumptions on death rates; changes to the discount rate, which is dictated by Treasury; teachers' salaries either increasing at a greater or lesser rate than projected; and the number of people leaving early being greater or fewer than expected. All those factors will influence liability in the future.

Mrs Dobson: It is so complex.

Mr S Gallagher: It is so complex, which is why we have an actuary working out those figures.

Mrs Dobson: Paragraph 7.5 in the annual scheme statements document refers to discrepancies that are identified in the membership data for the 2012-13 scheme. Can you give us any more details on that? When were those discrepancies first discovered? Realistically, how serious is the problem?

Mr S Gallagher: We are aware that an Assembly question for priority written answer has been tabled for Monday. All that we can say at the minute is that the pensions team are undertaking a review of the processes and are working with the systems provider to ensure that the data is more robust.

Mrs Dobson: Have there been breaches of data handling?

Mr S Gallagher: It is not breaches of data handling; it is a movement from active to deferred that the actuary had not expected. It says in that paragraph that the effect could be anything from minus £56 million to plus £96 million. It could go either way. When the overall liability was balanced out, it was not considered to be significant.

Mrs Dobson: It looks very serious when you read it.

Mr S Gallagher: It did not result in a qualification of the accounts. The auditor accepted that it was within reasonable range. However, it is being looked at, and a full answer to the question will be issued next week.

The Chairperson: There are no other questions. Seamus and Ian, thank you very much for your time and for the information that you have given to the Committee. No doubt, we will see you before this comes to a conclusion.