Northern Ireland Assembly

Committee for Education

OFFICIAL REPORT (Hansard)

Teachers' Superannuation (Amendment) Regulations (Northern Ireland) 2014 and Changes to Pension Contributions: DE Briefing

5 February 2014

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)
Mr Jonathan Craig
Mr Trevor Lunn
Mr Robin Newton
Mr Pat Sheehan

Witnesses:

Mr Ian Gallagher	Department of Education
Mr Seamus Gallagher	Department of Education
Mr Brian Quinn	Department of Education

The Chairperson: I welcome Ian Gallagher, head of pay remit and pensions policy team, who, I am sure, has been busy in the past few weeks. I also welcome Seamus Gallagher, from the pay remit and pensions policy team. Seamus, you are always welcome back to the Committee. I also welcome Brian Quinn, who is also from the same team. You are very welcome. Is this your first time at the Committee, Brian?

Mr Brian Quinn (Department of Education): Yes.

The Chairperson: Ian, you have been here before.

Mr Ian Gallagher (Department of Education): I have indeed, Chairman.

The Chairperson: Seamus has been with us for a good while.

Mr Seamus Gallagher (Department of Education): Yes.

The Chairperson: He is maybe looking for his pension.

Mr S Gallagher: I am not that old yet.

The Chairperson: You are very welcome. Thank you for coming. I ask you to bring us up to speed on why this is a necessary process, and members will then ask questions.

Mr I Gallagher: Thank you, Chair and members, for the opportunity to brief the Committee on draft legislation to amend the NI teachers' pension scheme (NITPS) to allow for a 2012 valuation of the scheme, provide for the removal of cap and share provisions and enact a number of changes relating to workplace pension reform and other issues that we will detail in full in due course. At the end of the session, we will also update you on proposals for increased NITPS contribution rates from April 2014.

During 2013, the Department issued three consultations. One was on removing the requirement to complete a 2008 valuation of the teachers' pension scheme before proceeding with a 2012 valuation and the removal of cap and share provisions. The other two consultations related to workplace reform and other amendments. One was on the policy, and the other was on the draft regulations. The Department provided the Committee with advance copies of each consultation document, and officials explained in previous sessions the policy intentions of those proposed changes. Each consultation received one response, and the Committee was provided with copies of the Department's summary of the outcome of those consultations.

The Department intended to make two sets of amending legislation in line with the consultations, but, as the timings of those consultations converged, the opportunity arose to bring them together into a single set of regulations that made more sense from a housekeeping viewpoint. The main provisions that are being enacted in the regulations are these: removing the requirement to complete a 2008 valuation of the teachers' pension scheme before proceeding with the 2012 one; removing the cap and share provisions, which are no longer necessary; and providing for the automatic enrolment of teachers into the pension scheme in line with the workplace reform agenda. The scheme already has automatic enrolment for the vast majority of teachers, but these regulations will allow retired teachers to rejoin the scheme; will allow teachers with more than one employment to make different decisions for each employment; will ensure that those who have opted out of the scheme can revisit that decision every three years; and will reduce the minimum age of scheme membership from 18 to 16. The regulations will also reduce the minimum reduction in salary that is required to trigger phased retirement from 25% to 20%. The regulations will correct an oversight on the part of the Department, made in April 2011, in applying the change of revaluation rate for uprating additional pension purchases from the retail prices index (RPI) to the consumer prices index (CPI).

There is quite a lot to take in there, and if any further clarification is required or if members have any questions, we will be happy to take them now, and Brian and Seamus can help to answer them.

The Chairperson: Let us try to summarise where the process is. What are the implications for this for the passage of the Public Service Pensions Bill? Is this the next logical step, or would this have happened anyway? That is my first question, because I want to be clear about where the two processes sit.

Mr S Gallagher: Some of it would have happened anyway, and some of it — the stuff about the valuation — will enable the 2015 reforms, because we need to be in a position to have the most up-to-date valuation of the scheme to set the initial employer contribution rate in 2015. That is why it makes no sense to waste further time carrying out a 2008 valuation, given that we need the most up-to-date information.

The cap and share provision has been removed in England and Wales, again because of the Treasury's decision to move forward on pension reform. They have changed the whole funding arrangements for pension schemes from 2015. So, the regulation that the Northern Ireland regulations were linked to has gone, and there is nothing left. That regulation is obsolete, so it is necessary to remove it. We are doing that part of it because of the 2015 pension reform. The workplace reform is separate.

The Chairperson: One of the reasons that is given for removing the bar on retired teachers rejoining the scheme is that it could be a disincentive to teachers who were re-employed, as they would obviously have to make a further contribution out of their salary. Does that mean that the current practice was a mistake? Has it encouraged retired teachers to seek re-employment?

Mr Quinn: I think that, in the meantime, there are other provisions that we have brought in that have proved to be more effective. Over the years, barring people from the scheme did not appear to be a major disincentive to them coming back to work. The changes that have been made to put prematurely retired teachers on to point 1 of the scale when they come back to work and to charge the school the full cost of the teaching have proved to be more of a disincentive. Furthermore, if those teachers were now to pay a contribution out of that reduced salary, it would be viewed as a further disincentive.

The Chairperson: You referred to an oversight in 2011. Has that had any financial implications for the Department? Has it affected a backlog of teachers and staff? Have they all been notified? How is it being addressed? The Department said to us that there was an oversight in 2011. What are the implications of all that?

Mr Quinn: It affects 21 teachers. It was for the purchase of additional pension since June 2010. I think that 21 teachers purchased something like £26,000 or £28,000 worth of additional pension in that time. The policy change was known in advance of that, and anybody who had done a due diligence check would have been aware that the change was coming and that CPI, not RPI, was the new revaluation rate. Anybody who purchased additional pension before the date in 2010 that was announced by the Treasury will still have their revaluation rate based on the retail price index. We recently worked out the difference in the valuation. If you take into account that there was, I think, 0·7% between RPI and CPI last month, you see that the revaluation would be a difference of about £180 a year between those 21 teachers. So it does not involve a massive amount of money.

The Chairperson: The Education Committee has its own pensions adviser, so I will ask him to ask the questions now. *[Laughter.]* It is Trevor. He is our expert on this.

Mr Lunn: I have been well put in my place. *[Laughter.]* Chairman, you asked a question about the relationship between this and the Public Service Pensions Bill. Do the proposed increases take account of the pension age being changed up to 68?

Mr S Gallagher: We have not started talking about the contribution increases yet. We will re-examine contribution rates once we move to the new scheme in 2015. We expect the average contribution rate to remain at the same starting point that we set now, which is 9·6%. We may need to examine whether it is still appropriate to have tiered contribution rates going forward, because the benefit structure will be changed, and people with high salaries will not be as advantaged as they are under the current scheme. That is a discussion that we have not even had with the teacher unions yet.

Mr Lunn: So when the Public Service Pensions Bill becomes law, you may have to revisit this. I would have thought that extending the pension age up to 68 would mean that you might not need the same level of contributions.

Mr S Gallagher: We will not need to revisit the stuff that is in this SL1. We will have to bring forward a major new scheme for teachers starting in 2015, and we are drafting legislation on that. We have been discussing that with teacher unions for quite some time. We will not be able to start formal consultation on it until the Bill gets Royal Assent. We expect to be back here a number of times during the process of taking forward pension reform, and we are more than happy to do that.

Mr Lunn: So this could be short term and slightly academic if there has to be a further root-and-branch review in 2015.

Mr S Gallagher: Part of it is that we need a 2012 valuation completed to inform the 2015 valuation. When we write the scheme rules under workplace reform, we will build all that stuff into the scheme as it starts off. In the meantime, we still need to be able to bring those people in to cover the period between now and 2015.

Mr Lunn: That is next year.

Mr S Gallagher: Still.

Mr Lunn: I am on a learning curve here as well, believe me. How do you value a scheme that is unfunded? I am sure that we could all get our heads around how you would value a scheme that is funded. The first thing that you would look at it is the size of the fund.

Mr S Gallagher: We asked the Government Actuary's Department to do it. It works it out based on a notional fund. How much that increases by is set by the Treasury through the discount rate, which is a notional amount.

Mr Lunn: Now you are losing me again.

The Chairperson: Is it not a notional fund based on comparators? Is that not part of the problem as well? Is that not the issue that we raised previously?

Mr S Gallagher: There is no pot of money. It is funded directly by government. With regard to setting contribution rates for members and employers, the actuaries carry out complex calculations. I do not pretend to understand all of it.

The Chairperson: Seamus, I am glad. You are the first official to come to the bottom of that table and actually say that.

Mr Lunn: There is no shame in it. *[Laughter.]*

The Chairperson: No, there is not. Not one bit.

Mr Lunn: One thing that I will say — I am not criticising you guys at all — is that it all seems a bit vague. We are changing contribution rates now that still need to be actively looked at again next year. It is on the basis of evaluation, which is so nebulous. You cannot disagree with actuaries. How can you? They are the geniuses, and we are not. It is so inconclusive and vague. I can understand the outrage among teachers. I am not saying this for the optics. They do not understand why this is happening. Then, of course, you have the input of the Public Service Pensions Bill as well. It really is a bit of mess, is it not?

Mr S Gallagher: A whole lot of different issues are going on here at the same time. The SL1 that we are talking about first is not really about increasing contributions or pension reform. It is fairly mundane and non-controversial. I am talking about the first one — the SL1 on the three consultations and the draft set of regulations. When we get on to contributions and pension reform, that is a different issue.

Mr Lunn: Sorry about this, Chairman. The actual increases that are proposed are pretty minute. Some actuary somewhere has done such a detailed valuation of the fund and the requirements going forward that he has come up with a proposed increase of 0·4%, which, I guess, would affect most of the profession.

Mr S Gallagher: The contribution increases, which we have not come on to yet, have not been calculated by actuaries. It has been dictated by or came out of the interim Hutton review when the Treasury decided that it would make £2·8 billion of savings from public sector pension schemes by means of increasing contributions. It then passed that on to the Assembly, with the proviso that, if you do not make it, we will reduce the block grant by a corresponding amount, which is why we are increasing member contributions.

Mr Lunn: Are employer contributions going up?

Mr S Gallagher: Employer contributions have remained at 13·6%. They will be going forward, depending on the outcome of the valuation.

Mr Lunn: I have asked you this question previously. Do you think that the employer contribution in the teachers' pension scheme stands out as being relatively low compared with other similar public or Civil Service schemes?

Mr Gallagher: It is low compared with some. It is almost equivalent to that of the health service. It all depends on the level of member contributions. The standard contribution across schemes is fairly similar. We did a comparison of all that at this stage in 2013. I think that all schemes are fairly comparable on what a member puts in and what a member gets out.

Mr Lunn: I know that I am veering off the subject a wee bit, but I think that the employer contribution —

The Chairperson: We are coming to contributions.

Mr Lunn: The employer contribution in most of the schemes that I have looked at generally have percentages that begin with a 2 rather than a 1.

Mr S Gallagher: Health and teachers —

Mr Lunn: Poor relations.

Mr S Gallagher: Employer contributions for health service workers and teachers are fairly similar. We do not know how it will turn out after the valuation. In the Civil Service, the employer contribution is higher because the member contribution is lower, but the total contribution is around the same. In the past, we have covered the member contribution being lower because of historical differences in pay and negotiations over a long period.

The Chairperson: Before we go to Ian on the contributions paper, can we deal with this piece of business now? Is the Committee content for the proposed statutory rule — the Teachers' Superannuation (Amendment) Regulations (Northern Ireland) 2014 — to be made?

Members indicated assent.

The Chairperson: That will make life easier for those men at the end of the table. Ian, do you want to comment on the paper on the consultation on the proposed changes to pension contributions?

Mr I Gallagher: Thank you, Chair and members. This is the comment on the third yearly increase in contribution rates for members of the teachers' pension scheme. As you know, the Executive decided on 22 September 2011 to deliver savings to the cost of public sector schemes in Northern Ireland. The aim was to do that fairly, in a way that protected the lower paid and also minimised opt-outs from the scheme.

In that context, the Department consulted on proposed increases to contribution rates for teachers' pension scheme members for 2012 and 2013. Once all the views were considered, the Department decided to proceed with implementing the increased employee contribution rates for 2012 and 2013. Those two yearly increases represent 80% of the required savings. Following that, the rate of opt-outs has not risen appreciably and actually remains a small proportion of scheme membership. The Department considers that the structure and distribution of contribution rates implemented in years 1 and 2 is achieving the Executive's aims and, as such, proposed in consultation to roll forward the salary bands from last year with increased rates to account for the final 20% of the savings from 2014.

The Department consulted on the proposals for those increased contributions from 25 November 2013 to 20 January 2014 and received 15 responses. Most objected to the policy of increasing contributions, which was actually outside the scope of the consultation, and the responses did not put forward any alternative to either the rates or the bandings proposed to make the required savings.

One new issue did arise during the consultation. Some respondents suggested that one of the pay bands, from £45,000 to £75,000, is too wide. Following consideration last year, the Department took the decision to split the previous banding of £40,000 to £75,000 into two bands. Previously, it was £40,000 to £75,000, and now we have £40,000 to £45,000 and £45,000 to £75,000. Around 80% of those in the original £40,000 to £75,000 band benefited because they fell within the lower part — that is, between £40,000 and £45,000. The Department does not consider it appropriate to subdivide the higher band further because there is a relatively small proportion of teachers in it. That could create knock-on effects for rates in other bands, which would probably lower the rate of pay at which teachers would pay the maximum and increase the administrative complexity for employers.

After considering the outcome of the consultation, the Minister has decided to proceed with the contribution increase. The Department will publish its formal response in the near future, and we provided you with an advance copy yesterday. We intend to issue the SL1 for the contributions increase in the next few days and ask the Committee to note that the time frame for implementing the necessary changes is once again extremely challenging. The Department is, therefore, seeking your cooperation in meeting that challenging timescale.

Chair and members, that is my bit over for the moment. Thanks for your time and for having us along here today. We are happy to deal with any questions that you may have on the increased contributions now, or, if you prefer, we can return once you have the SL1 or give you a written brief.

The Chairperson: I think that it would be better to wait until we have the SL1.

An issue was raised about full-time equivalents. I notice that you have given us a breakdown of that. You did better in the responses — you got 15 — on this SL1 than you did on the previous one. We get beaten around the world about the Public Service Pensions Bill by everybody, but here is a consultation on an issue that directly affects people, and we get 15 responses. They were not all from individuals. One might be a union response, and I appreciate that the union response should reflect members' views. However, that might not necessarily always be the case, because other people have different views. We need to be cautious as to how we take all that on board.

Trevor, do you have a question?

Mr Lunn: Just one question: do you know offhand what proportion of the workforce falls within the £45,000 to £75,000 band?

Mr Quinn: Based on last year's figures, it is around 7% of teachers. It is a relatively small proportion.

Mr Lunn: Is the biggest band £26,000 to £40,000?

Mr Quinn: The majority of teachers would be within those bands.

The Chairperson: Is it possible to give a breakdown of the percentage of the overall workforce that falls into the bands?

Mr Quinn: That should be possible.

The Chairperson: Would that be helpful? It would give us a view as to where the system sits.

Mr Gallagher: We can have that for next time.

Mr Lunn: Within the £45,000 to £75,000 band, I think that the more you earn, the less worried you will be about your pension contribution. However, £45,000 to £75,000 is quite a wide range. If I was on £70,000 a year — I am not — I would be less concerned than somebody who is on £46,000.

The Chairperson: I used not to be so worried about pensions, but this year, when I have a significant birthday, I am beginning to pay a bit more attention to the issue.

Mr Lunn: Wait until you get past pension age.

Mr Kinahan: Will you be 68?

The Chairperson: I will be 68, yes. *[Laughter.]* I think that we will wait until we get the SL1. We appreciate that you provided us with information yesterday, which was helpful, and you have been very helpful in what you provided us with to date. Thank you. It is complex and difficult, but we will come back to the issue that will cause more debate — contributions — when the SL1 is brought to us. We look forward to you coming back.