



Northern Ireland
Assembly

Committee for Education

OFFICIAL REPORT (Hansard)

Northern Ireland Teachers' Pension Scheme:
Department of Education Briefing

22 October 2014

NORTHERN IRELAND ASSEMBLY

Committee for Education

Northern Ireland Teachers' Pension Scheme: Department of Education Briefing

22 October 2014

Members present for all or part of the proceedings:

Miss Michelle McIlveen (Chairperson)
Mr Danny Kinahan (Deputy Chairperson)
Mr Chris Hazzard
Ms Maeve McLaughlin
Mr Robin Newton
Mr Seán Rogers
Mr Pat Sheehan

Witnesses:

Mr Seamus Gallagher	Department of Education
Mrs La'verne Montgomery	Department of Education

The Chairperson (Miss M McIlveen): I welcome La'verne Montgomery, the director of education workforce development; and Seamus Gallagher from the pay remit and pensions policy team. You are very welcome to this morning's Committee. I ask you to make your opening statement, and then we will follow up with some questions. I note that we do not have a paper, so perhaps you will give us more detailed information around the responses to your consultation.

Mrs La'verne Montgomery (Department of Education): Certainly. Thank you, Chair. I am just noticing that you have our colleague's nameplate here, Ian Gallagher. Ian used to be the team leader for pay remit and pensions policy, but we have split those two teams now. Seamus, who happens to be another Gallagher, is the team leader for the pensions policy team.

Thank you very much for inviting us to the Committee today. We very much welcome the opportunity to attend. We intend to provide you with clarity regarding your issues of concern.

We have had two recent consultations. The first was on the detailed scheme design of a reformed teachers' pension scheme. The second was on the structure of member contribution rates for the reformed teachers' pension scheme, which is due to come into effect on 1 April 2015. As you are aware, both consultations closed on 30 September. I can advise the Committee that the Minister is considering the responses to the consultations.

As you are aware, the British Government adopted a policy that required significant reform of public service pensions, along the lines recommended by the Independent Public Service Pensions Commission. They have made it clear that, if the devolved Administrations do not reform public service pensions, they will reduce the amount of money in the block grant by around £300 million per year. Clearly, that would result in a significant detrimental impact on the delivery of education and other front line public services. Out of the £300 million per year, education would lose some £60

million per year. It is for that reason that the Assembly passed the Public Service Pensions Act 2013. It closes the existing public service schemes, including our teachers' pension scheme. It also sets the parameters within which public sector pension schemes must operate. The Department, therefore, must bring forward legislation by April 2015 to provide for a reformed teachers' pension scheme, based on career average earnings and with normal pension age equal to state pension age.

With your agreement, Chair, I will provide the Committee with an overview of the outcome of both consultations. My colleague Seamus and I will then be happy to take any questions that you may have.

A total of 24 written responses were received during the consultation on pensions reform. A significant number of respondents questioned the necessity or, indeed, the appropriateness of the reform of public sector schemes. However, as I acknowledged, the Public Service Pensions Act closes the existing public service schemes, including the teachers' pension scheme. Therefore, the consultation was not in relation to whether we should reform, but, rather, how we should reform.

The Department consulted on four alternative options that were specific to our teachers' pension scheme. However, the majority of respondents were opposed to the Department adopting any of the four potential adjustments to the scheme, mainly because each would result in a decrease in the accrual rate, and, therefore, generally reduce the overall benefits for the majority of the scheme's membership.

Other comments from respondents focused on the complexity of the arrangements and the need for communication. The arrangements for calculating benefits are, unfortunately, unavoidably complex, and the consultation included various examples and scenarios that were necessarily technical. The Department welcomes respondents' views on how communication and understanding of the reforms can be improved across the membership. The Department has developed a communication and engagement strategy and a communication and engagement action plan to address those issues. Those are live documents, they have been developed in conjunction with the employers and teachers' unions, and we are keeping them under constant review.

I will move to the consultation on contributions. The Department consulted on proposals for a reduced number of tiers for employee contributions, as well as a change in the basis of determining which band a member might fall into, from full-time equivalent salary to actual salary. There were 17 responses to that consultation.

The majority of respondents, that is, 14 out of the 17, including the five teacher unions, agreed with the proposal to determine member contribution rates with reference to actual earnings for particular employment, rather than the full-time equivalent salary rate. The Department welcomes the support of respondents for this proposal. However, the majority of respondents, that is, 11 of the 17, disagreed with the proposal to reduce the number of tiers from eight to six with effect from 1 April. Those respondents who provided reasons for their disagreement were equally split between those who believed that eight tiers should be retained and those who considered that the Department should reduce the number of tiers further than six.

The Department believes that there is justification for retaining tiered contributions, at least in the short term. The most significant factor influencing this is the ongoing need to protect the lower paid. There continues to be a possibility that such members would opt out of the scheme if the cost to them were to rise significantly and suddenly against a backdrop of possible pay reform as well as increasing tuition fees, which may affect new teachers' perceptions of the affordability of contributing to a pension scheme. In addition, there will continue to be a large number of active members after 2015 for whom the majority of service will be in the final salary scheme. That means that higher-paid members will tend to continue to benefit proportionally more from the scheme than lower-paid members. Therefore, it is the Department's view that retention of tiered contributions is reasonable. However, the Department recognises that the ultimate aim should be to move to a much flatter tiering structure when the majority, or indeed all, of the scheme membership is accruing pensions on a career average basis.

The Department is very mindful of the risk of increased opt-outs. Therefore, we anticipate that the scheme will move to a flatter tiering structure over the next two valuation cycles. Retention of eight tiers, therefore, would not be consistent with achieving this long-term goal, and it is considered that the initial move from eight to six tiers is a reasonable one. That will also allow the Department to evaluate any changes in teachers' behaviour over the coming years. We monitor opt-outs on a regular basis, and we would do that before deciding whether to reduce the number of tiers further.

Finally, as you are aware, the Department is consulting on an equality impact assessment (EQIA) for pension reform. The consultation will continue until 31 October, and we would encourage all stakeholders to consider the issues raised in the consultation and to respond within the agreed time frame. The Department also recognises that there has been a run of consultations on pension issues over the last couple of months. For that reason, we have continued to engage with stakeholders through various forums, including the teachers' superannuation consultative committee, which continues to meet on a monthly basis, is made up of the employers and the unions, and provides a very strong forum for engagement and debate.

We are happy to take any questions that you have in relation to pensions.

The Chairperson (Miss M McIlveen): Thank you very much. Obviously, this is a complex issue, and I think that it is quite difficult for members to get their head around the details. There have been a number of changes in recent times anyway. Have you seen any substantial change or benefit from those changes?

Mrs Montgomery: The main changes that have taken place over the last number of years have been in relation to employee contributions to the scheme. We have been monitoring very closely potential opt-outs, and it is something that the teacher unions have also been very carefully monitoring. I am happy to say that we have not seen significant opt-outs of the scheme, and I believe that that is for a number of reasons. I believe that we, along with employers and teacher unions, are very much advocates of the teachers' pension scheme. When asked for advice on whether teachers should opt out, I know, having spoken to the unions, that they very much advocate people retaining their rights under the pension scheme. We have discussed this quite regularly at the teachers' superannuation consultative committee, and we have not seen any significant opt-outs. There have been more significant opt-outs of the English and Welsh schemes, and the unions that organise in England and Wales are able to keep us advised on that. In effect, we have not seen a major change in the membership.

The other issue that we have been dealing with over the last number of years is redundancies. It would have been tradition that, when a redundancy was offered, the compensatory payment would have been added years to the pension. From 2010, that has not been the case. Anyone made redundant since that period received a compensatory payment, and that has varied over the years. We have gone from 60 weeks to 90 weeks and back to 60 weeks. We have seen that individuals who would have traditionally taken their pension on receipt of those added years as compensation for redundancy are not necessarily activating and actioning their pension immediately. We have seen people who have left teaching and taken their compensatory payment for redundancy not activating their pension. So, there has been a delay. For example, those who were made redundant, say two years ago, are only now accessing their pension. We have seen a little bit of a delay in the difference between the active membership and the members who take their pension.

The Chairperson (Miss M McIlveen): You referred to the teachers' superannuation consultative committee. What is its view on the consultations that have just closed?

Mrs Montgomery: All the members of the teachers' superannuation consultative committee submitted individual responses to the consultation. The benefit of having the round-table discussion is that we can often reach consensus across the employers and the unions on matters, particularly at the moment, around the development of our communication strategy. We have worked very closely with them on that.

In the main, their response to the first consultation around the reform has been to fundamentally disagree with pension reform. As I said, the consultation was not on whether there should be pension reform; it was more that there is going to be pension reform, which has already gone through the Assembly, and what the teachers' pension scheme will look like as a result of that reform. They have worked closely with us to help shape the new scheme.

The Minister, in particular, was very keen that we look at various options — I talked about the four different options, and we can give you more detail on them if you want — so that we are not necessarily mirroring what is happening in England and we can do something locally to meet the needs of our teaching workforce. However, all the respondents, particularly from the unions, were not keen to move away from what is happening in England, mainly in relation to free movement across different pension schemes, so that any contributions would be equal, regardless of where that teacher was working or what pension scheme they were contributing to. Whilst the unions acknowledged and

welcomed looking at the different options, they came to the conclusion that they did not wish to pursue it.

There were individual responses from individual members who put various options forward and gave consideration to that, but we are very conscious that responses from the teacher unions represent a huge block of the membership of the pension scheme. So, we recognise that that proportion of respondents from the unions represent more than an individual, proportionality-wise, but we also welcome that individuals have taken the time to complete the consultation documentation.

As you said, Chair, they are rather technical and complex issues. That is why, at this stage, the Minister is considering the outcome of the consultation very carefully before making any decisions. Obviously, we will want to hear your views so that we can also factor that into the Minister's consideration.

Responses to the second consultation regarding contribution tiers and so forth were very supportive of the move away from full-time equivalent salary to actual salary. The view was very much that that is because, with a career average pension scheme, that is a fair and equitable way of dealing with member contributions.

There were various views on whether we should move away from the eight tiers. We are still considering those responses, but, as I said, we believe that, in the long term, the move to a flatter structure, because of the career average nature of the pension contributions, makes sense. We recognise, though, that we would not want to do that too quickly and that we would want to do it over a phased period. We believe that moving from eight to six allows for that, and we will keep that under review.

Mr Hazzard: Thanks for the update. La'verne, you said that we do not necessarily have to mirror what is happening in Britain. Theoretically, is it possible to have our own local teachers' pension scheme here in the North?

Mrs Montgomery: It is our own pension scheme already. The difference is that we are following the manner in which the scheme is administered. It is absolutely possible to move away from how it is administered in England and Wales and do something different locally, and that is why the Minister was very keen to have those four options explored in the consultation. The difficulty is that whatever we do has to be within the envelope in relation to the budget share, so all the different scenarios that we shared in the consultation still had to add up to the same figure at the end. In looking at, say, changing the accrual rates, it was found that there was then an impact on the outcome for the membership. The conclusion from the respondents was that it was benefiting a smaller number of the membership than would be the case following the England and Wales model. Following the England and Wales model means that more members are getting treated equitably and fairly rather than, say, a small number who are older getting treated differently.

Mr Hazzard: I welcome the fact that an equality impact assessment is being done. Am I correct to say that not all members will be moving to a career average pension? Is there going to be a danger of creating winners and losers through this? Is it inevitable anyway that it will be perceived as that? What will the disparities be?

Mrs Montgomery: It is a different scheme, so the scheme that exists will close and the new scheme will open. For those who are coming to the end of their career, there are and will be transitional arrangements so that they are less impacted by the changes. Because they are at that stage of their career, they have less time to prepare for the changes than younger teachers, who have more time ahead of them in their career. Those transitional arrangements should protect those who were coming towards the end of their career and, therefore, will not have the same impact on them. That is very clearly built into the reform.

Mr Hazzard: You mentioned the need to protect the lower-paid workers. They are perhaps the people who feel larger contributions the most. We see in today's 'Irish News' the absolutely disgraceful waste of public funds in the health system, with massive pension pots being left to those who, I feel, have run the health system into the ground. They should not be rewarded for such failure. To what extent can we ensure that the likes of the people at the bottom will not be unfairly hit by larger increases while people walk away from the table with massive pension pots to rely on at the end.

Mrs Montgomery: Again, that is part of the rationale behind the tiering. At the moment, we have the eight tiers, so, if you are earning more, you are contributing more. That is a very reasonable argument when you are receiving a final-salary benefit. As we are moving away from that to a career average, narrowing the gap between the tiers means that is a fairer and more equitable approach. However, that should not be done any quicker than we are suggesting, because we do not want to detrimentally impact those on lower salaries.

A newly qualified teacher coming out and potentially not getting permanent full-time employment — maybe they are getting substitution cover or maternity cover — may make a decision to come into the pension scheme when they are not necessarily earning a full salary. We are encouraging them to do so because they have made a decision that teaching is their career and that it is a long-term investment. We do not want to put off the newly qualified and younger teachers who are earning less and are saying, "Well, I'm not getting enough in my pay packet as it is. I don't want to put any away". We want to have less impact on the lower earners whilst recognising that there should be equality and equity of impact. It is the long-term plan that those tiers will reduce over time, but, certainly, no more than from eight to six in the short term. The two valuation cycles would be approximately eight years.

Mr Hazzard: How many responses to the consultation did you receive?

Mrs Montgomery: We had 24 to the first consultation, which was on the reform, and 17 in relation to the contributions.

Mr Rogers: Both of you are very welcome. For a teacher who spends most of their lifetime at the lower end of things, what will the financial impact be in terms of contributions, as opposed to the impact on a teacher who is in middle or senior management?

Mrs Montgomery: At the moment, there are eight tiers. The more you earn, the more you contribute. The percentage is meted out across the eight tiers. At the moment, the more you earn, the more you contribute. That will continue with the movement from eight to six tiers, but it would mean that the distribution would be less. There will be an impact on everyone, but the idea is that you are spreading it still across the six different tiers rather than narrowing it further. We have run different scenarios. Seamus, do you want to give a specific example?

Mr Seamus Gallagher (Department of Education): In particular, the move from full-time equivalent to actual salary will mean that part-time staff will pay considerably less. There will be a block of staff in the middle tiers who will pay slightly more. There will be winners and losers of moving from full-time equivalent to actual salary. We did some analysis of that, and we shared all the figures with the teachers' unions before proceeding with and consulting on the proposals. They came back through the consultative committee and said that they understood that we still had to bring in the same amount of income. The average 9.6% contribution was not changing, but it will be slightly differently structured. The majority of the winners would have been probably part-time teachers, the majority of whom are young female teachers.

Mr Rogers: Leading on from that, in terms of teachers who take career breaks, whether that is a career break abroad or they take a number of years off to bring up their children and so on, will the Department be proactive in making them aware of the real implications of that, so that they do not leave it until they are in their late 50s or 60s?

Mrs Montgomery: Certainly. That is something that we are very conscious of with regard to how we communicate with members in order for them to make informed decisions. Therefore, yes, when an individual is making a life decision to potentially take a career break and they are taking advice from, say, their school principal, the principal should be taking advice from their employing authority if there is one. We are very happy to take those questions directly to the Department and also to the teachers' unions. That is why the teacher superannuation consultative committee is so important, because we are talking regularly and therefore saying the same thing. That individual is getting a similar message from all of those areas where they would seek advice.

Mr Rogers: I have a final point. You talked about the teachers' pension scheme and others. Say, for example, a teacher wants to retire at 65 as opposed to going through to 67 for their state pension. Will they have the opportunity to pay enhanced payments, so that their pension is really at the 67 stage when they are 65?

Mrs Montgomery: Arrangements are already in place, and that will not change.

Mr Gallagher: There will be one option for members, at the start of their careers, to decide to buy out the actuarial reduction. In addition, the actuarial reduction for teachers for the final three years, beyond 65, is at a reduced rate of 3% as opposed to the normal 5%.

Mr Kinahan: Thank you very much for the presentation. I thought that I had followed it all until you said something later on in the brief. On the whole scenario, is it like welfare reform in that if we do not fit with what is coming from the rest of the UK, there will be a fine at the end of it? Is there a sum of money for that?

Mrs Montgomery: It is the £300 million that I mentioned at the outset. That is the difference to the block grant. It is not just the teachers' pension scheme: it is all of the public sector pension schemes that would contribute to that £300 million. The estimate is that the education element of that would be £60 million less a year if we do not make these reforms.

Mr Kinahan: You mentioned that the Department was happy to move away, but, at the same time, the unions want to stay the same.

Mrs Montgomery: The unions are fundamentally opposed to pension reform. They make that very clear every time we meet them. However, because the Public Service Pensions Act (Northern Ireland) 2014 has already been passed by the Assembly, they recognise that they want to influence the shape of what is to come.

Mr Kinahan: When you get to numbers of responses of 24 and 17, is that good? Has everyone responded who needs to respond?

Mrs Montgomery: Certainly, with regard to engagement with unions and employers, management side of the teachers' negotiating committee made a response, so that, effectively, is all of the employers and sectoral bodies, including the Northern Ireland Council for Integrated Education (NICIE), Comhairle na Gaelscolaíochta (CnaG) and the Governing Bodies Association (GBA). We would see that as one response, but it is a huge number of stakeholders. All of the unions submitted individual responses as well. Again, that is another six; five teachers' unions and the University and College Union.

Mr Kinahan: Is anyone missing who should be there?

Mrs Montgomery: No.

Mr Kinahan: Thank you. There are a few specifics, but I think that it is my lack of knowledge.

Mr Newton: Welcome, Mrs Montgomery and Mr Gallagher, to the Committee. Thank you for bringing a degree of clarity into a very complex situation.

Forgive me if you covered this point when I was out of the room. Is there a cut-off point in the event that a teacher dies in service? I think that you mentioned March or April 2015.

Mr Gallagher: From 1 April 2015, any teacher who is not in the protected group for the transitional protection will move straight into the new career-average scheme. The method for calculating enhancement for dependants on death in service would change immediately for those teachers who move into the new scheme. The method will be based on the time between the age that they are at death and the normal pension age, as opposed to a flat six and two thirds for everyone. All those who are in the protected group will retain exactly the same conditions that they have now until they move to the new scheme. That will only be for those who are in a three and a half year band, between 46 and half and 50, on 1 April 2012. So, anybody moving into the new scheme would probably not lose out on that; the amount of enhancement between 45 and the new normal pension age will actually be greater than the six and two thirds.

Mr Newton: Who would be the beneficiaries? What is the breadth of —

Mr Gallagher: Dependants would go to —

Mr Newton: What is the classification of dependants?

Mr Gallagher: Dependants include a widow, widower or children who are still defined as such, that is, they are in full-time education and under the age of, I think, 21. It also includes civil partners and nominated partners, for service from 1 April 2007, providing that the nomination has been made and, at the point when the benefits are paid, there is evidence that cohabitation was actually taking place.

Mr Newton: You are reckoning that there will not be any difference.

Mr Gallagher: There will be a difference, but people who move into the new scheme on day one will not be any worse off than they were on the previous day. Those who do not move into the new scheme will be in exactly the same position. Fifteen years from now, when those people are within a couple of years of retirement, the amount of enhancement that they will get will be less than they would get on day one; because the method of calculating enhancement is changing from a flat rate to half of the service/prospective service between your age at that time and normal pension age. The thinking behind it is that the deaths of younger people are more unexpected, and it is reasonable that they should get a higher level of enhancement because they had further to go in their career.

Mr Newton: Presumably, that was part of the consultation.

Mr Gallagher: Yes.

Mr Newton: Are we going to get a copy of the consultation document?

Mrs Montgomery: You have a copy, and the views of the Committee are very much welcomed. The Minister knows that we are meeting with you today, and we will be giving feedback to him. So, if there are any specific views or issues that you wish us to raise with the Minister, we will be very happy to do so.

Mr Gallagher: And we will also provide you, in due course, with the full written summary of the consultation responses.

The Chairperson (Miss M McIlveen): I will just ask about the death-in-service benefits. Will that be phased in, or will it change in April?

Mr Gallagher: For those who move into the new scheme on 1 April, which is anyone who is aged less than 46 and a half on 1 April 2012, the change will be immediate. For those who are in the full protected 10-year period, it will not change, ever. And for the others who are in the three-and-a-half bracket, where protection is tapered, it will change on the day that they move to the new scheme.

The Chairperson (Miss M McIlveen): So you could have a scenario where someone could pass away in March, and their family would then get a different benefit to those who pass away maybe just a couple of weeks later, in April.

Mr Gallagher: Yes. You could.

The Chairperson (Miss M McIlveen): That is how you propose to do it? I suppose that there has to be a date.

Mr Gallagher: It is one of those things.

The Chairperson (Miss M McIlveen): It seems quite harsh.

Mrs Montgomery: Yes, but there are transitional arrangements and tapering to take account of that.

The Chairperson (Miss M McIlveen): My first question was about the changes that you had made. I believe that, when you came to the Committee before, you said that more money was going out than was coming in. Are the changes which you have made and are currently making rectifying that position?

Mr Gallagher: Well, there is still more money going out than is coming in. We are still completing the 2012 valuation which will inform the cost cap for the new scheme. We have not yet included the cost cap in the draft regulations yet because that work is still not complete. At that point, when the employer cost cap is set and the valuation is done, the new scheme should be more affordable; but that will probably be evidenced four years down the line, when the next valuation is done and the new scheme has been bedded in.

The Chairperson (Miss M McIlveen): So it is likely that there will be further adjustments to contributions.

Mrs Montgomery: Not to the employee contributions, which is part of the consultation; but there may be adjustments to the employer contributions, once the 2012 valuation is complete.

The Chairperson (Miss M McIlveen): And just with regard to your engagement, what are the timescales for the Committee to receive further information and possible regulations?

Mr Gallagher: The Minister is considering the outcome of these consultations. Once he makes a decision on the way forward, we will share with you the formal draft of the outcome of these consultations and, probably within a week or two, we will send you the SL1, with the draft regulations.

The Chairperson (Miss M McIlveen): Within a week or two.

Mr Gallagher: Yes.

Mrs Montgomery: We are working to a very tight timescale in relation to implementation for April 2015, but we are happy to come and meet the Committee between now and then as often as you wish.

Mr Gallagher: There will be other legislation connected to this, and we will consult on that in the coming months. We need to have all of it in place for April 2015.

The Chairperson (Miss M McIlveen): Thank you very much for that. By the sound of things, you will be regular attendees at the Committee. We have no other questions at this stage. I know that, La'verne, you are staying on for the next session; Seamus, thank you very much for your contribution this morning.