Background

(i) Current Pension Provision

The vast majority of EIS members are members of the Scottish Teachers’ Superannuation Scheme (STSS).

- This is a notional scheme. In other words, the contributions of both employees and employers are made to the Treasury. The revenue is not invested by Treasury but is used by Government which undertakes to underwrite pension payments in the future.

- Pensions are based on final salary. This is known as a defined benefit scheme. (A defined contribution scheme is one where contributions are invested and the pension reflects how the pension has grown during the period of employment).

- The pension (and lump sum for pre-2007 entrants) is based on final salary and the number of years of pensionable service. The accrual rate determines how the pension grows.

- The STSS is described as a “pay-as-you-go” scheme. In other words today’s contributions are used to help pay the pensions of today’s pensioners.

A number of EIS members are members of the Local Government Pension Scheme (LGPS). This scheme is regulated by SPPA but administered by 11 fund administering authorities across Scotland. The LGPS is a funded scheme. In other words the contributions of employers and employees are invested. The investments in each scheme provide for pensions on retirement. The LGPS is also a final salary scheme.

A small number of EIS members are members of the Universities Superannuation Scheme (USS) which is a funded scheme and not part of the current proposals.

Previous Reforms

In 2005 the Labour Government reached agreement with the TUC through the Public Services Forum on principles to underpin pension reform. The agreement accepted that public service pensions are a key benefit of public sector employment and should be celebrated as such.

Following the overarching agreement, scheme specific discussions took place. Discussions on the teachers’ schemes in the UK took place through the Teachers’ Superannuation Working Party. Agreement was reached on the Teachers’ Schemes in 2006 and a change was made in England in
2006 and in Scotland from 1 April 2007. These changes took account of increased longevity.

The principal changes to STSS were:-

(i) Normal Pension Age (NPA) raised to 65 for new entrants.
(ii) Increased contribution rates for employees (6.4% from 6.0%).
(iii) Cap and share arrangements – future scheme costs would fall on employees or be shared between employers and employees.
(iv) Accrual rate of 1/60 for NPA65 with right to commute a percentage to lump sum.
(v) Death-in-service benefits were improved to 3 times pensionable salary.
(vi) Introduction of 2 tier ill health retirement arrangements.

The principal changes to LGPS were:-

(i) Tiered contributions (from 6.0%) ranging from 5.5% - 12%.
(ii) Accrual rate 1/60.
(iii) Two tier ill health retirement arrangements.
(iv) Improved death in service benefits.
(v) Cost sharing to meet future cost pressures.

In the work of the Independent Public Sector Pension Commission Lord Hutton concluded that these reforms have reduced the value of pensions by 25%.

The Coalition Government

Prior to the election both David Cameron and Nick Clegg attacked public sector pensions. Nick Clegg described them as “gold platted and unreformed.”

The Government asked Lord Hutton to review pension provisions through the Independent Public Sector Pensions Commission. Hutton had to make recommendations on provision which is “sustainable, affordable and fair” and to propose implementation and transitional arrangements.

The Government has also taken other steps regarding public sector pensions.

(i) Indexation of Pensions

From April 2011 pension indexation is to be based on the Consumer Price Index (CPI) rather than the Retail Price Index (RPI). RPI has been used since 1971 to uprate pensions in payment.

Generally the CPI runs below RPI by 0.75% annually.

The Public Services Pensioners Council has calculated that a pensioner with a £10,000 pension could lose £30,000 over 25 years of retirement.
Prior to the election the Shadow Chief Secretary to the Treasury Phil Hammond stated that:

“The Conservative Party has no plans to change the current index-linking of public sector pensions in payment.” The Liberal Democrat Shadow Pensions Minister Steve Webb (now Pensions Minister) stated: “I have confirmed I regard accrued index-linked rights as protected.”

This change alone will reduce the value of pension benefits by 15%.

(ii) Superannuation Contributions Adjusted for Past Experience (SCAPE) – Discount Rate

To calculate the cost of tomorrow’s pension the Government uses a methodology to calculate future costs. The methodology called SCAPE was based on a calculation of 3.5% above RPI. This approach is used for all long term public sector spending set out in the Treasury “Green Book” which is the Treasury’s guidance on all public sector spending.

Following consultation the Government has revised SCAPE for pension calculations to 3.0% above CPI. This will increase scheme costs and potentially require a further 4.30% contribution increase, which may or may not be shared between employees and employers.

(iii) Suspension of Scheme Valuations

The performance of the teachers’ schemes in the UK is measured by periodic scheme valuations. These are conducted by the Government Actuary’s Department and take account of a number of factors such as life expectancy. The reforms in 2006/07 had taken account of life expectancy projections up to 2050.

However, the Government has suspended scheme valuations for teachers in England and Wales and in Scotland. This means that the data required to consider whether further reforms are necessary at all has been withheld. It is impossible to make progress in scheme specific discussions without looking at whether the previous reforms were reducing costs sufficiently.

The data on life expectancy set out by Lord Hutton’s report makes it clear that the 2004 date, used to inform the 2006/7 reforms, has underestimated life expectancy. Full valuations are necessary to judge whether the costs, anticipated to fall in the reforms, have actually done so or whether marginal contribution increases are required to take account of increased life expectancy.

(iv) Contribution Increases

The Government has proposed increasing contribution rates by an average of 3.2% over the next 3 years from 1 April 2012 across
public sector schemes excluding the armed forces. Tiering of contributions is intended to soften the impact on lower paid public sector workers but will also lead to higher paid workers having an increase in contributions rising from 6.4% to over 11%. The contribution increase sought by Government will mean a 50% contribution increase for the vast majority of teachers.

**Hutton Recommendations**

The principal recommendations set out in Lord Hutton’s final report are:

(i) The retention of Defined Benefit arrangements but the ending of final salary schemes. The Review proposes the introduction of career average schemes (Career Average Revalued Earnings) to replace pensions based on final salary. After the new scheme is introduced teachers will have two pension calculations on retirement: the first based on service under existing arrangements, the second based on new arrangements.

(ii) Accrued rights should be protected.

(iii) Public servants Normal Pension Age will be tied to the state retirement age (apart from those in uniformed services who will have a Normal Retirement Age (NRA) of 60). This will mean that, in future, if a scheme member retires before the State Pension Age (SPA) the pension will be actuarially reduced. For current scheme members this will not affect their right to access pension accrued at the relevant date of retirement. However, service after the changes will be tied to the SPA.

(iv) Tiered Contribution Rates will be introduced.

(v) Employers should have a clear fixed cost ceiling in schemes.

(vi) Public sector schemes should exclude non public service workers.

(vii) Improved governance of pension schemes.

**Discussion between Government and TUC**

Throughout late spring and early summer there have been ongoing discussions between Government Ministers, Francis Maude and Danny Alexander, and the TUC, led by General Secretary Brendan Barber. Arising from those discussions it was agreed to have scheme specific discussions to look at scheme design and at contribution increase for years 2 & 3. (Pension contributions increases are subject to a separate consultation in England Wales).

Scheme specific discussions at UK level are structured through the Teachers’ Superannuation Working Party. A number of meetings have taken place or are scheduled throughout September and October. A report will be provided to the Government at the end of those discussions.
The Position in Scotland

John Swinney the Cabinet Secretary for Finance reported to Parliament on 22 June that, if the Scottish Government did not introduce the increases in contribution payments, the Treasury would require the Scottish Government to find the money elsewhere. The Treasury had calculated that the costs of increased contributions from teachers would amount to over £90m over the next 3 years.

The Reference Scheme Approach

To take forward Lord Hutton’s recommendations the Treasury has developed a “reference scheme” to inform scheme specific discussion. This includes:

(i) linking retirement ages in schemes to the State Pension Age.
(ii) Career Average Revalued Earnings (CARE) scheme design.
(iii) an accrual rate to be determined centrally. (This has still to be done).

By insisting that scheme discussions are linked to the reference scheme the Government is seeking to ensure that the Hutton recommendations are delivered. However, by ignoring scheme valuation and by failing to set out cost ceilings or accrual rates the government is failing to provide any context for meaningful discussions.

The Impact on Individuals

(i) Work Longer

It is the Government’s intention that the retirement age within schemes will be the same as the state pension age. From 1 April 2015 it is expected that all teachers will have a retirement age of 65. For those born between 6 April 1954 and 5 April 1960 the state pension age will be 66, rising, probably to 67 by 2026 and likely to increase to 68. New entrants to the scheme will not be able to rely on the state retirement age at that time but will have to wait for the Government to make decisions on future retirement age.

(ii) Pay More

The following table illustrates how this might apply based on initial papers for the Teachers’ Scheme in England and Wales. If you are part time the contribution rate will still be based on your full time equivalent salary.

<table>
<thead>
<tr>
<th>Salary Range (£)</th>
<th>Contribution Rate 2012-13</th>
<th>Contribution Rate 2013-14</th>
<th>Contribution Rate 2014-15</th>
<th>% age increase over 3 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>18,000 - 29,999</td>
<td>7.0%</td>
<td>7.6%</td>
<td>7.9%</td>
<td>23%</td>
</tr>
<tr>
<td>30,000 - 39,999</td>
<td>7.6%</td>
<td>8.8%</td>
<td>9.6%</td>
<td>50%</td>
</tr>
<tr>
<td>40,000 - 74,999</td>
<td>7.9%</td>
<td>9.3%</td>
<td>10.0%</td>
<td>56%</td>
</tr>
<tr>
<td>75,000 and over</td>
<td>8.3%</td>
<td>10.3%</td>
<td>11.2%</td>
<td>75%</td>
</tr>
</tbody>
</table>
On this basis if we assume average pay rises of 2% over a 25 year period, an unpromoted teacher would see an increase in contributions of more than £28,000. A headteacher would see increases of over £50,000 over this period, even if only in a promoted post for the final 10 years of their career.

Any increase in contributions which may arise in 2015 will be in addition to these increases.

Over the next 3 years, from your pocket annually you will give

<table>
<thead>
<tr>
<th>Annual Salary</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>£25,716</td>
<td>£308.64</td>
</tr>
<tr>
<td>£34,200</td>
<td>£875.52</td>
</tr>
<tr>
<td>£55,050</td>
<td>£1,321.20</td>
</tr>
<tr>
<td>£76,968</td>
<td>£2,309.16</td>
</tr>
</tbody>
</table>

(iii) Get Less

The Government proposes bringing to an end final salary schemes with the introduction of Career Average Revalued Earnings (CARE) schemes from 2015. A final salary scheme is based on your salary at retirement. A CARE scheme provides a pension based on your salary across your teaching career.

Scheme changes in 2007 introduced an accrual rate of 1/60 for new entrants. Proposals in Treasury documents suggest accrual rates of 1/80, 1/90 or even 1/100.

Currently a teacher on the top point of the maingrade scale with 25 years’ service would expect a pension of £14,250. Under a CARE scheme with a 1/80 accrual rate this teacher’s pension would be £10,625.

A headteacher on Point 10 with 25 years’ service would currently expect a pension of £22,975. Under a CARE scheme with a 1/80 accrual the pension would be £14,000.

Opting Out

All unions believe there is a serious risk of significant scheme opt out. In an all graduate profession new entrants who may have significant student debt may choose to make savings by abandoning pension contributions. The Government is aware of the risk of opt out but has predicted an opt out rate of 1% which grossly underestimates the potential scale of the issue.

Any defined benefit schemes in which employers’ contributions add to the pension will remain worthwhile but in a context of rising inflation and pay freeze some members will have to make a difficult decision about whether they can afford to remain in occupational pension schemes.
The state pension in Britain is amongst the lowest in Europe and does not provide for an adequate living standard in retirement. Many of those in retirement who depend solely on the state pension have that pension supplemented by state benefits.

If there is a significant opt out from occupational pensions the consequence will be an increasing reliance on state benefits in retirement.

**Conclusion**

While the Government is consulting unions on contribution increases and on scheme design members should be absolutely clear that the Government is not required to reach agreement. Regulations are determined by Parliament. For teachers’ scheme members and Local Government Scheme members in Scotland, the Scottish Parliament will have to approve scheme changes.

The previous Government did not reach agreement across the majority of schemes. However, the unions believe that the Government is intent on increasing contributions to reduce the deficit and to redesign the scheme to save money by asking individuals to pay more and get less.

The need for a massive YES vote is clear. A resounding return in favour of strike action must be delivered.

5 October 2011

**Footnote**

When comparing the 2008 assumptions in relation to the 2004 assumptions the Government Actuary has stated that, for “normal health” pensions (i.e. those not seeking medical retirement) at 60, in the current pensions group, men are expected to live 3.6 years longer, women 4 years and for future pensioners men are expected to live 2.9 years longer, women 3.5 years longer.

For “normal health” current pensioners age 65 men are expected to live 3.5 years longer, women 3.9 years longer. For future pensioners’ men are expected to live 3.3 years longer, women 3.8 years longer.