

Northern Ireland Public Service Pensions Reform

Consultation on Proposals to Reform Public Service Pensions from April 2015

Response by the Irish National Teachers` Organisation (INTO)

April 2013

Preamble

The Irish National Teachers` Organisation (INTO), is the largest teaching union in Ireland and presently represents around 7000 teachers in all educational sectors in Northern Ireland. INTO has over the past number of years made various interventions and representations on the issue of public sector and teacher pension reform. As such we welcome the opportunity to respond to the consultation exercise given that public sector pensions including teacher pensions are pivotal to ensuring a viable and committed public sector as well as a teaching profession who feel valued and supported by the NI Assembly.

Introduction

The public sector in Northern Ireland remains significant in the sustaining of employment for a large section of the population. Despite the executive's commitment to rebalance the economy and shrink the size of the public sector and grow the private sector little has been achieved and there is no sign of real economic growth which would entice or encourage such a rebalancing.

Therefore INTO on a global level would be concerned that reductions in the benefits or remuneration available to public sector workers will cause lasting damage to the NI economy as well as moving more individuals into the "poverty trap". It is also disappointing that to date the NI Executive has done nothing to dissuade or refute the idea that public sector workers, including teachers are in receipt of "gold plated" pensions and benefits. INTO strongly refutes this perception and we feel that the onus must be on government to support its workforce rather than let them be the victim of media misinformation.

Finally, INTO must express concern that the NI Executive has continually followed the recommendations of the UK Government with regard to pensions. This legislation and others in the pipeline offer the ideal opportunity to achieve balanced and workable solutions which would benefit the NI economy and the public sector workforce. To squander that opportunity at this time is an opportunity that will be lost and generations will pay the price for these proposed reforms. .

With regard to the matters highlighted in the consultation, INTO would respond as follows:

1. A move to a Career Average Revalued Earnings (CARE) scheme model of pension saving.

INTO condemns this proposal to move to a Career Average Revalued Earnings (CARE) pension schemes. They are designed to provide generally lower pensions than traditional final-salary schemes. We have closely examined figures produced into these schemes and they do offer significantly lower benefits at retirement including loss of a tax free lump sum, supposedly offset by a change in contribution rate from 1/80th to 1/60th.such pension loss will

have an overall impact on the employee and may increase their reliance on state benefits as they move closer into poverty.

Furthermore, INTO have concerns about overt and covert equality issues which could have a detrimental impact on public sector workers, particularly women with caring responsibilities. We believe that this matter should be critically examined before a decision is taken to move forward on the proposals and not as is the practice to simply use the Section 75 approach when the proposals are already in place.

To protect the accumulating pension against inflation, each individual's notional pension has to be uprated each year. The annual uprating might be in line with inflation (based on the Retail Prices Index or the generally lower Consumer Prices Index) or it might be in line with earnings growth. However it is also accepted that movement to CPI has further detrimentally impacted on current public sector pensions and INTO considers that this CPI approach coupled with the revised scheme is a double blow to those employees on their retirement.

Recently the UK Government has commented on the proposal to not allow automatic salary increases for public sector workers unless based on performance. For people who don't get pay rises on promotion, career average benefits that are uprated with average earnings growth will be no less valuable than a final salary scheme. However this recommendation on public sector salaries must be clarified by the NI Executive if any benefit is to be

Another important factor at the discretion of those designing the scheme, in this case the government, will be the extent of inflation-proofing once a pension is in payment. There is no specific detail as to the level of protection to be offered by the NI Executive and this must be set realistically given the high level of inflation and the present Treasury forecasts regarding inflation and economic growth. INTO will not accept a pay reduction through the use of low levels of pension protection. It is accepted that the greater the protection, the more expensive the scheme will be, and the higher the contributions that will be required. However if the workforce is to be valued then this is a cost that must be met.

Other elements contributing to the cost of a career average scheme will be the extent of other features, such as a pension or other benefits for dependents, spouses and partners, both before retirement and after. INTO are concerned at the degree to which the proposals require further detailed announcements by government and negotiation, scheme by scheme,

Career average schemes are very different to final-salary schemes, despite the continued practice of describing both of them as "defined benefit" schemes INTO feels that it would be much better to describe career average schemes as undefined benefit schemes.

When compared to the final-salary scheme it is proposed to replace, no public sector worker will be better off and almost no-one will be able to accrue a higher pension than before. Many members will, for the same number of years and the same level of annual contributions, receive a much lower pension. That is simply because of the obvious reason that most people experience their peak earnings in their last few years of work after starting off with relatively low earnings while young. In a career average scheme low wages or salaries in the early years directly affect the pension calculation; in a final salary scheme they do not. INTO also believes that the changes are likely to have an even greater impact on higher paid employees and those who receive above-average salary increases in future.

Although the government is planning to introduce an average increase of three percentage points for public sector employee pension contributions, this is aimed at cutting the government's contributions, not at raising the level of benefits. INTO supports, uprating of public sector pensions in line with earnings growth. We believe that we are supported in this proposal by Lord Hutton in his recommendations.

INTO must stress that contributions will be higher for better schemes. It is the view of INTO that increase contribution should be met by employer's and not employees.

It is vital for INTO that we take the opportunity to stress the serious concerns we have over the implications of these entire pension reforms on the teaching workforce. Most individuals enter the teaching profession as a career and over 35 or more years' service they give a lifetime's commitment to the education of at least 2 and possibly 3 generations of the NI workforce. To now move to change the retirement age, reduce their pension entitlement and harmonise their retirement age with the default state retirement age will destroy the teaching workforce. INTO members and other professional teachers will struggle to maintain a professional service at age 68. The NI Executive must be clear that special protections must be considered for teachers to allow them to give a professional service, retire with dignity and not feel that they must remain until ill health or burnout forces them to retire. INTO proposes that special arrangements should be agreed, similar to fire-fighters and mental health nurses, to allow teachers over 60 to secure a pension on the basis of their accruals, without actuarial reduction.

INTO would highlight that more important than the new basis of calculating the pensions will be the proposed higher retirement age. Some existing staff who retires at 60, including teachers, under their current rules will be told they must now work to 65 for a full pension. And that normal pension age, it is now proposed, should rise even further, to 66, 67 and eventually 68, in tandem with the government's existing plans for the state pension. The effect of this will be just as profound as changing the underlying method for calculating someone's pension. We feel that this approach is not reflective of the demands

placed on public sector workers, including teachers and will be ultimately a false economy as sickness absence levels rise and the public sector cannot demands of government.

2. A direct link to equalise schemes' Normal Pension Ages with State Pension Age (except for the police and fire and rescue services

We have already referred to the matter above.

INTO would highlight that more important than the new basis of calculating the pensions will be the proposed higher retirement age. Some existing staff who retires at 60, including teachers, under their current rules will be told they must now work to 65 for a full pension. And that normal pension age, it is now proposed, should rise even further, to 66, 67 and eventually 68, in tandem with the government's existing plans for the state pension. The effect of this will be just as profound as changing the underlying method for calculating someone's pension We feel that this approach is not reflective of the demands placed on public sector workers, including teachers and will be ultimately a false economy as sickness absence levels rise and the public sector cannot demands of government. INTOs position remains that we remain opposed to the increased retirement age given that the likely outworking will be workforce with significant medical needs as well as disabilities and regrettably reduced productivity and commitment to the work required. We would urge that any decision to harmonise the pension ages is deferred until there has been an honest debate involving all stakeholders, including INTO, on the likely impact of this proposal on the public sector workforce and the impact on the NI economy in general. We would also urge that this policy and its impact are screened for the impact of age in accordance with Schedule 9, Section 75 of the NI Act 1998.

3. A Normal Pension Age of 60 (subject to regular review) for the police and fire and rescue services).

INTO welcomes the decision to retain the default retirement age at 60. However we have serious concerns that while this exists, the other projected changes including the harmonisation of the state retirement age will force many workers to remain in work simply to be able to afford to live. This has serious ramifications for the NI economy as well as placing a significant responsibility on the state to support older workers post retirement. It will also mean that public sector workers who have managed some small savings for their retirement will have to rely on this just to manage.

4. A final salary link for any final salary pension accrued prior to the date at which the new schemes will commence.

INTO welcomes this offer of protection for older workers and the link to their final salary scheme in order to calculate and assess their retirement benefits. However

employees who are below 50 years currently will suffer losses, even with this protection. INTO would encourage the NI Executive to work creatively with INTO and other trade unions to agree a way in which the worst aspects of this proposal can be offset for as long as possible.

5. A scheme cost cap with a default mechanism to maintain costs with set cost floor and ceiling limits

INTO would be concerned that this proposal is ultimately designed to allow Treasury to estimate the cost of public sector pensions. INTO is further concerned that such proposals rarely if ever benefit the scheme member. If the NI Executive is serious about a NI Specific scheme then they will agree with stakeholders such caps that are reflective of the makeup and demands of the public sector to ensure and detrimental impact is at a minimum.

6. Transitional protection measures for scheme members who were within 10 years of their existing Normal Pension Age on 1 April 2012

INTO welcomes any protection that is offered to existing members of the final salary scheme. However we are concerned that up until now there has not been overall transparency with regard to the cost of new scheme. We would urge that such a costing would be undertaken for the NI public sector to ascertain as to whether opportunities exist to extend the protection beyond the age range suggested by Lord Hutton in his report.

7. Revised measures for scheme governance

Up until now details of public sector schemes in NI have been shrouded in mystery and secrecy. Data when requested is not available or are incomplete yet “informed” decisions by the NI executive have been made on the basis of such information. This also calls into question the effectiveness of equality screening and impact assessment and the decisions reached on this area. We believe that the NI public sector scheme and the Northern Ireland Teachers Superannuation Scheme should be regularly evaluated independently by an agreed party and the results of that assessment made available in full to scheme members.

Reform must mean reform. INTO is no longer prepared to rely on out of date Government actuary reports or incomplete scheme valuations as a basis for pension reform. If governance is to be improved then it must be a root and branch reform which involves the proactive engagement of public sector workers and their trade union representatives at all stages of the scheme and its management. Only with such an approach and a commitment to openness and transparency can public sector workers have confidence that proposed changes are inevitable and for the overall good of the workforce. INTO believe such an approach is a restatement of a

greater openness and transparency of all areas of government. Pensions and pension schemes should be similarly treated.

Finally, in this section, if the decision is to reform the pension arrangements and move to a CARE model INTO must insist that there will be a requirement of Government to supply members of a career average scheme with a yearly statement of:

- (a) Their contributions to the scheme for that year and
- (b) the current value of their pension “fund” which would include the updated contributions of previous years.

INTO believes that similar commitments have been given in other jurisdictions and we believe it would be reasonable to provide scheme members with regular information on the performance of their pension and therefore allow effective retirement planning.

Conclusion

As stated at the outset of this document it is the view of INTO that the proposals for public sector pension reform must be contextualised for the public sector workforce, including the professional teachers who we represent in NI we believe that such a review should be undertaken in partnership with NICICTU trade unions including INTO.

To that end we ask that a detailed and careful consideration is given to this response and that proposals for pension reform in the public sector are changed to reflect our member’s concerns and that the NI Executive move away from the UK status quo model to develop a pension scheme fit for the present and future employees of the public sector and which will benefit the NI economy overall

INTO remains willing to discuss any aspects of our response in order to clarify exactly what the policy of the Organisation is and ensure that the NI executive is fully aware of the position of INTO and how we could work together to address the issue of public sector pension reform.