



# **Pensions** briefing

Pensions remain a key issue for the resolution of the NASUWT national trade dispute with the Cabinet Secretary for Education.

The NASUWT is the only union to have implemented continuous national industrial action since November 2011 across England, Wales, Northern Ireland and Scotland against reforms to the teachers' pension schemes.

These reforms have increased the teachers' normal pension age (NPA), reduced benefits and increased pension contributions.

Public service workers' pension schemes, including the teachers' pension schemes across the UK, have been attacked relentlessly by the UK Government.

False claims were made that public service pension arrangements, such as the Scottish Teachers' Pension Scheme (STPS), were 'gold-plated', too generous and a burden on the public purse, i.e. on taxpayers in general.

In addition, those attacking the schemes claimed that it was unfair for public service workers to have such pension schemes when workers in the private sector do not.

The NASUWT does not accept such fallacious arguments.

### **The Hutton Review**

The UK Coalition Government established the Independent Public Service Pensions Commission (IPSPC), under the Chairmanship of Lord Hutton, to review the long-term affordability of public service pensions and to consider the case for short-term savings within the 2010 Comprehensive Spending Review (CSR) period.

The IPSPC found that the average teacher's pension was currently about £10,000 per annum. The average pension for a public sector worker is about £5,600 per annum.

According to Hutton, public service schemes provide a modest – not an excessive – level of retirement income and it is wrong to say that public service pensions are 'gold-plated'.

However, the UK Government proceeded to worsen teachers' and other public service workers' pensions.

The UK Government initially announced that accrued rights would be protected, but then, without any consultation, introduced a change from linking pension increases to the Retail Prices Index (RPI) to indexation using the Consumer Prices Index (CPI) with effect from April 2011.

**Pensions indexation – the effect of the change from RPI to CPI**

The change to CPI indexation reduced the value of pensions in payment.

The table below shows the cumulative effects of the pensions indexation change from RPI to CPI on teachers’ pension values at the pension levels indicated at one, five and ten years from its introduction in April 2011. These are gross figures and do not take into account deductions for tax.<sup>1</sup>

**Table A: Cumulative effects of the pensions indexation change from RPI to CPI on teachers’ pension values**

<b>Annual Pension of £7,500 in 2010</b>	<b>April 2011-March 2012</b>	<b>April 2015-March 2016</b>	<b>April 2020-March 2021</b>
RPI increase	£7,845	£8,973	£10,473
CPI increase	£7,733	£8,640	£9,437
Annual shortfall	£112	£333	£1,036
Cumulative shortfall	£112	£1,014	£4,564
<b>Annual Pension of £10,000 in 2010</b>	<b>April 2011-March 2012</b>	<b>April 2015-March 2016</b>	<b>April 2020-March 2021</b>
RPI increase	£10,460	£11,965	£13,964
CPI increase	£10,310	£11,521	£12,583
Annual shortfall	£150	£444	£1,381
Cumulative shortfall	£150	£1,353	£6,087
<b>Annual Pension of £15,000 in 2010</b>	<b>April 2011-March 2012</b>	<b>April 2015-March 2016</b>	<b>April 2020-March 2021</b>
RPI increase	£15,690	£17,947	£20,946
CPI increase	£15,465	£17,281	£18,874
Annual shortfall	£225	£666	£2,072
Cumulative shortfall	£225	£2,030	£9,131

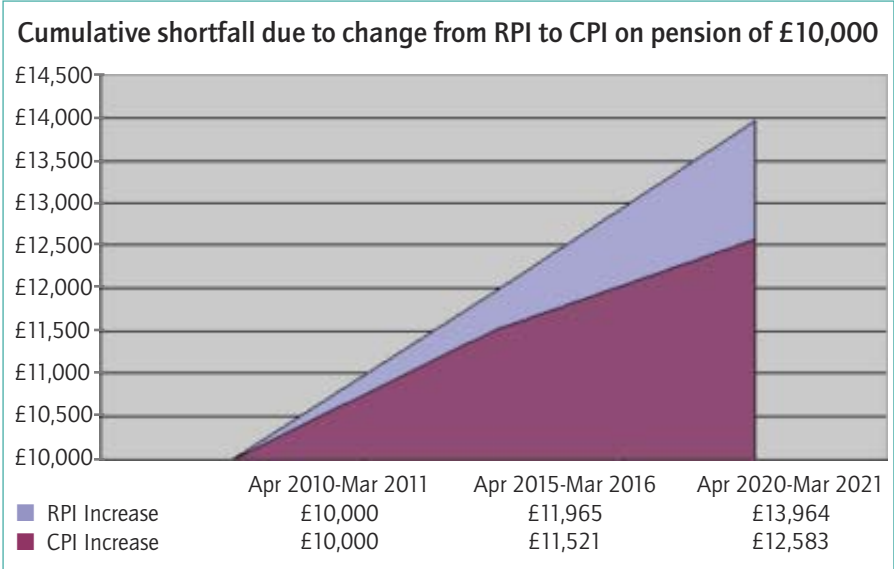
In each case this represents a cumulative shortfall of 61% of the original pension value over ten years.

<sup>1</sup> Full details of the methodology involved in calculating these figures are available from the NASUWT.

The cumulative shortfall will be over 100% of the original pension value over 13 years if the gap between RPI and CPI remains constant with the latest economic forecasts.

The graph below demonstrates the ever-increasing gap in teachers' pension benefits caused by the change from RPI to CPI. The lilac shading represents the amount lost by the change to CPI indexation.

The NASUWT opposed the change from RPI to CPI indexation for the STPS and mounted an unprecedented legal challenge against the Government



in both the High Court (October 2011) and the Court of Appeal (February 2012). The UK Government resisted the NASUWT's legal challenge and, unfortunately, the Appeal Court ruled in favour of the UK Government that it was entitled to select the less favourable CPI index to uprate teachers' pensions because it was in accordance with Government economic policy.

## **Reduction in the discount rate**

The UK Government also attacked teachers' and other public service workers' pensions by reducing the discount rate (which determines the amount by which the STPS and other unfunded public service pension schemes grow), which was reduced from RPI + 3.5% to CPI + 3% in April 2011.

The change in the long-term financial assumptions used by the Treasury, of which the most significant is the change in the discount rate, has reduced the notional assets of the STPS by £2.6 billion.

In addition, the change in demographic assumptions (including the use of UK-wide increased longevity statistics which may not be fully applicable to Scotland) has reduced the notional assets of the STPS by a further £1.2 billion.

The evidence is therefore that, as a result of the Treasury's financial assumptions alone, a £1.3 billion surplus in the STPS has been converted to a £1.3 billion deficit.

In the 2016 March Budget, the Chancellor of the Exchequer announced that a further cut in the discount rate would be made, and that a discount rate assumption of CPI+2.8% would be used for the 'as at 2016' valuation of the STPS. The UK Government has estimated that this will wipe a further £4 billion off the value of public sector pension schemes between 2019 and 2021, including the STPS.

## **Employer Pension Contributions**

Employer pension contributions will increase as a result of the valuation and the costs associated with administering the TPS in September 2015, although these will not have increased as much as employee pension contributions have since April 2012. The impact on pension contributions brought about by the Scottish Government has been:

- an increase of 3.2% in employee pension contributions to an average of 9.6%;
- an increase of 2.3% in employer pension contributions to 17.2%.

The NASUWT demanded that the UK Government pledge, before the May 2015 General Election, to fund the increase in employer costs arising from

the valuation of the STPS to avoid cuts in school budgets. The UK Government refused this request, but this will continue to be a campaigning priority for the NASUWT.

The NASUWT has pressed, and will continue to press, for the Scottish Government to have greater control over the valuation process for the STPS, and for the assumptions used in the valuation to be devolved, rather than reserved, matters. This is consistent with the governance arrangements for the STPS, where the Scottish Government Cabinet Secretary for Finance is the scheme manager.

### **Guaranteed Minimum Pension**

The Guaranteed Minimum Pension (GMP) is the minimum pension which a UK occupational pension scheme had to provide for employees who were contracted out of the State Earnings-Related Pension Scheme (SERPS) between 6 April 1978 and 5 April 1997. SERPS is now known as the Second State Pension (S2P). The GMP amount is, in theory, 'broadly equivalent' to the amount the pension scheme member would have received had they not been contracted out.

When GMP became payable at the pension scheme member's State Pension Age (SPA), the inflation-linking associated with the 1978-1988 element of the member's pension began to be paid by the state in retirement. However, from 6 April 2016, the UK Government ceased to pay annual inflation increases on the GMP for members reaching the SPA from that date.

The NASUWT opposed the failure of the UK Government to give guarantees of index-linking the GMP element of the teachers' pension when this became apparent in 2013.

The UK Government's position was clear in a written Parliamentary answer given by the 2010-15 Government's Pensions Minister, Steve Webb, in January 2014, when he stated:

*'The Department for Work and Pensions does not pay increases on guaranteed minimum pensions (GMPs). GMPs are occupational pension scheme benefits which were accrued between 1978 and 1997. Pension schemes are liable for any statutory indexation of GMPs, and this liability will not change as a result of the single tier reforms'* (Hansard, 6 January 2014).

## The NASUWT response

In the interests of teachers, the NASUWT stated that it was unacceptable for the teachers' GMP increase not to be paid from 6 April 2016.

The NASUWT made it very clear to the UK Government that failure to index-link GMPs in the STPS after 6 April 2016 was a clear breach of the Government's 'accrued rights promise'.

**On 1 March 2016**, the Treasury announced that the GMP element of the public service pension will be index-linked. **Any teachers retiring after 1 April 2016 with 1978-1988 pensionable service will receive full indexation of their teachers' pension, which will be met by the STPS.** Pension schemes, including the STPS, are already under an obligation to pay increases on GMPs accrued between 1988 and 1997, subject to a cap of 3%.

## NASUWT national action and campaigning

The worsening of teachers' pensions has been brought about by UK Government legislation, but the NASUWT believes that the devolved powers of the Scottish Government have given the Scottish Government an opportunity to provide a more beneficial pension scheme for Scottish teachers than in England and Wales. The NASUWT regrets that the Scottish Government has not done so and believes that such provision would be a significant step forwards in resolving the NASUWT dispute with the Scottish Government.

The continuous industrial action by NASUWT members has secured progress throughout the course of the pension reforms which would not otherwise have been possible, including securing:

- mobilisation of members across the UK in industrial action, campaigning, lobbying and petitions on pensions;
- transitional protections for older teachers in the context of the changes to teachers' pensions;
- full transitional protection against all aspects of pension reform, apart from the new employee contribution rates, for all teachers in the NPA 60 scheme who were 50 or over on 1 April 2012;

- tapered protection for teachers in the NPA 60 scheme who were 46.5 years of age or over on 1 April 2012;
- progressive tiering of pension contributions to ensure that those who earn the least pay the least, with Scotland having a more progressive contribution structure than in England, Wales and Northern Ireland;
- protection for more than 40% of teachers from the full impact of the UK Government's original proposed 9.6% employee pension contribution rate;
- an employee contributions structure based on actual salary, ending discrimination against teachers who work part time;
- establishment of a national working party on teachers working longer and early retirement;
- employee/trade union representation on the STPS governance structures in Scotland including the STPS Pension Board and the STPS Advisory Board;
- the UK Government's review of the potential equalisation of survivor benefits for same-sex married couples and widowers;
- improvements to ill-health pension provisions.

**The NASUWT campaign on pensions continues.**



**For further information on:**

- How the CARE scheme works;
- How to access information about pension provision;
  - Buying additional pension.

Go to: [www.nasuwat.org.uk/PensionsMaterials](http://www.nasuwat.org.uk/PensionsMaterials)



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