Pensions briefing

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

The Government 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 Government since 2011.

False claims were made that public service pension arrangements, such as the Teachers' Pension Scheme (TPS), 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 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 2010-15 Government proceeded to worsen teachers' and other public service workers' pensions.

The 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.[1]

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

Annual Pension of £7,500 in 2010	**April 2011-March 2012**	**April 2015-March 2016**	**April 2020-March 2021**
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
Annual Pension of £10,000 in 2010	**April 2011-March 2012**	**April 2015-March 2016**	**April 2020-March 2021**
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

[1] Full details of the methodology involved in calculating these figures are available from the NASUWT.

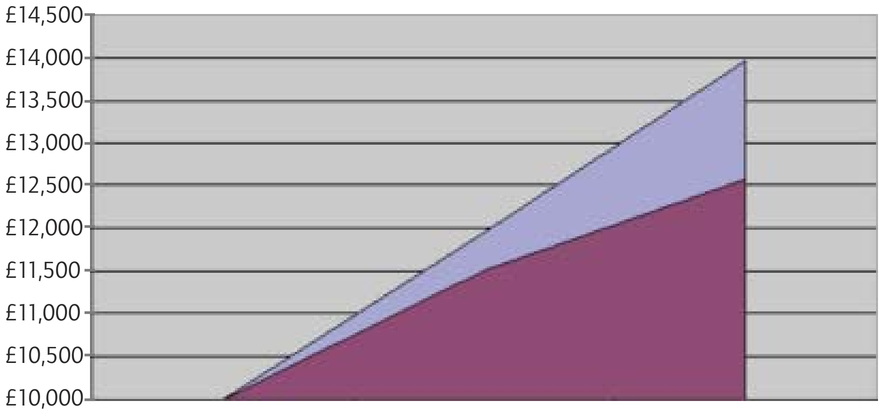
Annual Pension of £15,000 in 2010	April 2011-March 2012	April 2015-March 2016	April 2020-March 2021
RPI increase	£15,690	£17,947	£20,946
CPI increase	£15,465	£17,281	£18,874
Annual shortfall	£225	£666	£2,072
Cumulative shortfall	£225	£2,030	£9,131

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

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.

Cumulative shortfall due to change from RPI to CPI on pension of £10,000



	Apr 2010-Mar 2011	Apr 2015-Mar 2016	Apr 2020-Mar 2021
RPI increase	£10,000	£11,965	£13,964
CPI increase	£10,000	£11,521	£12,583

The NASUWT opposed the change from RPI to CPI indexation for the TPS and mounted an unprecedented legal challenge against the Government in both the High Court (October 2011) and the Court of Appeal (February

2012). The Government resisted the NASUWT's legal challenge and, unfortunately, the Appeal Court ruled in favour of the 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 2010-15 Government also attacked teachers' and other public service workers' pensions by reducing the discount rate (which determines the amount by which the TPS and other unfunded public service pension schemes grow), which was reduced from RPI + 3.5% to CPI + 3% in April 2011.

In June 2014, the *'as at March 31st 2012'* valuation of the TPS was published. This differs from the *'as at 2008'* valuation demanded by the NASUWT as part of its trade dispute with the Secretary of State for Education, partly because the assumptions which determine the outcome of the valuation have changed. The outcome of the valuation was:

- notional assets of £176.6 billion;
- liabilities of £191.5 billion; leading to a
- notional deficit of £15 billion.

The key financial assumption responsible for this deficit is the discount rate. According to the Treasury's figures, the change in long-term financial assumptions (the discount rate) has taken £23.2 billion out of the TPS. Without the reduction in the discount rate, the TPS would be £8.2 billion in surplus. The NASUWT advanced detailed economic arguments against the reduction in the discount rate, which the Government disregarded. The NASUWT therefore considers the deficit in the TPS to be engineered by the Government.

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 TPS. The 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 TPS.

Employer pension contributions

Employer pension contributions have increased 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 Government has been:

- an increase of 3.2% in employee pension contributions to an average of 9.6%;
- an increase of 2.38% in employer pension contributions to 16.48%.

The NASUWT has demanded that the Government pledge to fund the increase in employer costs arising from the valuation of the TPS to avoid cuts in school budgets. The Government has refused this request, but this will continue to be a campaigning priority for the NASUWT.

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

The 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 Government that failure to index-link GMPs in the TPS 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 TPS.** Pension schemes, including the TPS, 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

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

- 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;
- protection for more than 40% of teachers from the full impact of the 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;
- publication by the Department for Education (DfE) of an equality impact assessment of the TPS Proposed Final Agreement;
- commitment by the DfE to engage in the collection of equalities data for scheme members with protected characteristics as defined under the Equality Act 2010;
- commitment by the DfE to the ongoing review of the equality impact of pension reforms;
- establishment of a Government Review of the implications of teachers working longer, involving the NASUWT;
- publication by the DfE/Teachers' Pensions of monthly TPS opt-out data;
- employee/trade union representation on the TPS governance structures for England and Wales, Scotland and Northern Ireland;
- appointment of the NASUWT nominee to the TPS Pension Board for England and Wales;

- agreement from the DfE to meet the costs of release from school to enable serving teachers to sit on the Pension Board;
- the Treasury's costing 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.nasuwt.org.uk/PensionsMaterials

NASUWT
The Teachers' Union

Tel: 03330 145550
Email: advice@mail.nasuwt.org.uk
Website: www.nasuwt.org.uk

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