

# The assault on the Teachers Pension Scheme

## *The current state of play*

### **'Pay more, get less, work longer'**

UCU members will be aware that some 30 public sector unions are in dispute with the Government over attempts to 'reform' public sector pensions. The Government's intention to attack our pensions was set out in the Hutton Report early this year, and has been reiterated more recently in the Autumn Spending Review, and in the Government's Response on pension contributions on 16<sup>th</sup> December.

We argue below that specific measures about particular issues (such as the structure of the TPS) must be seen within the context of the full package of measures intended by the Government to make us pay more, to work longer and to receive less in our pensions.

Having examined these various elements of detriment to the TPS, calculations by members of the London Retired Members UCU Branch suggest that the average total loss for every member after an **average length of service of 15 years (assuming average salary of TPS members at £38,737) is £89,600.**

Average total loss after a **maximum length of contributory service of 40 years is £192,187.**

The Government's proposed changes are also intended to extract billions of pounds of our deferred wages to subsidise the current structural deficit.

The target saving across all the public sector schemes is £2.8 billion. £815 million is to be taken out of the TPS by 2014/15. These cuts are, of course, cumulative; they will persist beyond the life of the present Government.

Members will also be aware that despite the substantial differences between the USS and TPS schemes, and the different histories of the two disputes, the outcome of the TPS dispute will inevitably have an impact the potential outcome of the USS dispute.

### **How did we get here?**

The UCU was the first union to declare a dispute with Government on the TPS issue, using the announcement of the change from RPI to CPI indexation as the trigger. We took strike action on 24th March, alongside our colleagues in pre-92 institutions, then again alongside the PCS and the other teaching unions when they joined us on June 30<sup>th</sup>. We were also part of the very successful and inspiring public sector general strike of 29 unions on November

30<sup>th</sup>.

Members' anger and outrage at the attack on our pensions has been fuelled by a general awareness that the TPS is financially sound (like most other public sector pension schemes) having had paid in £700m more than it paid out between 2008 and 2010. The Government's demands for savings are not based on any adverse valuation of the scheme. There has not, moreover, been a scheme valuation for several years. A periodic evaluation is due soon but the last one several years ago took account of demographic factors. Perhaps the Government is in such a hurry to cut our pensions because they know the valuation will show the basic health of public sector pension schemes.

Even if the scheme were not 'healthy', however, we should not accept any increases in costs or reductions in benefits because these are our deferred wages (or 'salary sacrifices') that we have set aside under the terms of a contract with Government. Our pensions are part of our remuneration packages.

## **Smoke and mirrors**

The Government has sought to justify its attack on several other specious grounds. A claim has been made in regard to public sector pensions in general on demographic grounds, viz. that people are living longer, and therefore pensions are in payment longer; and that the population is ageing, and a smaller proportion of people in work will, therefore, have to pay a larger proportion of their salary for retirement. Thus, it is argued, people should have to work longer, and pay more in contributions.

These claims are undermined by figures from the Office for National Statistics which show that life expectancy in the UK is levelling out (82.4 for men, 85 for women). Rapid increases in average life expectancy in the last 50 or 60 years are very largely due to the decline in infant mortality, not people living much longer once they reach adulthood.

Nor is the proportion of pensioners projected to escalate rapidly: in the UK it was about 19% in 2009, and is projected to be about 21% by 2050. Clearly, in general people in developed countries, with one or two exceptions, are living longer compared to the 19<sup>th</sup> and early 20<sup>th</sup> centuries. This is something we should celebrate. It speaks volumes about any government that sees this as a problem that needs to be reversed. That is precisely what the attacks on our pensions and working life will achieve.

There is also a different, explicit, and quite specific claim that relates to the financial crisis of 2007/8, and the supposed need for the public sector to subsidise the resulting undercapitalization or risk exposure of the banks. The savings to be made from public sector pensions by various means are not to be paid as benefits, or to shore up any of the schemes, but are to be applied to the structural deficit. At least, that is the claim.

**In practice they go to further bail out the banks. This means that the attack on our pensions is clearly a raid on public sector workers' deferred wages. It is a class-wide assault, and is, therefore, part of an argument about who should pay for the financial**

**crisis.**

## **The 1% and the 99%**

Yet while we face an austerity assault planned to last at least a decade, Goldman Sachs and other major corporations have just been let off at least £25 billion of taxes that they owed. The 1% super-rich have multiplied their wealth but even the richest 10% are now, on average, £100,000 a year better off than in 2005. The majority of the rest of us have suffered falling incomes.

To add to the pressure and misery, rail price rises of 9% were announced just before Christmas, energy and fuel prices are increasing, and public sector pay rises are being pegged to well below inflation – yet more real terms pay cuts after the pay freeze of the past two years. How many more pensioners will die this winter from cold since 2.5 million of them already live in poverty?

**We should resist any measures that will mean our members are more likely to live in poverty when we retire.**

## **Government deadline**

The week before Christmas, public sector unions involved in the four separate sets of scheme negotiations (local government, health, civil service and teaching) were presented with a deadline of Monday 19<sup>th</sup> December to sign up to broad agreements on revised pension scheme criteria, and further negotiating parameters. These were summarised in 'Heads of Agreement' or 'Principles' documents.

## **An agreement to call off industrial action**

Different unions reacted differently to this deadline. Some (notably Unison, Unite and the GMB for the local government scheme) have signed the relevant Principles Agreement. **Signing the document commits the unions to no further industrial action while further negotiations take place. This suggests that some unions have been prepared to give up the key to stopping this attack for an offer of very little.**

Unite has not signed for its civil service members or for those in the health pension scheme. The local government unions suspended their agreement a day later after seeing a letter from Government minister, Eric Pickles, which misrepresented the agreement. This will be revisited at their meetings in early January.

Other unions, for example UCU, NUT, NAS/UWT and UCAC in the TPS, have not signed up to the TPS Heads of Agreement document, and have said that they want more detail and further clarification, although they have not said about what. The ATL and the NAHT have signed.

The main civil service union, the PCS, has rightly rejected the terms of the civil service agreement, saying that nothing significant has changed since before the strike action on 30<sup>th</sup>

November. Other unions such as Prospect, NIPSA, FBD and the POA have also not signed.

## **Work longer, die earlier**

As mentioned above, it is important to bear in mind that, whatever is dealt with in the Heads of Agreement document in respect of the proposed form of any revision of public sector pension schemes, the Government intends to push ahead with several related measures such as raising the state retirement age (SRA), and equating the normal occupational retirement age (NRA) of our pensions to the SRA.

Members born after 6<sup>th</sup> April 1960 but before 6<sup>th</sup> April 1961 will have to work until the age of 66 or 67 before retirement. In a worsening of the previous situation, members will recall that, in Osborne's Autumn Statement, the Government announced that now people born after 6<sup>th</sup> April 1961 rather than 6<sup>th</sup> April 1969 will have to work until at least age 67.

In the TPS discussions, union negotiators failed in their attempts to keep SRA and NPA separate. This will mean not only that we have to work longer for less but that teaching will cease to have a common retirement age for the profession; instead, retirement age will be dependent on one's date of birth.

## **RPI to CPI – up to 25% loss**

Another significant element of the Government's attack on public sector pensions and benefits is to change the annual indexation from the Retail Prices Index (usually 1.4 to 1.8% above the Consumer Prices Index) to the lower CPI.

This last measure, alone, will result in huge cuts to pension payments over an average retirement. Life expectancy at age 65, according to the ONS report, is 20.4 for women and 17.8 for men. Assuming a CPI/RPI difference of 1.5% over 20 years, the loss from the change in the inflator would be up to 25% of our pensions.

**There has been no shift in the government's position on this issue.**

As a result of the proposed change from RPI to CPI, a lecturer on average salary retiring after the **average service of 15 years would be £18,500 worse off**, while one retiring after the **maximum pensionable service of 40 years would be £54,650 worse off**.

## **50% contribution increases by 2014**

The Government also intends to raise employee contributions from the current 6.4% to 9.6% by 2014, beginning in April 2012. These increases will mean an average 50% increase in monthly contributions paid by scheme members for the rest of our working lives. Yet the gross cost ceiling is to remain at 21.7%. If average employee contributions are to rise by about 50% to 9.6% this means that employer contributions look set to fall from 14.1% to 12.1%. **They pay less; we pay more!**

**There has been no significant shift in the Government's position on this issue.** By 2015, a top of the scale FE Lecturer on Point 8 of the national scales will be paying about £88 per month more. A top of the scale HE lecturer will pay about £104 per month more. These contribution increases are, effectively, pay cuts.

**The increases need to be understood within the current context of falling real salaries in both FE and HE.**

The Heads of Agreement document does not specify the increases that will be due beyond the financial year 2012/13, which it is suggested will raise only 40% of the target saving.

The Government's Response to comments submitted on this issue, published on 16<sup>th</sup> December, sets out a graded contribution scheme such that the lower paid will pay smaller increases than the higher paid (included as Annex B to the Heads of Agreement document), at least for the next year.

The highest paid teachers and lecturers, who will be required to pay 2.0 – 2.4% from April, only comprise 0.7% of the 630,000 TPS members, however, and the proportion of lower paid teachers (below about £26,000pa), who will pay nothing or 0.6% this year, comprise only 17.3% of scheme members. The latter will, of course, still be hit by further contribution increases in the next two years, and will progressively move into higher contribution bands. For some younger lecturers this may be an active disincentive to remain in the scheme, thus adding to potential instability. They also face the prospect of working until 68, or even later.

The vast majority of scheme members, the 82% earning between £26,000 and £75,000 this year, will pay increases of 0.9% to 1.6% from April 2012.

## **Main points of the TPS 'Heads of Agreement' document**

This document sets out the structure of a new proposed pension scheme for introduction from 2015. Here is the link:

<http://www.scribd.com/mobile/documents/76222270>

The TPS website is here: [www.teacherspensions.co.uk](http://www.teacherspensions.co.uk)

There is a pension calculator under construction:

[http://www.teacherspensions.co.uk/bulletin/bulletin1.htm#a25\\_11\\_11](http://www.teacherspensions.co.uk/bulletin/bulletin1.htm#a25_11_11)

## **Shift to a CARE scheme from Final Salary**

Apart from confirming the RPI to CPI change, the rise in employee contributions, and the intent to equalise the NPA and the SPA for lecturers and teachers in early and middle career, the proposals' main aim is to set out the parameters for a shift from the current Final Salary scheme to one based on career average (CARE).

The Agreement states that the costs of the scheme, as summarized, are within the Government's cost ceiling, and meet the Treasury's risk criteria. **In other words, it is we**

## **who will continue to pay for these cuts.**

Key elements of this scheme will be an accrual rate of  $1/57^{\text{th}}$  (i.e.  $1/57^{\text{th}}$  of your salary is calculated annually for your pension). This is an improvement on the current  $1/60^{\text{th}}$  for those on Normal Retirement Age of 65 for the Final Salary scheme – but not much of an improvement. The civil service CARE scheme has an accrual rate of  $1/43^{\text{rd}}$ !

The revaluation rate of active members' benefits is to be at CPI + 1.6%, (an improvement on basic CPI) but ... what happens if there is a period of recessionary price falls? In November, the Government was proposing average earnings based on Hutton's recommendation but has now substituted this new measure – which they calculate will still deliver savings for them.

Considered solely on narrow financial grounds it is possible to negotiate a CARE scheme that does not result in members losing money - it all depends on the accrual rate.

In considering the features of the current offer, as a result of the proposed change from Final Salary to Career Average (CARE), the London Retired Members Branch has calculated that a lecturer retiring after **the average service of 15 years would be £22,000 worse off**, while one retiring after the **maximum pensionable service of 40 years would be £3,000 worse off**.

In order to achieve an average pension of £11,759 based on the current average salary of £38,737 (based on TPS figures) after 15 years of service, the **accrual factor would have to be 1/50** with the re-evaluation factor remaining at either RPI or CPI + 1.6%.

## **Retirement still 67 or 68 – and penalised for retiring 'early'!**

The document also talks of putting in place 'actuarially fair' early or late retirement factors on a cost-neutral basis. What this means, in essence, is that if a member has had enough of the job before their NRA/SRA of 67 or 68 (and most of us will have done by then, if we have not died in service) we will lose 3% of our pension for every year of 'early' retirement. This is, therefore, a very minor concession from the previous 5% actuarial reduction.

## **Plenty of employer protection – but we pay for it**

There is also to be an employers' cost cap, and a 'guarantee' of no further scheme reforms for 25 years. The cost cap means that if there are unforeseen significant increases in the cost of the scheme (such as people living much longer) then the extra costs will not be borne by the employers, but by the scheme members – **we will pay more. This makes nonsense of the notion of a 25-year guarantee.**

The document reiterates the 10-year protection notified earlier this year for those scheme members in the last ten years of their pensions, and adds some minimal linear-tapered

protection for those in the next 3.5 years up to NPA – for every month beyond the last 10 years of the NPA, the member will lose 2 months of protection. However around 60% of current scheme members will get no protection at all.

For staff transferring under TUPE arrangements, the Fair Deal provisions remain for individuals but bulk transfers will no longer apply.

In another Annex, the document lists the areas to be discussed with the unions in early 2012 (which must also remain within the Government's cost ceiling):

- an Equality Impact Assessment to be carried out. But we should be aware that Equality arguments were used to raise the State Retirement Age for women to 65 and beyond;
- abatement for service accrued prior to and post 2015;
- phased retirement;
- members who leave the scheme but re-join within 5 years;
- contribution rates (years 2 and 3), and the impact on part-time and lower paid staff;
- contribution rate distribution post 2015;
- flexibilities for retirement pre Normal Pension Age.

## **Scheme costs**

As far as we are aware, no union has yet done a full modelling of the cost and benefit comparisons of what is in the Heads of Agreement documents, which seems somewhat reckless on the part of those unions which have signed up to them.

An initial unofficial analysis of the overall costs for members of the TPS suggests that while a shift to a CARE scheme using the new accrual rate, and the revaluation figure of CPI plus 1.6%, may mean a cost-neutral transfer, or a marginal improvement, for some scheme members, others members, almost certainly most others over time, will lose out significantly.

**In addition, when the rise in employee contributions, the reduction in indexing applied to pensions in payment, and the fact that newer scheme members will be expected to work until 67 or 68 are factored in, *all members* will continue to be far worse off over the lifetime of their pensions compared to the current situation.**

For example, analysis suggests that an HE Grade 8 lecturer will suffer a total cumulative loss of nearly £200,000 (including £56,240 in extra contributions) over a scheme of 40 years, including a loss of £92,500 from three extra years of work.

## **CARE – why the employers and the government want it**

It should be borne in mind that any worked examples over such a long time period will, of necessity, include certain assumptions about future inflation levels, career prospects, average pay increases and longevity in retirement. One of the great disadvantages of CARE schemes for employees is that the uprating of benefits accrued may be far more insecure in practice than for a final salary scheme, while potentially reducing the end costs for the employer.

**Final Salary** and **CARE** schemes will also tend to work differently for different groups of workers. This illustrates how important is the link between pay levels (and pay increases) and accrual of pension rights.

If there is reasonable progression through a salary scale, potential for promotion and decent annual pay awards, so that late career salaries are significantly higher in real terms than early career ones, then FS is generally a better prospect.

If salary scales are low and flat, there are few prospects for promotion and salary increase, and annual pay awards are low and/or below inflation, then a CARE scheme (as long as it is with a good accrual rate) may deliver a better pension, other factors being equal.

**It is also worth asking why the Government may be prepared to offer slightly more at this point for some scheme members in order to get FS members to transfer over to a CARE scheme.**

The first answer is that if they can get us to focus almost exclusively on the terms of a new CARE scheme to the exclusion of the other crucial factors, as outlined above, especially if they can get us to believe their oft-repeated mantra that CARE is fairer and better for the low paid, ***then we will miss the big picture.***

**The big picture is that the terms of the Heads of Agreement document will still leave us paying more, working longer, and getting less.**

The second answer is that getting staff to shift to CARE is a useful precursor for privatisation. The financial services sector and the private employers have been lobbying for CARE against FS for years because it helps control their future employee pension costs by minimising the potential uncertainty and increased liability of the final salary element over the long term. Note the explicit provisions in the Heads of Agreement document relating to employers' liabilities under TUPE and transfers. Note also the reference to the employers' cost ceiling.

## **Conclusions**

1. An attack on our pensions or our conditions is fundamentally different to pay negotiation. The purpose of the trade unions when faced with an attack on pensions (our deferred wages) should be to stop the attack in its entirety **NOT** to aim to get the least bad deal. In a pay campaign it is possible to improve members' pay and conditions, and negotiate over the degree of the improvement. When faced with an attack on pensions our aim should be **NO DETRIMENT**, since any compromise is a

loss of current conditions, and to stop the attack completely.

2. As a result of changes a few years ago we already have two categories of Final Salary scheme members (those with a Normal Pension Age of 60, and those with an NPA of 65). It makes no sense to add a third category of members on a new CARE scheme. This will become even more complex as some FS members transfer into the CARE scheme, and others do not, and some members opt out altogether. Such a multi-category scheme will make it harder for the unions to defend our members against the future attacks on the scheme which undoubtedly will come.
3. The UCU, along with other teaching unions and public sector unions like PCS, Unite, Prospect and the POA, has not signed a Heads of Agreement document, and we believe those unions were right not to do. For the unions to accept that members will work longer and pay more for lower pensions would mean that we would be selling the financial security of the vast majority of our members, especially the younger ones, down the river. This is especially true in Further Education where a higher proportion of lecturers are younger, worse paid than either school teachers or university lecturers, and typically on less secure contracts.
4. To settle on the current paltry offer would also be a serious blow to the resurgence of resistance and organisation in the trade union movement, and a serious blow to the wider fight to stop the cuts and the Con-Dem Coalition's austerity programme. Those who might claim that our fight is just about 'bringing down the government' ignore the fact that previous attacks on our pensions took place under New Labour. It is highly unlikely that a change of government would automatically result in pension security for teachers and other public sector workers.
5. Despite some marginal movement to encourage TPS members to accept a CARE scheme in place of the current FS scheme, the financial disincentives for many members, and the other disadvantages associated with CARE, lead us to urge TPS members decisively to reject these scheme proposals.
6. The 25 year guarantee of no further reforms announced in the document is meaningless. No current government can guarantee the policies of subsequent governments. The reforms in 2005/6 were supposed to be for a lifetime yet the this Government is back with further detrimental changes barely six years later. **Blackmailers always come back for more.** Doubtless members will be wary of such assurances, given the record of the Liberal Democrats at keeping promises, and the fact that the Coalition's austerity programme was in neither party's election manifesto.
7. It remains the case that other aspects of the Government's assault on our pension scheme are so detrimental (increased employee contribution costs, shift from RPI to CPI, later retirement) that members should continue, we believe, to reject the

proposals and remain in dispute with the Government.

Hence, while there has been some limited re-packaging of the scheme's parameters since the November 30<sup>th</sup> strikes, the Government has not withdrawn the most pernicious elements of its assault. The conclusion must be that we should pursue further industrial action, in association with as many other unions as possible, and as soon as possible. **Now is the time to escalate our action. It is not time to call a truce.**

**We should make sure our union leaderships and negotiators remain fully accountable, and are made aware of our opposition to any shoddy deal based on the current offer. Branches and individual members should bombard head office, and their NEC members, with motions and messages by phone and email urging rejection, and arguing for an early resumption of strike action.**

**We should continue to urge members to sign the online Statement to reject the offer which has already attracted close to 3,000 signatories (go to <http://bit.ly/rJ8SGJ>).**

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We are very grateful to London Retired Members Branch Secretary, Steve Cushion, for some of the figures included in this analysis. The link to the full report is at: <http://www.ucu-retired-london.org.uk/pdf/pension-report.pdf>

We urge you to visit the new UCU Left website [www.uculeft.org](http://www.uculeft.org) . You can also sign up to UCU Left from the website.

**Unite the Resistance** is holding an emergency conference on the pensions issue on Saturday 14<sup>th</sup> January. Visit the website for details: [www.uniteresist.org](http://www.uniteresist.org)