BRANCH BRIEFING

University and College Union

# Defend your pension
# Join the campaign!

## How does TPS work currently?

All members of the scheme currently pay 6.4 per cent of their gross salary in pension contributions. What you get, and when you can retire on a full pension depends on when you joined the scheme.

People who joined on or after 1 January 2007 get a pension of 1/60 of their final salary per year of reckonable service. There is no automatic tax free lump sum, although part of the pension can be exchanged for a lump sum. This pension can be taken in full at age 65.

People who joined on or before 31 December 2006 get a pension based on 1/80 of their final salary per year of reckonable service + 3x this as tax free lump sum. This pension can be taken in full at age 60.

## What is the government proposing?

Lord Hutton's final report into public sector pensions was published in March 2011 and recommended:

- that employees should pay more for their pensions
- that they should work longer and that normal pensionable age should be tied to the state pension age.
- that public sector pensions should cease to be final salary and should instead be based on a 'career average' structure. Lord Hutton recommended that the government should set the accrual rate but advised that it should be increased in line with average earnings
- Lord Hutton also recommended changes to the governance of public sector pension schemes.

The government had decided to impose higher contributions even before Hutton's final report. The government claims that 'the public sector pension bill is unsustainable' (George Osborne, Andrew Marr Show, 20 June 2010).

The government has made clear in its budget statement of 22 June that it will be moving its indexation of pension increases from the Retail Price Index (RPI) to the lower Consumer Price Index (CPI).

In the Comprehensive Spending Review it also made clear that it will be looking to save £1.8 billion from public sector pensions by introducing a phased increase in employee contributions of around 3% between 2012 and 2014/15.

On 7 January 2011, the Department of Education confirmed that it wishes to increase employee contributions from 6.4% to either 9.5% or 9.8% by 2014/15.

The Treasury wants these changes to be in place ahead of the annual valuation of TPS, in contravention of the agreed mechanisms for reviewing the scheme.

## What will be the impact of the government's proposals?

### SWITCH FROM RPI TO CPI

The switch to indexing yearly pension rises to CPI will have a huge impact on pensions.

The Retail Price Index is a higher inflation measure than the CPI so that future pension increases would be lower.

- An FE lecturer with a £10,000 pension would lose £36,000 or more over the average 25-year retirement.
- An HE lecturer with an £18,000 pension would lose £65,000 or more over the average 25-year retirement.

### RAISING CONTRIBUTION RATES

The government is now proposing to deliver the savings from TPS by raising the contribution rate by 3.1-3.5%, which is a rise of around 50%. This would mean members' contributions rising from 6.4% as currently, to 9.5-9.8% by 2014-15.

- For an FE lecturer, the effect of an extra 3% on the current contribution rate would be an extra £88 per month taken from the pay of a top-of-scale lecturer (or over £95 in Inner London).
- For an HE lecturer, the effect of an extra 3.4% on the current contribution rate would be an extra £104 per month taken from the pay of a new full-time lecturer.

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### RAISING THE RETIREMENT AGE

The effect of any move to a normal pension age of 65 or higher would depend on your current age.

- If you are a 50-year-old further education lecturer on the top of the scale and intend to retire at 60, this change would cut £1,450 per year from your pension if you went ahead and retired at 60, due to the reduction applied to the pension you accrue between 50 and 60.
- If you are a 50-year-old university lecturer on the top of the scale and intend to retire at 60, this change would cut £1,805 per year from your pension if you went ahead and retired at 60, due to the reduction applied to the pension you accrue between 50 and 60.

### POSSIBLE ABOLITION OF FINAL SALARY PENSION BENEFITS

In addition, the Hutton report also indicated that public sector final salary schemes are unfair and recommended that the government examine replacing it with career average pay. It is unclear what this would mean, but most moves towards career average schemes entail inferior pension benefits.

## There is no need for these proposals

In 2006, the teaching unions agreed with the government a series of reforms to place the scheme on a sustainable long-term basis. These included:

- increases in the employee contribution rate
- a normal pensionable age of 65 for new joiners
- a robust cost sharing agreement on future cost increases
- a cap on future employer contributions of 14.1%.

These changes were agreed by the government, employers and teaching unions and we expect the coalition government to propose any changes within the review process established by the 2006 agreement and following the annual valuation in March.

Available data from the Independent Public Services Commission and from the National Audit Office indicate that the long-term costs of TPS are likely to fall.

Even the Hutton report confirms that the cost of public sector pensions will fall from the current level of 1.9 per cent of GDP in 2009-10 to around 1.4 per cent of GDP in 2059-60 (assuming the switch from RPI to CPI indexation goes ahead).

UCU believes that this is an unnecessary political attack on public sector pensions.

## Is there a real pensions problem?

If there is a problem with public support for retirement in Britain, it is because of private sector failure. The costs to the public purse are inflated by the fact that so many private pension schemes have closed, leaving the majority of private sector employees dependent on the state for support in retirement.

- According the Office of National Statistics, two-thirds of private sector employees are not now in any employer-backed pension scheme compared to just over half ten years ago.
- 87% of private sector final salary pension schemes are now closed to new members.
- Employer contributions to the newer defined contribution or money purchase schemes are on average less than half that towards final salary schemes.

If employees don't make proper pension arrangements during their working lives, the cost of supporting them in retirement is simply passed back to the State and to future taxpayers. Employers who refuse to contribute to staff pensions are unfair to future generations.

So the real problem is not the 'generosity' of public sector pensions but the paucity of private sector provision. We should be arguing for decent pensions for all.

## What does UCU want?

- We do not believe that the government's proposals are necessary. We believe that they are part of a politically motivated attack on the public sector.
- In reality, the indications are that the government's public sector pension liabilities will fall.
- UCU is clear that any changes to the TPS should only come about as a result of the valuation of the TPS and our existing cost sharing agreement.

## Where are we now?

The TUC has been in talks with the government over the principles of any public sector pensions reform and these talks are continuing. On 20 May a government paper was leaked that showed that there were plans to introduce a career average pension scheme with a very poor accrual rate of 1/100. That means you would receive only 1/100 of career average pay for every year in teaching. This compares to the current scheme which gives you 1/60 of final pay, or 1/80 of final pay plus a lump sum payment, depending on when you joined the scheme. Younger lecturers would have to work until 68 for a pension worth less than half of their career average pay.

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The unions reacted to this paper with outrage. Discussions between the TUC and the government are now continuing to establish whether this is in fact the government's opening position. There have been no positive indications yet.

## What can you do?

UCU has balloted for industrial action and won a solid mandate for action. FE members in TPS voted by 72% to take strike action and HE members in TPS voted by 78%.

Since then, UCU held a fantastic strike day on 24 March.

Now, the campaign is gathering pace. In March, the conferences of the NUT, the ATL and the NAHT all voted to support the campaign to defend TPS. The NUT and ATL ballots will close on the 14 June.

If the two unions vote for industrial action, UCU will join in a national one-day strike on 30 June.

If this goes ahead, and the signs are that it will, the day in defend of our pensions will involve some 800,000 teachers in schools, colleges, adult education and post-92 universities.

Civil servants union PCS is also balloting for action which may mean that up to a million take strike action that day.

New strike day materials will be produced for branches as soon as possible.

Meanwhile make sure the joint union campaign poster goes up in your institution, hold meetings of your members and invite ATL members and reps.

Watch the UCU TPS pensions video here:
http://www.youtube.com/watch?v=n2mnKqsxsHw

Calculate your potential losses using the pensions calculator here: http://www.ucu.org.uk/tps-underattack