RETIRED TEACHERS' ASSOCIATION NORTHERN IRELAND

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THE PUBLIC SERVICE PENSIONS BILL

Background for reform

People are living longer. This means the Government is paying public service pensions for much longer than expected when schemes were designed. As a result, those pensions have become much more expensive, with the bulk of this extra cost falling on the taxpayer. This increase in life expectancy is good news, but it is simply not affordable to spend more and more years in retirement. Some of the extra years must therefore, in the Government's view, be spent working.

Lord Hutton examined the situation and set out his report. The average 60 year old is living ten years longer now than they did in the 1970s. The cost of public service pensions paid out has risen by over a third over the last ten years to £32 billion a year. That is more than is spent on police, prisons and the courts combined. Most of this extra cost has been met by the taxpayer.
Lord Hutton also found that improvements in life expectancy have been consistently underestimated. As a result, time spent in retirement, and thus the cost of pensions, have been higher than originally expected. These costs have largely fallen on the taxpayer. Lord Hutton's evidence and analysis also shows that there are three key drivers for significant reform:

- Longevity: People are living much longer. Current public service pension provision is no longer affordable because people are spending longer in retirement. This is the main risk to the sustainability of public service pensions.
- Flexibility: Pension provision no longer reflects the way the modern labour force lives and works.
- Fairness: The predominantly final salary scheme designs currently in place mean that lower-paid public service workers are subsidising the pensions of the highest paid.

Hutton Commission

The terms of reference for the Hutton Commission began with the following terms of reference:

To conduct a fundamental structural review of public service pension provision and to make recommendations to the Chancellor and Chief Secretary on pension arrangements that are sustainable and affordable in the long term, fair to both the public service workforce and the taxpayer and consistent with the fiscal challenges ahead, while protecting accrued rights.

It is therefore taken as axiomatic in the remit that accrued rights will be protected. It is our view that such protection includes the right to indexation on the present and longstanding basis.

The Move from RPI to CPI

Indexation of pensions in payment to the Retail Prices Index (RPI) has been in place since the implementation of the Pensions (Increase) Act 1971. Generations of public service pensioners have planned their retirements on the assumption that they would have RPI-linked pensions throughout retirement.
The Emergency Budget announced a switch from RPI to the Consumer Prices Index (CPI) for the state second pension, and consequently through the legislative link, to public service pensions. This could constitute a breach of promise on the part of the Government that will cost public service pensioners tens of thousands of pounds each during the course of their retirements.
Experience shows that the CPI is routinely lower than the RPI. A comparison of the difference between the September RPI and CPI figures, the figure used annually for uprating pensions, using Office of National Statistics data gives a yearly average difference of 0.67 per cent.

Inappropriateness of CPI

The CPI is not a more appropriate measure of inflation than RPI for pensioners. The Government itself seems desperately confused over what should be contained in inflation indices. The Budget Red Book contains the following statement:

The Government will use the CPI for the price indexation of benefits and tax credits from April 2011. The CPI provides a more appropriate measure of benefit and pension recipients' inflation experiences than RPI, because it excludes the majority of housing costs faced by homeowners (low income households are subsidised separately through Housing Benefit, and the majority of pensioners own their home outright).

On the other hand, the Banking Section of the Coalition Agreement 'Our Programme for Government' says 'We will work with the Bank of England to investigate how the process of including housing costs in the CPI measure of inflation can be accelerated'.

Pensioners who are homeowners still have to pay for the upkeep and repair of their properties. An increasing number of pensioners still have a mortgage to service. Even if the last point is excluded, if the government's rationale for switching indices is that pensioners typically own their homes outright, then it would be logical to switch indexation from RPI to RPI-X, RPI excluding mortgage interest payments, rather than CPI.
The true reason for the switch from RPI to CPI is not that it is more appropriate but that it is a means of saving money. If the Government is truly serious about linking pension increases to the real inflation experienced by pensioners, then pensioners would welcome the adoption of a Pensioners Price Index.

State pension increases for pensions paid abroad
State pensions are increased only in countries covered by a reciprocal agreement with the United Kingdom. Retired teachers living in Commonwealth countries are particularly affected because the Government will not enter into reciprocal agreements with those countries. Many pensioners have families in Australia, New Zealand and South Africa. If they choose to retire to those countries to be with their families they receive no increases in their state pensions.
The effect of this is that after a number of years many retired teachers find themselves suffering from severe financial hardship due to their fixed incomes.
UK state pensions are based on a contributory system through National Insurance. UK state pensioners should, therefore, receive the same increases regardless of where they live in retirement.

Over-80s allowance
The age addition was introduced at 25 pence a week by the Heath Government in 1971 and has remained unchanged ever since. The PSPC believes that the age addition is irrelevant at the current level. Older pensioners face additional costs concerning repairs, and personal services compared to younger pensioners, and these costs are simply not reflected in the 25 pence a week supplement.

Christmas bonus
The 'Christmas Bonus' was introduced at £10 by the Heath Government in 1971, and has remained unchanged ever since.
We believes that, since Christmas brings extra expenses, even in everyday living costs, a Christmas Bonus of £100 should be paid each year to all those in receipt of the basic state pension or pension credit.

Widows' pensions for life
An enduring injustice in some public service schemes concerns those in receipt of a widow's or widower's pension who, under the scheme rules which applied when they retired, are not entitled to continue to receive that pension if they remarry or cohabit. Although improvements have been made prospectively in some schemes, the 'no retrospection' policy operated by the government means that many people are still subject to these provisions.
The PSPC believes that not paying widows' (and widowers') pensions for life effectively treats widows as the property of their former husbands. The provision is demeaning and encourages dishonesty for little gain to the schemes concerned. It should be abolished in all schemes retrospectively.

Single-Tier State Pension
The Government has published plans to reform the current state pension into a simple single-tier pension. Please bear in mind that these plans must be agreed by Parliament before they become law.
The Single-Tier State Pension is a new, simple state pension that provides a firm foundation for workplace saving. If you reach State Pension age before 6 April 2016 you will receive your state pension in line with existing rules.
If you contribute entirely to the new single-tier scheme, it will replace today's complicated state pension with a single amount based on 35 qualifying years of National Insurance contributions.

If you have fewer than 35 years when you reach State Pension age, you will get a pro-rata amount. However, you will need to have a minimum number of qualifying years when you reach State Pension age (this will be set between 7 and 10 years), otherwise you will not get a single-tier pension.
The single-tier pension will be introduced from 6 April 2016. This means all women born on or after 6 April 1953 will reach State Pension age after the introduction of single tier and will receive a single-tier pension, as will every man born on or after 6 April 1951. As long as they meet the minimum qualifying period, these people will be able to get a single-tier pension.

The actual amount of the Single-Tier State Pension will not be decided until shortly before single-tier is introduced. It will be set above the basic level of means-tested support (the Pension Credit standard minimum guarantee, £142.70 per week in 2012/13). The White Paper used an illustrative full single-tier rate of £144 per week.
It is proposed that the single-tier pension will be increased each year, by at least the percentage that average national earnings have grown in the previous year. The White Paper assumed that it will be increased by the 'triple lock' (i.e. the highest of the growth in earnings, price inflation or 2.5%) consistent with the basic State Pension now.
If you are already **over** State Pension age, or reach your State Pension age **before** the new scheme starts, you will continue to receive your State Pension in line with present rules.
If you reach State Pension age **after** the new scheme starts, your state pension will be based on the single-tier scheme. The contributions on your National Insurance record under the current system will count towards your single-tier pension. As long as you satisfy the minimum qualifying year requirement you will get a single-tier pension no lower than the valuation of these contributions.

Please note that the Annual Lunch (to include a very brief AGM) will take place on Wednesday, 15th October 2014 at the Glenavon House Hotel, Cookstown. Complimentary tea/coffee & scones will be available from 10am. This year, our special guest will be Clint Elliott, Vice-Chair, Public Services Pensioners' Council, London who will address the meeting on current pension-issues and campaigns, followed by Seamus Gallagher, Teachers' Pensions DENI. Both will welcome any questions from the floor. Representatives from UTU, INTO, NASUWT, ATL, NAHT, NATFHE, GTC, Age NI and Age Sector Platform will also be there.
A generous lunch, subsidised by the Central Executive Committee, at only £12.50 will be served at 1.00pm. The *Ulster Tatler* will be taking photographs for publication in their November issue.
This lunch should be of particular interest to newly-retired teachers who may have joined RTANI within the last couple of years, so please make sure you book for it by returning the reply-slip (attached to the Annual Report) to Hon. Sec. before Friday, 10th October.