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ATL'S RESPONSE ON THE PROPOSALS FOR IMPLEMENTATION OF THE REFORMED TEACHERS' PENSION SCHEME IN 2015

The Association of Teachers and Lecturers (ATL) welcomes this opportunity to respond to the Department's consultation.

ATL is an independent, registered trade union and professional association, representing approximately 160,000 teachers, headteachers, lecturers and support staff in maintained and independent nurseries, schools, sixth form, tertiary and further education colleges in the United Kingdom. ATL represents the largest number of staff working in the independent sector.

ATL is affiliated to the Trades Union Congress (TUC), Irish Congress of Trade Unions (ICTU), European Trade Union Committee for Education (ETUCE) and Education International (EI). ATL is not affiliated to any political party and seeks to work constructively with all the main political parties.

Most of our members are in the Teachers' Pension Scheme (TPS). Additionally, we have members in the Scottish Teachers Superannuation Scheme, the Northern Ireland Teachers Pension Scheme, the Jersey Teachers' Superannuation Scheme, The Isle of Man Teachers' Pension Scheme and the States of Guernsey Superannuation Scheme. ATL supports decent pensions for education staff at all levels, both in recognition for the vital work they undertake and as a means to independence and dignity in retirement.

Question 1: Are the proposed arrangements clear, and, if they are not, what further guidance or support would be helpful?

The reformed TPS is a huge departure from what is currently in place. These changes are significantly greater than the changes implemented in 2007. The proposed CARE scheme does not have the simplicity of the Final Salary scheme that members are used to. For example, members will have to understand the significance of the in-service revaluation and how taking a break in pensionable service may impact their retirement benefits. The idea of banking a pension each year and the significance of your salary rather than service in the scheme will need to be carefully explained to members. Most members of the TPS will have Final Salary as well as CARE benefits and it will be important to not only educate members on how CARE will work, but how this will relate to their protected final salary pension.

The Department will have to make sure that the scheme administrator is properly prepared for the changes and that members are well informed, via all the media available, of the upcoming changes well in advance of 2015. The Department and scheme

administrator will have to work closely with employers so that they are fully aware of the changes and prepared in time for implementation in 2015.

The arrangements are as per Lord Hutton's recommendations; however, how this will be communicated to members will need further care and consideration. This is still a considerable shift from the current Final Salary scheme that members are used to. It will take some time for members to fully understand and appreciate how these arrangements will work in practice. The Department will have to ensure that the scheme administrator is up to the task of overseeing the new arrangements. Good preparation and planning will be paramount and the scheme administrator will have to make certain that all the available tools, materials, factsheets, workshops and online calculators are ready and available before April 2015. The process of guiding members through the change, providing reassurance and advice will be a continuing development; and the Department must be prepared for the length of time it will take members to become used to the new arrangements.

Finally, the scheme administrator will need to start preparing its front line employees who regularly respond to enquiries from scheme members. It is likely that the volume of requests on the phone, via email and other correspondence will be extremely high when the CARE scheme is implemented and will remain at a high level for some time. Adequate training and support will be needed for the front line team who deal with scheme members on a daily basis.

Question 2: Are there any further issues the Department needs to consider in deciding whether or not to take account of residential emoluments as part of scheme member's pensionable salary?

ATL disagrees with the Department's decision to no longer take into account residential emoluments as part of pensionable pay. The Department has failed to provide any evidence of the precise number of teachers receiving residential emoluments, their typical value and how widely they are used across the education sector - data that the Department should have access to! This therefore begs the question - On what basis is the Department proposing this change?

The ATL view is that the provision of accommodation and other residential benefits are part and parcel of the remunerative package and therefore should be pensionable. Teachers' Pensions Regulations require schools to agree residential emoluments with Teachers' Pensions before they become pensionable, furthermore residential emoluments must be reviewed biannually and are restricted to one-sixth of member's contributable salary. Residential emoluments are a reasonable part of a teachers' remuneration and commensurate with the valuable service they provide to the school for pupils' well-being. Therefore, in ATL's opinion the current arrangements around residential emoluments are practical, robust and working well.

It has been indicated by the Independent Schools' Bursars Association that the number of teachers in receipt of residential emoluments is minute compared to the overall scheme population - approximately 600 out of over 600,000 scheme members. As a result, ATL believes that the current provision should remain unchanged as the number of teachers receiving this benefit is so small that any fears the Department may have over controlling costs or pay suppression would be minimal and certainly not a major concern. Furthermore, problems with cost controls can be alleviated in other ways without removing the provision all together, for example, tighter Regulations and improved

collection of data would go far to address any apprehension the Department or the Treasury may have over the matter.

ATL is concerned that the Department is planning to change a provision that was not recommended by Lord Hutton or in the Proposed Final Agreement (PFA). If there is a change, members currently receiving residential emoluments should be allowed to continue to do so.

Question 3: Will the proposals help employers and scheme members to do more to ensure the accuracy of pension-related data and thus benefits?

The first step to ensuring the receipt of good quality pension-related data is for the Department and scheme administrator to work more closely with employers to improve accuracy and consistency. Most employers are very good and skilled at returning accurate, timely data to Teachers' Pensions; however, there are still quite a few that are not. Unfortunately, the number of employers failing to send accurate timely data is likely to increase due to the proliferation of education providers and the increased number of smaller or micro employers entering the market. When you also consider that a growing number of employers are also outsourcing their payroll to organisations that are unfamiliar with Teachers' Pension's Regulations, processes and data needs, the task of collecting precise data in a timely fashion will be that much harder in the future. An added complication is the recent decision to move away from national pay scales and pay portability, which in future will make it more difficult for employers and employees to track earnings back over long periods of time with any accuracy.

All these issues will need to be addressed if we are to ensure that Teachers' Pensions receives good quality data on time. Better systems for reporting, collecting and verifying the accuracy of data will need to be introduced if improvements are to be made. Simplifying the method of calculation and giving members access to their pension statement annually will not be enough. The Department needs to consider a system where members can report employers that regularly fail in their responsibilities and introduce a mechanism to help, train and support these employers in order to improve the quality and regularity of the pension-related data that is needed by the scheme administrator.

ATL is aware of the scheme administrator's desire to move to monthly data returns and its attempt to link its data collection with HMRC's, this is a welcomed development and will assist in improving the accuracy of the management of pension-related data.

Members will also need to take responsibility for their own pensions. They will need to develop a reasonable understanding of the CARE scheme and how benefits are accumulated; they will need to regularly check that their records are up-to-date and correct; and finally they will need develop a better understanding of their pay slips and keep records of their employment history and salary slips in case of errors. Here, trade unions, employers and other stakeholders can play a significant role in helping members develop a better understanding of CARE and their pay. The Department should also encourage and facilitate closer working and collaboration between stakeholders and the scheme administrator's member engagement team to help members take better ownership of their pension scheme.

Question 4: Are the proposed arrangements for death grants and dependants' benefits clear and, if not, what further guidance or support would be helpful?

The proposals are clear. Members and stakeholders will be able to understand how the arrangements will work under CARE.

Question 5: Do you agree that the Department should amend the arrangements for enhancing dependants' pensions where a scheme member dies in service to better target them to those in most need, in line with the ill-health retirement arrangements?

ATL welcomes the decision to simplify the arrangements for enhancing dependent's pensions where a scheme member dies in service. We agree that this benefit is fair and in line with the current arrangements where enhancement is applicable in cases of ill health retirement.

Question 6: Will the Department's proposals for calculating ill-health benefits and short-service serious ill-health grants ensure scheme members continue to be appropriately supported, or is there anything else the Department needs to consider?

These proposals will continue to give members appropriate financial support during what is a difficult time. The proposals are easy to understand and maintain the current levels members are entitled to. The method of calculating enhancement under CARE is straightforward and ATL is pleased with the decision to protect members who have to reduce their hours or take a post of less responsibility due to illness. ATL also welcomes the decision to simplify how short service serious ill-health grants are calculated.

Question 7: Will the Department's proposals for extending the time limits for making an in-service ill-health retirement application be sufficient to appropriately help those with difficult-to-diagnose or degenerative illnesses?

ATL welcomes this move and supports the decision to extend the time limits for making an in-service ill-health retirement application. The evidence has shown that members, through no fault of their own, have been financially disadvantaged under the current rules and ATL believes that a 2 year time limit is an appropriate amount of time for members to make an in-service ill-health application.

ATL hopes that the Department will continue its commitment to review regularly the ill-health retirement arrangements in order to see what is working and improve areas that are not. After the implementation of the 2007 scheme, it was agreed that, along with other stakeholders, the Department would oversee a review of the ill-health arrangements within 2 years and ATL would encourage a similar undertaking post 2015.

Question 8: Are the proposed arrangements sufficiently clear to help ensure that scheme members and employers can effectively manage the transition to the new arrangements?

The transition arrangements are as clear as they can be given the complexity of what is being proposed. In order to manage the process as smoothly as possible, the Department and scheme administrator will need to ensure that the information, guidance and advice members receive is comprehensive yet concise, understandable, and tailored to each member's needs. Continuous support for scheme members, good preparation and high quality timely communication will go a long way to achieving a successful transition from the current scheme to the reformed TPS.

ATL is concerned about the proposed implementation of the Actuarially Reduced Benefits (ARBs) arrangements from 2015. We disagree that members taking ARBs from their final salary benefits should also be forced to take ARBs from their CARE benefits at the same time.

From 2015 onwards or soon after members not fully protected will effectively cease to be in one scheme and will start accruing service in a completely different scheme. Benefits in the Age 60 and 65 schemes will be preserved and accrual in those schemes will cease. Therefore it is odd that a member claiming ARBs from the Age 60 or 65 schemes should also be required to take ARBs they have built up under CARE, which to all intents and purposes is a completely different scheme. This fact is recognised if they choose to take Age or Phased retirement. Under the proposals, a member taking Age or Phased retirement from the Age 60 or 65 schemes is not automatically required to also claim their benefits from the CARE scheme at the same time, so why do they have to under the ARB provisions?

Under the current proposals, members taking their Age 60 or 65 benefits early will face a disproportionate penalty as a result. For example - A member currently has benefits in the final salary scheme with a Normal Pension Age (NPA) of 60. In 2015 they are 45 years old and immediately join the new CARE scheme. Their new NPA is 67. They decide to take ARBs at age 58. Their final salary benefits will be reduced by 8.9%, but their CARE benefits will be reduced by a whopping 35.8% (based on current factors appropriate to the Age 65 scheme and including the lower adjustment rate of 3%, in line with the new flexibility in the reformed scheme). This is unfair and members shouldn't have to face such significant reductions to their pension benefits. The same flexibilities that apply to members retiring on Age and Phased grounds should also apply when taking ARBs.

We know that based on current trends and despite increases to retirement ages, many teachers with final salary benefits are likely to still retire before 60 using ARBs. Some due to failing health that is not serious enough to warrant ill-health retirement and others because phased retirement for whatever reason is not an option, these teachers shouldn't be financially disadvantaged as a result. The percentage of teachers retiring with ARBs in 2010/11 was 34% and in 2011/12 was 35%¹. That's an awfully large number of teachers who will be heavily penalised should this provision be allowed to stand.

ATL is please with the decision to remove abatement as a feature of the reformed scheme.

However, we are disappointed with the decision concerning how abatement will be calculated as part of the transition arrangements. The proposal to use the total pension in

¹ Teachers' Pensions Retirement Statistics (MAG)

payment, including benefits earned under CARE, to calculate whether or not abatement should be applied is completely contrary to the principle of abolishing abatement. The fact that abatement can only be applied to the final salary element of a member's pension means that it will be possible for a member, subject to abatement, to find that all their final salary benefits have been withheld for that tax year. This is a unique opportunity for the Department to phase out what has long been seen as an unnecessary element of the current scheme and is out of place with the current trend of working longer and the Government's decision to increase retirement ages. If abatement is going to continue, then it should only be calculated using the final salary component of a member's pension and not the total pension in payment.

Question 9: Do you agree that transitional scheme members who have passed their final salary NPA and move within the public service should have the option to transfer their benefits provided their new pension scheme is within the Public Sector Transfer Club?

Yes. ATL is pleased with the decision to extend the election to transfer out ones benefits beyond a member's final salary NPA. Increased retirement ages will lead to members working longer and this is likely to lead to more members deciding to change careers later in life. This provision will allow members greater freedom of choice when planning career changes in their later years.

Question 10: Do the Department's proposals for the operation of faster accrual provide scheme members with sufficient flexibility whilst also being practical to administer by employers and payroll providers?

Flexibility, choice and the option to increase your benefits should be part of any good pension scheme. However, too many flexibilities and too much choice can be a burden and add unnecessarily to the complexity of the scheme benefits which in turn leads to confusion amongst members. So, instead of flexibility and choice there is a risk of ending up with a scheme that is over elaborate and unequal because only those that can afford it will benefit from the increased options to improve benefits. The TPS already has plenty of options for members to improve their benefits in retirement and given the increased cost in contributions, changes to teachers pay that will likely lead to pay suppression and the current economic hardship faced by members, it is unlikely that introducing further expensive options will be of real benefit to members.

ATL believes that Department is at risk of introducing too many flexibilities without adding value to the scheme. Between 2011 and 2012 there were only 669² new applications from members to take out an AVC and only 1,080³ members opted to purchase additional pension. This is a tiny fraction of the scheme population and data provided by the Department indicates that majority of teachers purchasing additional pensions are full-time and at the higher end of the pay scale. It is unlikely that introducing more flexibility will improve take up numbers or encourage teachers at the lower end of the pay scale or those who work part-time to participate. The Department should also be careful about sending out the wrong message to members. Members could interpret a multitude of options to improve scheme benefits to mean that the actual scheme itself is not very good. Finally, the Department should be aware of the additional administrative burden

² Department for Education – MAG Teachers' Additional Voluntary Contributions June 2012 Customer Service Update

³ DfE Tabled Papers Discussion Forum Meeting 22 November 2012 Annex 3B

having so many options will place on employers and the scheme administrator at a time when currently the collection and receipt of accurate timely data needs improvement.

Having said that, the proposal to operate faster accrual is flexible yet straightforward for members to understand as well as practical for employers to administer. Limiting the options for faster accrual at 3 is better than allowing any combination possible. However ATL remains concerned that only teachers at the top of the pay scale and those who are well off will be able to afford to fully utilize the provision.

In the section on early retirement flexibilities, the 3% actuarial adjustment is only applicable to active members. It is ATL's view that the actuarial adjustment should apply to both deferred and active members who have a retirement age above 65. The adjustment is based on the age at which the pension is paid and therefore it should make no difference whether or not the member is active or deferred. The 3% actuarial adjustment was negotiated by the General Secretaries as a means to mitigate later retirement ages and it was understood that all members would benefit and not only active members. Crucially the PFA does not differentiate between active or deferred members! It would be unfair to members if a distinction between active and deferred is applied. It is the view of ATL that all members should benefit from the 3% actuarial adjustment that we negotiated.

If we take a teacher, with a NRA of 68, who leaves the profession at the end of the academic year at age 64 and who claims their ARB pension benefits a few months later at 65, they will not benefit from the 3% actuarial adjustment because at the date of their retirement, they are a deferred member. In order to benefit from the 3% actuarial adjustment, this teacher will have to work longer or will face a larger reduction to their pension. This is unfair and ATL doesn't believe that this should be the case.

Question 11a: Should the option to buy-out the actuarial adjustment feature in the reformed scheme?

No it shouldn't. By the Department's own admission this option is overly "complex" and "difficult to administer for employers and the scheme administrator". It is also extremely difficult to understand and a huge financial risk to members because benefits are uncertain at the end and the potential total cost to the member is unknown. Not to mention the fact that this option will only be available to members at the very beginning of their careers and who can say at the start of their teaching career where they will be in forty or forty-five years time? Again, ATL is concerned that only those who are well off will be able to participate. One of the great benefits of the TPS is that it is a scheme for all regardless of position; this provision will create a two tier scheme, the better off who can buy-out the actuarial adjustment and those that can't. The number of teachers willing to use this option will not justify its inclusion in the reformed scheme and therefore, for all these reasons, this option should not feature in the reformed TPS.

Question 11b: Do you agree with the Department's proposals for the operation of this option?

No. For the reasons referred to above.

It is ATL's view that if we are to have any additional flexibilities, that out of the choices available, the option to purchase faster accrual is preferable to buying-out the actuarial adjustment.

Question 12: The intention is to ease the administrative burdens on existing arrangements, especially for MATs. Do the proposals outlined in this section address the main issues? If not, why not?

The proposal to allow Multi Academy Trusts (MATs) to be the sole employer accountable for delivering employer responsibilities for the TPS is sensible given the proliferation of academies in the education sector and the potential of the number academies increasing in the future. It is the understanding of ATL that in the main this is how most national academy chains operate at the moment, so it would seem sensible that MATs should also be able to work in the same way.

The Department must take care that in proposing this approach it is clear that this only applies teachers working in academies and not anyone who is employed by an MAT.

Question: 13 Do you agree that the proposed PRC arrangements will appropriately assist employers and members where early termination of employment is being considered?

Yes. This is a sensible approach and ATL welcomes the Department's decision to maintain the PRC arrangements in the reformed scheme. Employers are continuing to use PRC as a way to effectively manage workforce reorganisation and its use has actually increased in the last year. In 2011-12 PRC rose to 1,786 cases (5.8 per cent of total retirements) whereas previously in 2010-11 there were 1,379 retirements under PRC⁴. This demonstrates that PRC is still a very useful tool that employers use to manage staff numbers.

ATL also thinks that updating the PRC Regulations to officially bring academies within its scope is a sound decision and reflects the growing number of academies and free schools that are now playing a significant role in education.

Q14: Does the proposed remit, structure and operation of the Board provide scheme members and employers with assurance over the administration of the scheme as recommended by Lord Hutton?

The establishment of a pension board to assist with the management of all aspects of the scheme is sensible. The creation of a pension board will formally bring together the current individuals, stakeholders and representatives that presently cover the areas of responsibility that the consultation paper refers to and this development is welcomed.

It is clear from the proposals that the pension board will have a large remit with a wide range of responsibilities and members will need particular skills and knowledge in order to carry out their responsibilities effectively. For this reason ATL is concerned that the proposed composition of the board is too small to meet this requirement. It would be better to have 5 scheme member representatives and 5 employer representatives in order

⁴ Teachers' Pensions Retirement Statistics (MAG)

to ensure that the workload that the board will have is spread more evenly and does not become too cumbersome. Furthermore, additional member and employer representatives will help to increase the skills and knowledge base that having an effective board would necessitate.

We would recommend that each member representative is from a different stakeholder or organisation to ensure a diverse spread of membership and that any gaps in knowledge and expertise is addressed through training provided by the Department.

Lastly, ATL would like to recommend that the tenure of board members is managed carefully in order to avoid losing expertise and knowledge that has been built up over time; and having more scheme members on the board will mitigate the 'churn' that will occur when board members' terms expire.

Q15: Will the proposals ensure that the TPS continues to help employers to help scheme members manage effectively their careers and retirement?

The proposals as they are do not contain any detail of how the TPS will help employers or scheme members manage effectively their careers and retirement. The TPS will have an enormous role to play in helping employers adjust to the new arrangements. Operating a CARE scheme has its own complications, however, employers will have members who will retain their Final Salary benefits, who will join the CARE scheme at a later date and those will transfer automatically into the CARE scheme in 2015. Members will have CARE and Final Salary benefits. Changes to the STPCD that gives greater freedoms to employers to decided salary rates etc. will also mean added complications. Finally the expansion of employers in the sector and the number of micro employers that now have responsibility for collecting and sending data to the scheme administrator will pose its own problems regarding administration. The TPS will have to pay a great deal of attention to how it approaches training, supporting and advising employers about the reformed scheme prior to 2015 and beyond. This will occur at the same it is also trying to inform, guide and educate scheme members of the upcoming changes. Equal time, resources and attention will have to be paid to both employers and members, which will be a huge operational challenge for the scheme administrator. The Department should consider the role Trade Unions and other stakeholders may be able play in order to support the scheme administrator in this considerable task.

Employers will certainly welcome the fact that, where possible, elements of the reformed scheme have either remained unchanged from the current Age 60 and 65 schemes or only had minor alterations to bring them in line with the way CARE benefits are calculated. This will hopefully enable a smoother transition.

Q16: Will the proposals help scheme members to manage effectively their pension savings and plans?

The introduction of a new scheme for teachers and lecturers is a huge undertaking. The move from Final Salary to CARE will be difficult and members will need to be confident that they are receiving the right information in a timely fashion that will enable them to understand the changes and make informed decisions about their pension and careers. The onus will be on the Department and the scheme administrator to provide the help, support and guidance those members will need; and make sure that the transition from to the reformed TPS goes as effortlessly as possible.

Q17: Are there any additional administrative, equality or practical issues that the Department needs to consider in implementing the new arrangements?

ATL is concerned that the increase in the number of schools outside the responsibility of Local Authorities may lead to members who should be in the scheme being excluded. The rise in academies, free schools and other education providers outside Local Authority control may lead to certain employers finding ways to exclude members who would normally be entitled to join the scheme. With constraints on budgets and intense competition, keeping costs down will be a major factor in education and ATL is concerned that one of the ways employers may seek to ease budget difficulties will be to outsource staff and avoid pension costs. The Department must make sure that this doesn't happen and employers/schools/organisations that derive funding from the Government must ensure that their teachers and lecturers are able to join the reformed TPS scheme regardless of any creative business practices that are used to employ their staff.

Yours sincerely

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