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Public Bill Committee

PUBLIC SERVICE PENSIONS BILL

Second Sitting

Tuesday 6 November 2012

(Afternoon)

CONTENTS

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Saturday 10 November 2012

STRICT ADHERENCE TO THIS ARRANGEMENT WILL GREATLY FACILITATE THE PROMPT PUBLICATION OF THE BOUND VOLUMES OF PROCEEDINGS IN GENERAL COMMITTEES

The Committee consisted of the following Members:

Chairs: † Mr Joe Benton, Annette Brooke

† Abrahams, Debbie *(Oldham East and Saddleworth)* (Lab)
† Ashworth, Jonathan *(Leicester South)* (Lab)
Burt, Lorely *(Solihull)* (LD)
† Doyle-Price, Jackie *(Thurrock)* (Con)
† Evans, Graham *(Weaver Vale)* (Con)
Freer, Mike *(Finchley and Golders Green)* (Con)
† Fuller, Richard *(Bedford)* (Con)
† Gibb, Mr Nick *(Bognor Regis and Littlehampton)* (Con)
† Gilmore, Sheila *(Edinburgh East)* (Lab)
† Hands, Greg *(Chelsea and Fulham)* (Con)
† Jamieson, Cathy *(Kilmarnock and Loudoun)* (Lab/Co-op)
† Javid, Sajid *(Economic Secretary to the Treasury)*
† Jones, Mr Marcus *(Nuneaton)* (Con)
† Leadsom, Andrea *(South Northamptonshire)* (Con)
† Leslie, Chris *(Nottingham East)* (Lab/Co-op)
† McGovern, Alison *(Wirral South)* (Lab)
† McKenzie, Mr Iain *(Inverclyde)* (Lab)
† Paisley, Ian *(North Antrim)* (DUP)
Williams, Stephen *(Bristol West)* (LD)

Kate Emms, Neil Caulfield, *Committee Clerks*

† attended the Committee

Witnesses

Niki Cleal, Director, Pensions Policy Institute

Joanne Segars, National Association of Pension Funds

Alison Hamilton, Chair, Local Government Committee, Association of Consulting Actuaries

Neil Carberry, Director for Employment and Skills, CBI

Dai Hudd, Deputy General Secretary, Prospect

Ian Rennie, General Secretary, Police Federation

John Sturzaker, Legal Adviser, Police Federation

Councillor Roger Phillips

Jeff Houston, Senior Policy Adviser, Local Government Association

Bill Galvin, Chief Executive, The Pensions Regulator

Kevin Courtney, Deputy Secretary General, National Union of Teachers

Chris Keates, General Secretary, NASUWT

Public Bill Committee

Tuesday 6 November 2012

(Afternoon)

[MR JOE BENTON *in the Chair*]

Public Service Pensions Bill

Written evidence to be reported to the House

PSP 02 Association of Teachers and Lecturers
PSP 03 Pensions Policy Institute
PSP 05 Local Government Association
PSP 06 Prospect and FDA
PSP 07 Michael Johnson

2 pm

The Committee deliberated in private.

Examination of Witnesses

Niki Cleal, Joanne Segars and Alison Hamilton gave evidence.

2.1 pm

The Chair: We will now hear oral evidence from the Association of Consulting Actuaries, the National Association of Pension Funds and the Pension Policy Institute. Just for the record, could the witnesses introduce themselves to the Committee please?

Alison Hamilton: Good afternoon. I am representing the Association of Consulting Actuaries, local government sub-committee. I have to point out at this stage that being a trade organisation, the Association of Consulting Actuaries will not necessarily give one single opinion. I am here because I advise funds who are involved with the local government pension scheme and I am giving information in that capacity. To make it the most useful session I canvassed the opinions of my sub-committee on the three areas that we were asked to talk about. Should I have to give any other opinions they will probably be mine and mine alone for the purposes of today until I refer back to my committee.

Joanne Segars: I am the chief executive of the National Association of Pension Funds. We represent 1,200 pension funds who collectively own £900 billion of assets in the UK. Among those pension funds are 80% of the local authority pension funds.

Niki Cleal: I am director of the Pensions Policy Institute. The Pensions Policy Institute is a small, educational research charity. We produce research evidence and analysis on different aspects of pension policy. We recently published a report looking at the impact of public sector pension reforms.

The Chair: Thank you very much. You are all welcome.

Q58 Chris Leslie (Nottingham East) (Lab/Co-op): Thank you very much for your time in coming to give evidence to us today. There are a number of different angles that Members will no doubt want to take in looking at the Bill. I want to pick up on a couple of specific areas. The first is in regard to the governance arrangements for some of the pension schemes. Obviously Lord Hutton made a number of detailed proposals about pension boards, pension policy groups and so forth. Do you have any opinions about the Bill as it is currently formed versus Lord Hutton's recommendations? Do you feel that this is an opportunity to ensure that we enshrine a high standard of governance arrangements? For example, on the composition of some of those pension boards, might it be preferable if we ensured that a certain number of board members were nominated from among the membership of the schemes themselves? Are independent voices sufficiently represented on those pension boards?

Joanne Segars: I am happy to kick off on those points. One of the things that the NAPF particularly welcomed from Lord Hutton's report was the emphasis on good governance. At the NAPF we certainly put a premium on good pension scheme governance whether in the public or private sector. Ensuring that there is good governance and oversight, particularly for the unfunded schemes, is something that we welcomed.

With regard to your points about whether there should be member-nominated trustees, for most large private sector or non-statutory schemes it is recognised best practice to have member-nominated trustees. The law requires a third and, certainly for the largest schemes, 50% is not unusual. Our survey of local authority funds suggests that around 47% of our local authority members have some member representation on pension committees at local level, at local government pension scheme fund level. That number has been broadly stable over the past few years.

One thing that comes out quite strongly in the Bill is the point about conflicts of interest. There are some mechanisms there to ensure that conflicts of interest are adequately taken care of, so I do not perceive that as a particular issue. Where there is member engagement, we recognise there is good governance. Clearly those who have the most interest in the scheme should have a say in how it is run.

Niki Cleal: I do not have a huge amount to add. It is not an area that the PPI has looked at in great detail. I echo some of Joanne's comments. The proposals seem to be in line with good governance in pension schemes more generally. I have nothing more specific to add.

Alison Hamilton: My experience is obviously within the local government pension scheme. Many local government pension funds are very well run and have good governance arrangements. Some of them have that good governance and a good standard in place already, notwithstanding putting in a national pension board. Clearly, as part of the association's local government sub-committee work, we would want to be involved in any national pension board governance arrangement that was set up. We would be interested in that.

Joanne Segars: I think our members would also see the need for that national level oversight within the local government pensions sector. There is obviously scheme level governance but there is no real provision for that overarching governance in the LGPS. We think there is a role for a central body to gather and collect data. At the moment that function is confusingly shared among the Treasury, the Department for Communities and Local Government and the Pensions Regulator.

Q59 Chris Leslie: I suppose the next set of issues might be to do with the transparency of those governance arrangements and the information that might be available for underpinning how those pension boards are put together. One point I wanted to ask you about was whether you felt it would be important for the Treasury and the schemes themselves to publish clear policies on how those boards are composed and how they are drawn together. Instead of just ad hoc arrangements for the composition of the boards, it is important to have a constitution that is visible and transparent for everyone to see.

That was one point on transparency. If I could segue into the wider issue of communication more generally for members, how important is it to take this opportunity to enshrine stronger communications with members generally? In particular, that could include the provision of annual benefits statements to members of the scheme, information about members' pension benefits earned to date, projected annual pensions, lump sum arrangements, and members' and employers' current contribution rates. Is this not an opportunity to modernise, have best practice and include some of those changes in the Bill?

Joanne Segars: Yes is the short answer. Taking both those points in turn, one thing that is clear about local government pension funds is their transparency. Local government pension funds are required, for example, to put minutes on the website. There is a high degree of transparency within the LGPS funds. There may be benefit in publishing how governance structures are arrived at. I would be slightly cautious about being too prescriptive about how they may be prescribed. There may be a case for some overarching guidance, and one of the roles of the Pensions Regulator may be to set down some guidance on the issue.

This is an excellent opportunity to put a real focus and a real premium on good quality scheme member communications. That is one of the things that there can never be too much of. We should make sure that communications are first class, particularly when we are moving to risk-sharing schemes, where there is an even bigger need for good quality scheme member communications. That area has improved over the past few years, but there is a lot further to go.

Q60 Chris Leslie: My final question is on valuation issues, and is perhaps directed more at you, Alison. I understand that there is a possibility that there could be a single template approach to valuation, especially of local government pension schemes. Is it not important to make sure that we take some care about a one-size-fits-all approach to valuations, particularly in funded LGPS schemes, given that each of those schemes might have different demographic issues, which come through into their membership? How does the Bill address that? Is it something that we should be wary of as we look at the clauses?

Alison Hamilton: Clause 10 certainly gives me cause for concern. I have spent my time advising local authority pension funds and, as you mentioned, they have very different demographics. They also have assets backing them that can be invested in quite different ways. It is very important that the valuation takes account of the local demographics, and the local investment of the assets backing those pension funds. I attended a meeting where the Bill team tried to give some sort of reassurance that the valuation would be carried out as a one-size-fits-all under Treasury directions. That was not intended for the local government pension scheme. I would like the Committee to explore that and get something drafted. The one-size-fits-all approach for the whole LGPS steers away from localism for local taxpayers and the like, who have to fund it. That is one area that I do not think reads to the letter of the Bill as I would expect. We would have concerns on that.

Joanne Segars: We would certainly agree with that. Some of the feedback from our members has been that we need to acknowledge those local factors, as you said. Life expectancy is very different in Glasgow from Kensington and Chelsea, for example, and we have to reflect that in valuation. We would be very concerned if there was a one-size-fits-all approach. We do not think that the Bill adequately addresses that.

Alison Hamilton: This may be a wider point, in that the Bill covers all public sector pension funds, and the local government pension scheme is funded. That makes for a very different set of situations and financial assumptions that would be appropriate for valuing that pension fund compared with the unfunded schemes, which the Government Actuary's Department provides assumptions for in line with the Treasury. Local fund actuaries look at local pension funds, taking all that into account. In some areas the Bill does not differentiate those two to our satisfaction.

Q61 Richard Fuller (Bedford) (Con): I shall be brief, as I only have two questions. In our earlier session we were talking about the increase in contribution rates and expectations of change, and what the impact of that may be on people making rational decisions. For example, a young firefighter's contributions will go up three percentage points. He or she could be putting money aside for a deposit on a house. From our conversations, I have been left thinking, what if it changes again? How would you assess the risk of increasing contribution rates and rational expectations of future change, in terms of how they are handled in the Bill?

Alison Hamilton: In terms of the local government scheme, we, the actuaries to the funds, did a lot of modelling when the original proposals were made for that scheme, which encompassed a potential increase in contributions of about 3%. We did a lot of modelling work to see how that might pan out in terms of people leaving the scheme and the financial demographics. I cannot really comment more widely on the other unfunded schemes. However, there is a risk that pension funds mature and that ultimately drives the cost up, and drives it outwith the margin that will be acceptable within the Bill.

Q62 Richard Fuller: Naturally, there will be a risk because you are increasing the contribution rate—I understand that there will be a risk—but did you assess, even within the local government fund, the quantum of that likely change? Was the drop-out 1% to 2% or 15% to 20%, or do you not have that to hand?

Alison Hamilton: Ultimately, we made some allowances, but we do not know what the impact of the opt-out rates would be. We did some projections based on certain assumptions, but we do not know what is going to happen, ultimately, from the work that I did.

Q63 Richard Fuller: Essentially, in your modelling, you made assumptions about what you thought the drop-out and the consequential impact on financing would be. There was no data from asking people their thoughts.

Joanne Segars: The GMB—who I think you heard from this morning—has undertaken some modelling on this with regard to the local government pension scheme. Its numbers showed some potentially quite high levels of opt-out. That polling was done before the most recent settlement. The 50:50 option in the LGPS is aimed specifically at trying to curb levels of opt-outs.

Certainly, one of the things that we would be very concerned about, particularly in the current economic environment, is the fact that lots of people might say, "Well, this is all too much", or, "It could all change again in a few years' time, so why do I really want to save for a pension?" This may go back to the point made earlier by Mr Leslie about the need to make sure that there is good communication. It is very clear that these remain very good schemes, and that people will need to save for retirement, so the two points join up for me.

Niki Cleal: I agree. The reality is that we do not know how these contribution rises will impact on opt-out rates. It is reasonable to assume that there will be some kind of impact, but at this point we do not actually know exactly what that impact will be. That is something that will need to be quite closely monitored going forward. Obviously, if you see widespread rates of opt-out, it is not a good policy outcome. It will come back in other ways.

Joanne Segars: It feeds right back through to the cost of the scheme.

Niki Cleal: It is an important issue to monitor, but it is very difficult to say at this point in time exactly what behavioural impact you might see.

Q64 Richard Fuller: One of the topics we have talked about is intergenerational fairness. In the tax-as-you-go method that we currently have for public sector pensions, a lot of the actuarial risk or the assumption risks fall on future taxpayers—both public sector and private sector taxpayers, and taxpayers yet to be born. Even on the Government's own numbers, in the public expenditure statistical analyses, that can be subject to quite wide variations, with additional burdens having to fall on future taxpayers, even with these changes. Do you think that the Government should have considered moving to a fully funded scheme, such as the future fund in Australia, for all public sector pensions, as a way of being fair to future generations, rather than continuing with the current approach?

Niki Cleal: It is not intrinsically the case that because you have an unfunded pay-as-you-go system, it necessarily has to be intergenerationally unfair. It really depends on how the cost of those pension promises is shared between members and taxpayers. Obviously, these reforms are shifting that balance, whereby members will be picking up more of the cost of these pension promises in the future. I do not necessarily think it is the case that a pay-as-you-go system is intrinsically intergenerationally unfair. I would not necessarily argue that because of such a concern, you should move right across to a funded system, in the way that the LGPS is funded. Other witnesses may also have comments.

Joanne Segars: I very much agree with Niki on the core point that pay-as-you-go schemes do not have to be intrinsically intergenerationally unfair. There are also some quite significant issues in converting to a funded scheme, not least that one generation has to pay twice. They are paying for the pay-as-you-go schemes as well as paying for their own. Those are some really quite significant and, I suspect, highly technical issues that would need to be overcome.

Alison Hamilton: I was going to raise the cost point. There has to be some double payment, because you have to pay for the pensioners now and start to pre-fund for the pensioners of the future. You are paying for it twice, if you like, until you build up your fund. That is the cost aspect that I would raise. Ultimately, you have the fund, you invest it as you see fit and you have control over it, which obviously has advantages.

It may come down to the cost control mechanism in the Bill. The cost control mechanism that the Government have in mind has not been fully detailed, but ultimately the situation could exist that if you want complete cost control of the new schemes, you will want cost control on those who are already pensioner members as well as current members. If you are going to change the scheme design to reflect that—to have total cost control there—ultimately you might be changing the benefit structure of the current members' pension. I would like clarity in the Bill on that aspect. You could end up with a very mature scheme affecting current pensioner benefits.

Q65 Cathy Jamieson (Kilmarnock and Loudoun) (Lab/Co-op): I have a couple of questions on slightly different topics. The first, which has already been touched on, is the potential drop-out rates and the issue of people who are at the higher end of salary scales and the lower wages. We have heard some different views this morning about the likely drop-out rates, and I think you have referred to that. I also wonder to what extent you think the Bill would make for greater fairness between public and private sector workers, and between the so-called high flyers and those on the lower wages.

Niki Cleal: There are some structural differences between a career average scheme and the old final salary schemes as were. Certainly, there is solid economic evidence that career average schemes are fairer in the sense that they produce more similar outcomes for people who have different career paths. A final salary scheme tends disproportionately to benefit high flyers or people who get a promotion at the end of their career, and you do not get those effects to the same degree in a career average scheme.

In terms of fairness between pensions in the public sector and pensions in the private sector, PPI has done some work on that recently looking at the impact of the reforms. We think that after the reforms there will be less of a disparity between pensions in the public sector and pensions in the private sector. Nevertheless, there will still be a key difference, which is that pensions in the public sector will still be defined benefit and yet less than 10% of private sector workers have access to an open defined-benefit scheme. We still think that public sector pensions will be worth around 15% of salary, compared with more like a typical 10% for a private sector defined-contribution scheme. Our overall conclusion was that the schemes will be more similar in value but there will still be some important differences between pensions in the two sectors.

Joanne Segars: I very much agree with that analysis, and one of the things that we found particularly attractive about the proposals Lord Hutton made was that they would be fairer, in particular to women workers in the public sector. Niki raises a very good point about the fact that pensions between public and private sectors will be more similar, and she raises the disparity—15%, I think you said—between public and private sector pensions.

I think the real issue is the level of pension provision in the private sector, and there are clear issues about the need to boost provision in the private sector. One of the things we very much welcomed Lord Hutton saying was that we must avoid a race to the bottom. We have been particularly concerned about some of the media coverage surrounding public sector pension provision generally, and the Hutton proposals in particular, which boiled down to "Workers in the private sector have lost their DB schemes, so workers in the public sector should too." We want to see all workers get a good pension, whether in the public sector or the private sector and whether in a DB scheme or a DC scheme.

Alison Hamilton: I agree with that. The only thing to add is that in my sphere, in the local government pension scheme, the average pension being paid out remains about £4,000. It is not a gold-plated pension scheme for many of the members. Yes, absolutely, career average will place more of the pension spend on part-time workers and members with lower career progression, so in that sense it is fairer, but there is still a disparity between what is provided in the private sector and the LGPS sector that I work in.

Q66 Cathy Jamieson: On a slightly different topic, one of the big issues for people, in terms of planning for retirement, is to have a degree of certainty about what is coming down the line. When, for a previous Bill, we were discussing the issue of the state pension age, there was concern that the way that some of the changes were put forward disadvantaged women in particular. In the course of this Bill, do you think it would be reasonable to build in a 10-year lead-in period before the scheme pension age changes?

Alison Hamilton: That is a social, political question and not an actuarial question, so I will duck that one.

Niki Cleal:. When we have looked at this issue in the past, we have made some observations on the fact that, at the moment, women tend to drop out of the labour market at a younger age. Therefore, in our evidence on state pension age changes, we argued that there was an evidence-based case to say that, actually, you might feel that you need to give women, in particular, longer notice periods, and I think that we proposed a 10-year period alongside that.

There is labour market evidence which suggests that you should think about notice periods, but that is an issue that goes beyond just public sector pensions; it is an issue of how much notice is needed to be given to people about the wider state pension age changes. Once someone, in their mid-50s, has already dropped out of the labour market, it may be quite difficult for them to re-enter it three years later if they have already made retirement plans.

Joanne Segars: It goes back to Mr Fuller's question about people wanting certainty and the ability to be able to plan, and not to think, "The rules keep chopping and changing and, frankly, I've had enough of this." I think that giving people enough time to plan, and giving them enough notice—we saw that with the changes to the state pension age earlier this year or last year—will be important to create the right environment for these changes to come into force.

Alison Hamilton: The one thing in the Bill is that those who have a five-year break still have a link, which will help women who have career breaks for having families. That is already in the Bill, so that is being addressed, in part.

Q67 Sheila Gilmore (Edinburgh East) (Lab): I want to come back on the question of people's behavioural responses. The answer given on the question of whether people drop out seems to revolve around "Well, it is still a good scheme." But, as we have seen in the world of private sector pensions, people are predominantly looking at their position as they find it now. How can we avoid people just looking at increased contributions and listening to the talk about the pensions being worse, and strengthen the position so that people do not drop out?

Niki Cleal: This partly comes back to the communication exercise. It is really important that a message saying that these are not good pensions does not get out to the wider public. Plainly, even after these reforms, they will still be some of the best pensions available in the country, and it is really important that that message gets across. Yes, public sector workers will be asked to pay more towards the cost of that promise in the future than they were in the past, but they are, nevertheless, still very valuable benefits. It is a difficult issue and I do not think that there is a perfect answer or solution, but it is partly about trying to communicate clearly the valuable benefit that this pension actually is, even after the reforms.

Joanne Segars: I absolutely agree. It is an area where the unions have a particularly strong role to play and where the employing authorities have a very strong role to play. It has to be—I guess they call it in the trade—a multi-stakeholder communications programme because they will remain very good schemes. It goes back to the much wider communications exercise about why people should be saving for pensions in the first place. Clearly the Government have a role to play there, too, given that we are at the start of the auto-enrolment programme over the next four or five years, where public sector pensions sit within that wider piece that the Government are trying to change in terms of changing the nation's retirement fortunes. The Government have a role in promoting pension saving generally, but also helping to promote the fact that they will be very good schemes.

Alison Hamilton: One area of the Bill seems to allow for indexation or revaluation and for pension provision to go up, and in times of deflation and negative consumer price indexation, for that to decrease. If you are going through a communications exercise and telling somebody that their pension is potentially worth less this year than it was last year, within the Bill that flexibility will obviously be counter-intuitive for encouraging people to save.

The other technical point is that, at the moment, the local government pension scheme is proposed to increase with CPI, whereas some of the other schemes are proposed to increase CPI plus something. If, in times of negative inflation, your CPI plus something means that your teacher gets a small increase in their pension, yet the local government worker gets a decrease in what they have saved for, that will cause a bit of concern and confusing messages when encouraging people to save. It is not worth as much as it potentially was last year, although there is time to catch up between where you are now and your retirement age. That is the only thing that the Bill puts in with potential negative indexation, which you will need to explore.

Q68 Sheila Gilmore: Do you think that the regulatory regime in the Bill will be effective?

Joanne Segars: I am not sure that we can tell. From our perspective, it is a little bit confusing as to the boundaries and respective roles of the Pensions Regulator, the Treasury and the individual Departments. One of the things that our members would want to see is quite a lot more clarity. They have certainly said that it is a role for this Committee and for the Bill to ensure that there is that clarity. I think that our jury is out on that point.

Alison Hamilton: From the local government perspective, the primary legislation will require the local government secondary legislation to allow us to function as actuaries and advisers, and to define all the things that are there. That has not been considered at this stage, but it will be needed very quickly to allow us to do our job.

Joanne Segars: We were certainly pleased from the NAPF perspective to hear Brandon Lewis, Minister of State, say that legislation for the local government scheme will be brought forward quickly and certainly, in order for this time with the valuations in the local authority schemes, we need to see that in pretty short order.

Q69 Chris Leslie: Alison, you were talking a little bit ago about the negative revaluation process and how that might dent confidence in some of the schemes and so forth. I want to ask you all about retrospectivity and the fact that members might have thought that their accrued benefits to date were inviolate and that nobody could really go back on what had been accrued, yet some doubts have crept in that the way in which the Bill has been drafted does not preclude Ministers, the Treasury and others allowing retrospective reduction in accrued benefits.

Do you agree that it is pretty fundamental for confidence or trust in the schemes that that particular part of the contract is put beyond doubt and that it is absolutely clear that there will not be that level of retrospectivity?

Joanne Segars: One of important things we saw in the Hutton recommendations was the fact that this would be for prospective rights, for future accruals, and that pensions accrued to date were pensions accrued to date.

Niki Cleal: That has been a commonly held principle in almost all aspects of pensions policy. You do need to be quite careful about blurring that distinction because pensions are about confidence. There is a long-term promise—people promise to pay you in 30 or 40 years' time—and if you get any sense that that promise might not be honoured, that could be corrosive. An important principle is to be able to give a clear statement that what you have accrued thus far will be honoured. This discussion is about future service and how that is going to play out.

Q70 Graham Evans (Weaver Vale) (Con): I should like to pick up what Niki was talking about earlier: the high quality of these pensions, once the reforms have been brought in, compared with the private sector. Joanne, you mentioned that you are pleased that agreement is being reached to ensure that these remain quality defined benefit schemes, as opposed to defined contribution schemes, with key changes such as the move to career average benefits and to ensure that retirement ages keep pace with increasing longevity. We have had witness statements here that disagree with that. They do not think that they should be made to work longer. We have got some more visitors coming after your good selves who feel the same way. Could you tell me, in your experience and your opinion, what you think is a reasonable retirement time for public sector workers?

Joanne Segars: That clearly depends on which part of the public service you are looking at. Lord Hutton has been very clear in terms of the—

Q71 Graham Evans: Health, local government, teachers and the like, rather than the armed forces and the police.

Joanne Segars: And the fire service. We have to recognise that we are living longer. Since the current local government pension scheme was put in place, life expectancy has increased quite considerably. As with private sector schemes, we have seen longer working lives. We will see that happening further as the state pension age increases and private sector schemes peg their retirement ages to the new state pension ages. We think there is a case for doing that across both the public and private sectors. Clearly, there are limits to which that can be pushed, but as medical science improves, as life expectancy improves and as we are fitter in our old age, we have to reflect that in our pension provision. The alternatives were set out by Lord Turner: we are either going to have to work longer, pay more, or face a poorer old age, or a combination of those three. That mix that Lord Hutton arrived at is probably the right one.

Niki Cleal: The reality, as Joanne said, which applies across all pension provision, is that people are living a lot longer. We need to get a message out that we cannot expect to have fixed views about when people are going to retire. The reality is that retirement ages do need to rise. Clearly, in some parts of the public sector, that may be more be more difficult than in others, but I do not think that means it is impossible. There are a range of different jobs within different parts of the public sector. People may be able to retrain and perhaps work in more of a back-office environment, rather than being at the front line. This is a wider issue—it is not just in the public sector. The economic realities are that people are not prepared to pay the kind of contribution rates that you would need to retire at 65 or 60. There is no easy answer here, but we have to try to get a message out that the reality is that people are going to have to work longer. That is whether or not you work in the public or the private sector. It is a wider issue.

Q72 Graham Evans: Can I put a figure to that? So 65 is not an unreasonable age to work in a classroom, for example. You said people should retrain to go to a less front-line service, but for a teacher at the front of a class teaching 30 pupils, are you saying that 65 is not an unreasonable age at which to be teaching?

Niki Cleal: I do not think I am trying to be that specific. My general point is that if you have trained as a teacher, you have a set of skills and there are probably other jobs out there. It might not be just about front-line teaching; it might be more of a managerial role. I think we just need to think more creatively about how we get the best out of older workers in the economy. It does not necessarily mean that you have to be doing the selfsame job from age 30, age 40, age 50 and beyond. We just need to be more flexible about that and recognise the skills that older people have.

Joanne Segars: I think there are some real challenges here for employers, in both the public and private sectors, about how they adapt to older workers—if you want to call somebody in their 60s and above older—in the work force. That is an issue which, nationally, we have not come anywhere close to resolving.

Alison Hamilton: Can I just pull this back to the cost control aspect? Clearly, we are trying to design pension arrangements which can last and which are sustainable into the future. If we recognise that people are living longer, then, ultimately, we have to raise the retirement age to keep within the cost envelopes that we have all been provided with for these schemes, otherwise the accrual level or the revaluation level will go down, and that might not be as attractive to members. If we are just to keep within the cost envelope and to keep things sustainable going forward, one of these levers has to give. People are living longer, so we should reflect that; we would like to see it measured for the pension fund it is affecting. So, within the local government scheme, we are looking at a straightforward longevity index, if you like, which actually recognises what is happening in that pension fund. That would link the pension age to the experience of that pension fund.

Q73 Debbie Abrahams (Oldham East and Saddleworth) (Lab): This is a general question. We are all talking about life expectancy, and it is absolutely right that we are all living longer. However, people on lower incomes will die earlier; in my constituency of Oldham East and Saddleworth, people in Oldham East will live 10 years less than people in more affluent Saddleworth. There is also the issue that we have a different quality of life, so people on low incomes may live not only shorter lives, but less healthy lives in terms of their mobility—they are more likely to experience disability. Is it not time that we looked, in our pension calculations and in the debate as a whole, at life expectancy quality-adjusted life years and disability-adjusted life years, which are recognised international indicators, instead of at life expectancy?

Niki Cleal: I will try on this one. You raise an important issue, which is that there are wide differences in life expectancy across the different social classes—the evidence absolutely supports that. Of course, someone who has a health problem may be able to retire earlier, even under the existing pension system, so there are, to a certain extent, safeguards built into existing pension products to try to ameliorate some of those impacts. I am not sure I fully understand how we would use quality-adjusted life expectancy in this context, rather than traditional life expectancy. You raise an important issue, but it is difficult to see what, in a practical sense, you can actually do to address it.

Joanne Segars: I would agree. I would also struggle to see, technically, how that could be used and then reflected in valuations—for example, in the local government pension scheme. But, again, we seem to be looking to pensions to solve all of life's ills, whether it is people working longer or living longer, or how we deal with health and wealth inequalities. You raise very important issues, but they really need to be resolved outside the pensions sector.

Q74 Debbie Abrahams: I do not think they are mutually exclusive.

Joanne Segars: They are not mutually exclusive, but in terms of looking to resolve these issues in pension schemes, there are wider issues.

Debbie Abrahams: With my health brief, I would say that there are definitely issues to be looked at in the round.

Q75 Andrea Leadsom (South Northamptonshire) (Con): Some of our earlier witnesses said that they completely resist the idea of people having to retire later, but they conceded that there was scope to retire earlier, optionally, or for ill health. Can you each give us your comments on whether you think that the new scheme addresses those concerns for those who do need to retire earlier, for whatever reason, due to ill health or stresses of the job, or just because they choose not to work to such a late age?

Alison Hamilton: Certainly ill-health provision will be detailed within the secondary regulation, and I've got to assume that it will mirror, broadly, what is there at the moment, which does address allowing people to retire early for ill health reasons. Also, because the link to state pension age is increasing, it does not stop people retiring at 65, for example. It might mean that their pension is reduced. It does not stop them being able to take that earlier, as far as I am aware.

Joanne Segars: I agree. I think that would be a usual feature for a scheme.

Q76 Andrea Leadsom: So if a doctor, for example, did not want to be running round on call for 12 hours a day until the age of 68, he or she could retire earlier and just take a more modest annual pension for the rest of their lives, at perhaps around £30,00 to £40,000, instead of £45,000 to £55,000. That would be the rough sort of idea; is that about right?

Niki Cleal: I cannot comment on the actual amounts, but I think the principle is sound. Reflecting back to what I was saying earlier, I also think there is a question about whether or not someone with a medical training might also be able to fulfil some other more administrative role, or managerial role, or work part-time. So I think the principle that you set out is very valid.

Q77 Andrea Leadsom: Bearing in mind the move towards a career average retirement pension, to me that would say that that is fairer to people who decide actually they would rather retire earlier, because quite often what happens in the public sector is your years of experience on the job mean that your last job, if you wait till your retirement date, is the most highly paid one, off which your pension would previously have been calculated. So going to an average career salary calculation would incentivise you, or facilitate you deciding to retire earlier. Would that be a reasonable assumption?

Joanne Segars: Yes.

Niki Cleal: I think so. I think it is certainly fair to say that within a career average scheme you do not get slightly perverse incentives to hold on for that last-minute promotion that may or may not come. So within a career average scheme you do just accrue your pension each year based on your average salary. So I think you do lose some of these slightly strange incentives that you get within a final salary scheme.

Q78 Jackie Doyle-Price (Thurrock) (Con): I just want to come back to one of the points that Alison made. It is a point we have heard quite a lot in this debate, which is about the fact that the average pension in local government is between £4,000 and £5,000. Obviously, that is not a very meaningful figure because the average takes in people who spend 40 years of their working life in local government and some who perhaps only spend two or three. Do you have any figures about the average length of time people contribute, which will give a bit more meaning to that figure?

Alison Hamilton: I will do some research and come back to you on that one. I imagine it is not much longer than 15 years on average; but, yes, some people are career, and they will be there for 40 years, and some will have very short periods of service; so I'll have to come back to you on that one.

Q79 Jackie Doyle-Price: In practice, my vibe is that people once they start working in the public sector tend to stay. Do you have any idea of proportions of people who perhaps do less than five years, and those who do their full career?

Joanne Segars: I think it would probably also vary from which part of the public sector you are looking at. If you are looking at health, education, the armed services, or the uniformed services, I think you see much longer career progression, so people will tend to work for an entire career in the fire service or the police service, for example. In local government and the civil service it might be somewhat shorter.

The Chair: It appears that we have no further questions, so I thank our witnesses on the behalf of the Committee. We will now hear oral evidence from the CBI, the Police Federation and Prospect.

Examination of Witnesses

Neil Carberry, Dai Hudd, Ian Rennie and John Sturzaker gave evidence.

2.51 pm

The Chair: Thank you all very much for coming today. You are most welcome. Can we begin with a brief introduction from each of you?

Dai Hudd: My name is Dai Hudd. I am the deputy general secretary of Prospect. We have submitted written evidence on behalf of the First Division Association and ourselves. We are two unions in the civil service. As you probably know, the FDA represents the very senior civil servants. Prospect represents specialist grades right across the civil service, but also represents grades throughout the income scale, so we have people at the relative bottom of the scale right the way through to the top. Most of our members tend to be engineers, scientists or specialists of various sorts.

In terms of approaching the Bill and the evidence, we were, not uniquely, but one of two unions that actually felt that we had got to a position in the negotiations on pensions provisions where we could make a positive recommendation to our members. Both sets of members in a ballot voted in favour of the pensions changes that we had negotiated. In that sense, we are not seeking here to be critical of the Bill in terms of what it is intended to deliver. However, there are various aspects, which are included in our evidence, in particular the issue of centralisation of decision making at the Treasury, but other parts of the Bill as well, that we feel need to be looked at, so that, first, it delivers on the agreements that our two unions have made and, secondly, that it actually becomes a coherent piece of legislation that supports the pension changes that it is supposed to do. That is all I think I need to say by way of introduction at this point.

Neil Carberry: I am Neil Carberry. I am the CBI's director of employment and skills, which is the directorate in which our pensions team sits. We are broadly supportive of the Bill, including the changes to the fair deal provisions that it brings forward.

Ian Rennie: Good afternoon. My name is Ian Rennie. I am a serving police sergeant with Greater Manchester police. Currently, I am the general secretary of the Police Federation of England and Wales. I am also the staff-side secretary of the Police Negotiating Board, which represents all ranks from constable to chief constable in the UK—England and Wales, Scotland and Northern Ireland.

John Sturzaker: I am John Sturzaker. I am a lawyer and a partner in the firm of Russell, Jones and Walker, and I have advised the Police Federation staff side on terms and conditions and pensions matters for the last 20 years.

Q80 Mr Nick Gibb (Bognor Regis and Littlehampton) (Con): Welcome to the Committee. Thank you for giving up your time to give evidence. I want to ask you all a general question about the disparity between private sector pensions and public service pensions. We have seen a decline in the private sector from 5 million-plus active members of private sector DB schemes down to fewer than 1 million now, whereas we have not seen a similar fall in the public sector. We now have this negotiated settlement that preserves good-quality defined benefit schemes, albeit a career average instead of final salary. What are the views of the panel about the negotiated settlement that has been reached between the public sector and the Government in terms of the quality of the pension going forward vis-à-vis what is available in the private sector? The question for the CBI in particular is: do you have a view about why there has been such a decline in defined benefit pensions in the private sector?

Neil Carberry: There is a fundamental difference between the Government and companies, in that companies tend to have the ability to go bust rather more frequently. On that basis, the kind of pay-as-you-go arrangements that make sense in many ways for Government schemes are not sustainable for companies; companies need to be make funded arrangements. That drove a faster appreciation among companies of the scale of changes, particularly in demography and the length of lives, than was picked up in public sector schemes, so change came more swiftly to businesses' schemes around the turn of the millennium.

When you look at the scale of the risk associated with running a defined benefit scheme as a company, it makes sense, irrespective of the level of contribution and the benefit of the scheme, to move to a basis where you know what you are going to pay and what you are on the hook for. That is why even many larger companies have moved towards defined contribution, often with very high levels of contribution, because that gives clarity to the finance director and the chief executive about what the risk to the company is. That is a move that makes eminent sense for businesses.

Some of our larger businesses are retaining defined benefit. They are doing so on the same basis as set out in the Bill—a move to CARE, career average revalued earnings, and higher contributions—and I think that feels like the right solution for those businesses. I think you can see some read-across into the public sector from that in the proposals that Lord Hutton brought forward.

That is not to say that there is not a significant gap in the market in the private sector, but we are but a month into one of the critical parts of the pensions reform that will help to address that, in the form of auto-enrolment, which is a move that my organisation fully supports.

Dai Hudd: I think that when we look back on the social history of the last 20 or 30 years, the demise of pension schemes in general in the private sector will be one that we all bitterly regret. Unfortunately, I cannot see those days coming back. Two thirds of Prospect members are in the private sector, so we are well acquainted with the pressures in terms of the public and private sectors.

I would make two general points. First, you cannot simply look at pensions and do a comparison between the public and private sectors without looking at total reward and total remuneration. In many of the grades that we represent, particularly in the civil service, agencies and non-departmental public bodies—I quote one example: nuclear specialists—the private sector is racing well ahead of anything that the public sector can pay, and there is a real skills shortage of scientists and engineers in the civil service in various parts. If you put the pensions package together, it does not make up that gap—IDS has done some good work for FDA and Prospect to demonstrate that that exists—so it is not a simple extrapolation of public and private. I genuinely make a plea that we have a much more sophisticated discussion about these comparisons, because sometimes I do not think that they are as fair as they should be.

In terms of what the private sector has done, I think there is a growing awareness in the private sector—we see this through negotiations that we have had—of how valuable pensions really are. A number of people who have either closed or changed schemes are coming back to realise that as part of a remuneration package, it is a valuable thing to offer. The good defined contribution schemes can be very good and comparable, not in terms of how they pay their benefits but in terms of value, to defined benefit schemes, so my union would not rule out defined contributions in parts of the private sector, provided they were good-quality schemes.

In a funny sort of way, what the public sector has now said—against the most difficult of most financial backgrounds and against a coalition Government who have been hostile to the agreement made with, for example, Alan Johnson—and to have been able to come up with a package that we have, not all of which we find acceptable as a union, but as a compromise we have agreed in going forward, may well have helped to set a benchmark on pensions that we will be able to build on in future. I take the point implicit in your question, but I think it is much more complex than implied.

Ian Rennie: I need to clarify the position of police officers, because we do not negotiate on pensions. They are consultative only for us; they are non-negotiable and we engaged in the process through consultation, but they can be imposed by the Secretary of State with regard to police pensions. I do not have a comparison with the private sector because there are no police officers as a profession within the private sector. This is just within the public sector.

I totally agree with my colleague Dai that this is part of a remuneration package that is vitally important within policing. It is vitally important because we need to attract the right calibre of person to be police officers in this country and to hold the unique office of constable, accountable as individuals to the law for the powers they have over and above the ordinary citizen. To attract the right people you have to have a remuneration package and, I believe, a pension scheme that will attract and retain because recruitment is expensive. When we recruit and train people to a high level of skill, it is important that we retain them.

Over the last several years, we have attracted people at an average age at recruitment of 27 from other professions in both the private and the public sector. That is because of the package that exists of which pensions are a part. It is vitally important that we continue to have that package and it is seen as a career that attracts professionals from other professions to bring those skills, that maturity and life experience to deal with difficult and demanding situations, often in confrontation, all through their professional lives, knowing that at the end of their professional lives there is a pension that they can retire on.

Currently we have two pension schemes in operation in the police service. We have the 1987 scheme and the 2006 scheme. The 1987 is a 30-year scheme, but the 2006 scheme is a 35-year scheme; both allow police offers to retire at 55. We feel it is vitally important for police officers, who will come in at, say, 25, and do 30 years or more in that difficult and demanding role they perform on behalf of society, that there is that pension at the end of it and the protection for that.

Clearly the changes that we encountered as proposals from the Home Secretary, following on from the Hutton recommendations, were not widely welcomed by many police officers, who were deeply upset because they had made a commitment to do this difficult and demanding job and their pension has now been changed, regardless of whether they are in the 1987 or the 2006 scheme. They are particularly angry about that. That said, we entered into the consultation to try to get the best arrangements possible that were available within the Hutton recommendations of a career average. That is what we have done. We have had to accept that as part of the public sector pension changes because we have no choice. It can be imposed. We have just tried to make the best we can out of what was proposed.

Q81 Chris Leslie: This is a question that we have asked a number of other representatives from employer groups and from trade unions who perhaps were entering into negotiations and might have reached agreement but then saw the details of the Bill. How far do you think—if you can be specific I should be grateful—the Bill departs from your understanding of what had been agreed in some of those discussions? I suppose I should start with Mr Hudd.

Dai Hudd: The areas we highlighted in our submission are, first, the lack of accountability of Ministers in Parliament for the changes. Clauses 9 and 10 effectively centralise the authority for a great number of issues on managing the schemes with the Treasury. The current arrangements are that each of the Secretaries of State is effectively the custodian of each of the pension schemes. For teachers it is the Minister for Education, for the health pension scheme it is the Health Secretary; for the civil service, it is the Minister for the Cabinet Office, and we think that makes logical sense. When you look at these schemes, although they are all based on the same reference, they are very different in their characteristics, so our first point would be that the centralisation of an enormous amount of authority in the Treasury is simply unwise. Our experience of dealing with the Treasury in the negotiations leads me to conclude that I am not convinced it has the skill sets on pensions necessary to carry out that function.

On the issues around giving openness to the choice of indexing, evidence that was given previous to ours indicated that people need some confidence of changes. There have been enormous changes to pensions and there should be some stability. Within the Bill there is the implication that indexing could change, but it does not set out in what circumstances that could happen, and why.

On the lack of clarity on the issues of risk sharing, there were very detailed negotiations on risk sharing—very helpful ones, I have to say—in which we concluded that once the scheme costs were set, there would be effectively a 2% above, 2% below field of discussion to modulate the costs of the schemes going forward, and that would allow the trustees of the scheme or their representatives to be able, with the employer, to contain costs overall. There is nothing in the Bill that gives us any commitment that that sort of framework will be in place.

The 25-year guarantee is pretty thin, to put it mildly. Ministers put an awful lot of credit on that—both Danny Alexander and Francis Maude emphasised in speech after speech how important it was that this was a 25-year commitment. I have to say that we as unions were cynical about that, but having said that, we will take the Government at their word. We want to see the Bill strengthened so that that commitment comes through much more strongly.

Q82 Chris Leslie: How can that happen? How in legislation could we strengthen that 25-year protected period? Are there particular ways in which it could be embedded more firmly? I have a similar question about that provision. It is stated, but Parliament cannot bind its successors and so on, so how do we enshrine it?

Dai Hudd: What we can do is strengthen in the Bill the provisions that need to be in the rules of each of the schemes. For example, indexing of pensions varies between the schemes because they have taken different options depending on the demography of the scheme. An assurance can be made that they will not change without agreement. If you already have the cap and share arrangements, which everyone is signed up to, that is the mechanism to modulate the costs of the scheme, which everyone has bought into as part of the Bill. That is one reason why you could underpin and give the 25-year guarantee real commitment.

Those areas could be looked at in the Bill. They would deliver on the agreements in which many unions such as ours, which, I have to say, took significant risks. By that I mean risks in terms of challenging some of the views that some of our members had to get where we did, and also sometimes being out on limb in relation to the views of other unions, which I completely respect. What we want to see is the Bill delivering on what we believe we agreed.

Neil Carberry: As a private sector organisation—an employers representative organisation—we obviously were not involved in the negotiations. Our analysis of the Bill came from our understanding of the agreement that was reached. It seems to us more or less to cover what we had expected it to in its drafting.

Q83 Chris Leslie: Would that extend to the fair deal promise as well? That is not enshrined in the legislation—the concept that members of schemes who have their employment transferred to a private contractor are entitled to accrue benefits to the same or greater value than the benefits provided under the previous scheme. Would it be helpful to have that clarified in the Bill?

Neil Carberry: Fair deal has always been on a non-statutory basis, so I do not think that we are particularly exercised by its remaining on that basis. The most important thing for our members who are working with the public sector in service provision is to get to a level playing field on two counts.

One is a level playing field between employers in the private sector and the public sector on costs within the scheme because, under the fair deal, if you have to set up a mirror passport scheme through the Government Actuary's Department it costs roughly twice the employer contribution to the current public sector scheme. Clearly in a bid process where pension costs are not off the table, that is a significant advantage to the incumbent provider. It also encourages some reckless behaviour on the part of new entrants to the bid process, so if you have two private sector providers, perhaps one who is well across the pensions issue and another less well across it, you may get some significant undercutting. We have seen, of course, examples of where providers have got into trouble because they have not realised the extent of the risk that they are signing up to.

The proposals on fair deal on a non-statutory basis move us to a position where the provider is clear about what they are due to pay for the scheme and can price that more easily into the contract that they conclude.

John Sturzaker: The federation is not a trade union and therefore was not party to the discussions between the TUC and the Government. Also, the timetable for discussions has been rather different because of the overlap with the Winsor review. Discussions only started in earnest in March this year. It is important to emphasise from the police perspective a very different starting point from most public sector unions, which is that there is already a significant degree of statutory protection found in section 2 of the Police Pensions Act 1976. The effect of that, in summary, is that the future pension arrangements of existing police officers are protected against adverse change, subject to the fact that the Government can change the law.

It is with that background in mind that the Police Federation and its members look at the Bill and certain aspects of it. There are three main concerns that hang off that, in terms of retrospective amendment and the possibility of future disadvantageous changes. Specifically, clause 3 makes provision for retrospective amendments, and includes, necessarily, cross-reference to other provisions in the Bill that allow disadvantageous—including significant disadvantageous—retrospective amendments. That is a significant concern and very different from the current position for police officers.

On clause 9 and the impact of changes to state pension age on deferred pension age, the normal pension age point is slightly different for police officers, but the deferred pension age still bites. There is significant concern about the idea that changes automatically impact on accrued pension rights. If one looks at the provisions under section 2 of the 1976 Act and compares them with the 25-year guarantee, you see straight away that even though we are seeing the weakness of section 2 in the world of parliamentary sovereignty, it still looks a lot more convincing than the 25-year guarantee as it currently exists. In answer to your question about whether more can be done in the current Bill, it might be useful to look at section 2 of the 1976 Act. That formula might be capable of wider application.

Q84 Cathy Jamieson: Could I follow up on a couple of points, particularly in relation to the Police Federation representatives? I heard you outline some of the difficulties that you would see in relation to the Bill's provisions, given the particular circumstances that police officers have to work under. I invite you to make additional points about that if you want and perhaps to expand on where you have concerns around the Bill's governance provisions and whether they give adequate weight to the views and interests of your members.

John Sturzaker: In terms of the detail, a useful starting point is that the staff side, on which the Police Federation is a major component part, wrote on 22 June setting out concerns in some detail—I do not know whether the Committee has seen it. There is probably little that can be added to that. It was a comprehensive response.

In terms of the governance, the current arrangements for governance seem to work tolerably well in practice. I do not think that we have identified any particular concern with the new arrangements.

Ian Rennie: I mentioned before how angry police officers are about the changes and John has explained where we are in that process. The interesting thing for me is that in 2006 we went through an extensive reform process on pensions, because they clearly needed to change at that time. The transition was difficult but manageable, because the people in the 1987 scheme stayed as they were and it affected only new joiners from 2006. Now we will see both schemes close, and our opening position was that under the current pension regulations, people who were in the scheme should remain in the scheme, and any changes should impact only on new joiners, because of the regulatory provisions that are in place.

John has clearly explained section 2, and how it might be through a Government change in the law. That has upset and angered a lot of police officers who had an expectation of committing their working lives to serving the public and who are paying a significant contribution rate throughout that service. To have that now taken away from them is particularly difficult and has caused a great deal of upset and anger.

Dai Hudd: On the issue of governance, the Bill potentially weakens what we had as part of an agreement—certainly in the civil service—and I think it is the same for other schemes. There is a specific paragraph in the agreement we arrived at in the civil service that states:

> "The start of the process will be an actuarial valuation of the Civil Service pension scheme that will determine the cost of the scheme based on actuarial assumptions determined by the Minister, with input from the Scheme Actuary, the Treasury and the Governance Group."

As the Bill currently stands, all of that gets sucked into the Treasury, and that seems to me to significantly undermine the governance arrangements we were building up, and it seems to be in contravention of what Hutton recommended. Hutton argued, I think quite eloquently, for a strengthening of some of the governance arrangements in each of the schemes.

Q85 Cathy Jamieson: Can I ask the Police Federation representatives one further question? What discussions have you had with your Scottish Police Federation colleagues? Were there any particular issues that they felt ought to be reflected in the contribution made by yourselves today, or things that we ought to look at in the Bill?

Ian Rennie: I think the general secretary of the Police Federation in Scotland was part of the staff side group that raised those issues. We were all involved in the consultation process. I know that he identified their concerns separately within Scotland.

Q86 Richard Fuller: We heard in other sessions questions and points about the Government's intent on fairness in some of the changes for people on lower incomes and those on higher incomes, in terms of their pension arrangements and seeking to protect more those on lower incomes—the people who clean the hospital rather than run the hospital. The career average measure achieves some of that, but we will still have people drawing public sector pensions significantly in excess of the national earned income that people have during their careers. Do you think there is a case for the Government to go further and put a cap on those rather larger public sector pensions so that the overall numbers may be even more oriented towards the person who cleans the hospital rather than the person who runs it?

Dai Hudd: I can only comment for the civil service, because I know the demographics of current civil service active members. It looks a superficially attractive argument to have a greater level of tiering, which gives the impression of a greater level of fairness, and, in simple terms, that ought to be the effect. The difficulty is that in the civil service there is an enormous base of people who are on around £22,000 or £23,000—a vast majority—and a tiny pyramid of people on the higher scales. The level of contribution rates that would have to be made to be able to share out the values of the scheme would be wholly disproportionate, and it could not be done. So in the civil service we have moved for the first time ever to a tiered scheme on the basis that it will be reviewed, because the legacy terms of being in a final salary scheme will remain with people for some considerable time. Over a period of time, through proper governance—back to the earlier question—I suspect the civil service will look at that in future to see whether the spread of the proper contribution rate across the income scale is deliverable. But it is a superficial argument to simply say that everybody on a higher scale could simply pay more. If it does not collect sufficient money to make a significant benefit further down the income scale, all you have done is take contributors out of the scheme that would otherwise be there.

Q87 Richard Fuller: Before we move on, I have another question. Points have been made about the maximum tax rate in the country, which does not raise much money. From a fairness point of view, does Prospect believe that it is fair that people should be able to draw a public sector pension of £45,000 or £50,000 a year when the average income is £25,000 a year?

Dai Hudd: You take us into an area of debate that we touched on earlier. We were discussing such things as total reward. The reality is that for many members—not those of my union, but particularly the FDA, who tend to be senior civil servants—the pension is seen as a complete package. You can look at study after study and, uncomfortable though it may be for the Government at the moment, the salary levels in the senior civil service are now way behind the general market for comparable salaries. If you did change the pension arrangements, you would have to do something consequently to the remuneration package to attract and retain people at those grades. This goes back to the answer to the first question. You cannot look at this as a simple silver bullet to say, "Is it fair that £45,000 is a pension?" That is a very subjective debate, not an objective one. To do anything about pensions as part of the total remuneration package, you would have to look at the complete remuneration package to make a difference.

In terms of fairness over distribution of income in a pension scheme, we looked at all sorts of models and the current contribution rates tiered in the civil service are geared, as far as possible, to the tax breaks, so that proportionately not only do people pay a higher contribution, they pay a higher net as well as gross contribution to the scheme the higher up the scale they go. That is a process that will probably develop over the years going forward.

Neil Carberry: Career average revalued earnings schemes by design, as you mentioned, help to flatten out the returns on the schemes. A cap falls down on a couple of grounds. We often get lost in the fact that the primary function of what people get paid out of in a defined benefit scheme is the length of their service, so we get a lot of discussion of, for instance, the "average payout of a public service pension", which is also a very low number because schemes are full of people with two or three years' service. A cap falls down on the same basis. You could have a hospital trust chief executive with a few years' service ending up accruing a pension similar to a hospital trust chief executive with a long career, because they hit the cap at the same point.

We prefer to view this through a slightly different lens, which is the question of whether the employee's contribution over time and the employer's contribution over time roughly equal the payout that they will then receive. That draws you back to where Dai was taking it, which is that tiered contributions help and that has been a popular choice in the private sector, particularly where companies have rowed back from defined benefit, but have not quite wanted to come all the way out, and have allowed members of staff a choice of, "Pay this for this rate of return and pay that for that rate of return." It is probably a more effective way of managing the level of payout in the scheme. You could certainly do that on a seniority basis.

Ian Rennie: I am not going to comment on the public sector. I can only relate to police officers. The introduction of a career average means that people will get what they have paid for. I do not think that there should be any maximum limit applied to that at all, particularly in the police service, when the proposal is introduced. They key for us is that accrued rights must be protected for what people have paid into, because those were the rules that they engaged in at the time. You should only change the rules going forward, so we would have concerns. It has already been said several times that pensions are part of the remuneration package. A pension is deferred pay—you pay a contribution to receive it at a later time.

Neil Carberry: I want to add that it is certainly true that people should get what they pay for. As I said, employee contribution plus employer contribution roughly equals the payout. The justification for the whole Bill is that that was no longer the case before the Hutton commission and that there was clearly a disjunction between what employees and employers were being charged for schemes and what was being paid out due to the way that the schemes were being calculated.

The reason for the Hutton commission and the move to CARE and the changes to contributions is actually about saying that we do live in a different world from the 1970s. We went through a period about five years ago where we had, effectively, immortal 65-year-olds, because they got to 65 and they had 21 years to live. The next year, they got to 66, and their life expectancy was 21 years. The next year, they got to 67, and their life expectancy was 21 years. That is a cost that must be borne somewhere in the system. If you do not manage it out, it is borne on a hidden basis by the Treasury. If you manage it out, you can manage through the employer and employee contribution. That is the value of the Bill.

Q88 Graham Evans: To pick up on Dai's point about the shortage of engineers and scientists, that is a problem for the whole country. We need more scientists and engineers, not least in the wealth-creating industries. The shortage of those types of professionals is a fairly common problem across the country. It was a good example, but it is a real issue with the nation, not just your profession.

My question is to Neil. It is about, for me, the best contribution in this document from your good self. I will remind you. It states that the CBI welcomes the Bill, and that it is a

"long-overdue step to delivering sustainable pensions in the public sector…Just such a change has happened in private sector schemes over the past decade. In boardrooms across the country, tough decisions had to be taken."

You summarise by saying:

"Until the Hutton Commission, we believe no such disciplines have been brought to bear on the public sector."

You would not think that, given the contributions that we have had by some people who were sat where you are earlier today. What I am saying is that the CBI should be speaking up louder on what effect this has on the private sector pensions issue that we have in this country.

You rightly say that the leadership and management in the private sector have had to have such difficult conversations over the past 10, 15 or 20 years. Now this has come to the public sector for the first time, and quite frankly, the management and leadership is quite interesting, because it is extremely mixed. In Dai's case, he has taken what I believe to be quite a reasonable approach, as have some other trade unions. Ian, you talked about your members' expectations. I would say to you that it is absolutely up to yourselves to manage and set the expectations of your members.

The country is in a difficult economic situation. We do not have any money, and I think that at this difficult time, the public service leadership and management teams have to rise to the occasion. I would like to see a lot more leadership, rather than just knee-jerk complaining to the coalition. Nobody wants to go through this, but as you say, Neil, we had this conversation in the private sector an awfully long time ago, and I would like to hear more from the CBI and see a bit more leadership from the public sector unions and federations.

Neil Carberry: We did two pieces of published work on public sector pensions in 2008 and 2010, which pointed to some of the things that I have just referenced in my last answer about the hidden subsidy in the way that the 2005 reforms were delivered. The "cap and share" reforms in 2005 would have been effective if it were not for the fact that the way in which liabilities were calculated in the pay-as-you-go schemes quite significantly understated the liabilities. In these days of low gilt yields, the idea that the Treasury should be using a real rate of return of 3.5%, which is 3.5% on top of inflation, to make calculations—assuming that that is in some way a reasonable gilt yield—would surprise us all. That created an artificial depression in the amount of money that was being charged, particularly through employer contributions to schemes. That is the challenge of pay-as-you-go schemes.

As I said when I started, there is nothing wrong with a pay-as-you-go scheme; it just creates a different set of expectations from a funded scheme. In a funded scheme, you kind of know where you stand—you either have the money, or you do not. If you do not have the money, you are on the hook for the kind of swingeing contributions that many of our members are currently making, which drove them ultimately to close their schemes, in part because those schemes had no flexibility to adapt. The history of British private sector pensions legislation, particularly from 1967 to 2004, is the closing off, piece by piece, often for well-intentioned reasons, of the ability for schemes to reform themselves to make them less costly. So when we came to the crunch at around the turn of the millennium, businesses were faced with a choice between a high-cost scheme with no flexibility and moving to DC. Unsurprisingly, most of them moved to DC.

In the public sector, you can kid yourself in a pay-as-you-go scheme for a little while. You can take the stance that says, "Well, that's on the never-never, and we'll use some financial management to try to reduce what it really costs and it will look okay." To a certain extent that was the smoke and mirrors of the 2005 reform, because it did very sensible things with the employer contribution in terms of "cap and share", but there was still a slice from the Treasury that was hidden. Our work in 2008 and 2010 pointed to that. Certainly when Hutton was instructed, the instruction of a review like Lord Hutton's was our primary recommendation.

There is a question of balance for a private sector organisation. Once these things are in train it is for the organisations that represent public sector employers and public sector employees to take them forward. We think these reforms are essential because without them you are back in the world of not really facing up to what the cost of this is. As regards the debate, it is a very difficult one, and it was a very difficult one for us. When people think they are owed things it is very difficult. However, the reckoning comes at some stage and it is better to manage that reckoning. We view this Bill as a managed reckoning of the change that public sector schemes have to make.

Dai Hudd: Can I make a couple of comments? I am sure you were intending to be flattering when you described me as "reasonable". In trade union terms, unfortunately, it does necessarily follow that it is a compliment. I prefer "pragmatically opportunistic" to "reasonable". Let us be clear. While we generally support the thrust of the Bill, we think there are some important details that need to be amended. There were a number of changes the Government made to which we remain fundamentally opposed. We did not accept the change from RPI to CPI, and we took that all the way to the High Court. Part of the reason we did not accept that was that the Treasury simply took a slice off the difference and pocketed it. None of the potential savings from that were recycled back into schemes. That has pushed, or potentially will push, a number of poorly paid pensioners on very low pensions into means-tested benefits. That cannot be right in terms of economics or social benefit.

The other area where we remain critical of the Government is they imposed contribution increases from 2012 to 2014—so they are still going to happen—which had nothing to do with pensions reform. Absolutely zilch. They make no difference to the pensions bill whatever. As a union we looked pragmatically at the proposals that were coming in from 2015 onward, at the increases that our members were going to face, at the downsides and the upsides to the link with state pension and at all those issues, and we came to a considered opinion. But that does not mean that we necessarily support all of the actions that the Government have taken around pensions.

Ian Rennie: I appreciate the criticism about leadership. I like to think that through my time, and prior to that—John has been involved in advising the Police Federation for some time—we have a history of constructive engagement, particularly on pensions. As I said, it is about consultation. That is evident from our response on 22 June to the Home Secretary's reference scheme. We have engaged in this process. If you view our website's pensions section you will see that we have published all the information for our members from a pretty balanced view. We understand that these changes need to take place. The wider Hutton recommendations apply across the public sector, and that is not something that we do not understand. Let me assure you, I have spent a great deal of my time, certainly since 4 September, travelling to different meetings around the country and speaking to different police officers—I bear the scars for the leadership here.

Q89 Graham Evans: I was not criticising your leadership, I was thinking of chief constables more than you.

Ian Rennie: I am grateful. What we try to explain to our members is that this is part of the wider public sector "work longer, pay more, get less" message. That is the message as we have engaged in this process. Our position from the beginning was that it should be the same as 2006—if we are going to engage in this process, then we should change the system for new joiners and protect the benefits and expectations that people have. I recognise that the decision has not taken place that way. However, we move forward, and there is some protection within the scheme that the Home Secretary put forward on 4 September through our involvement and discussions. Whatever message we send, let me assure you that we try to ensure that our members understand, but they are very, very angry.

Q90 Mr Marcus Jones (Nuneaton) (Con): We have discussed with all the panels today—we have touched on it with this panel—the effects of the changes on people at different levels within public service. My question is probably for the Police Federation, and it relates to a discussion that we have had. Effectively, people at lower levels will be proportionately more protected through the changes than others. Obviously, you can apply that more easily to organisations such as the NHS, where there are many more lower-paid entry-level workers than in the police service, but how do you think the reforms reflect on the police service, in terms of the difference between rank and file officers who remain police constables throughout their career and officers who make it up the ladder, some of them very late in the day, which boosts their pension under the current scheme?

John Sturzaker: My starting point would be that it is bound to be the case, in a career average scheme, that the difference between that and the final salary scheme is felt more by those people who are promoted more. To that extent, somebody who remains a constable will suffer less than somebody promoted through the ranks.

In the context of the police pension arrangements, which are historically more complicated, particularly in relation to the 1987 scheme, there are arrangements other than those that pivot around salary, particularly on retirement age and the age at which you can draw a pension. Changes to those will be felt across the rank structure, because there are people who joined prior to 2006 who joined on the basis of a belief that they would be able to take a full pension at a particular age, regardless of the rank that they achieved. Their position will be worse, and that disadvantage is separate from the salary-related disadvantage, which will affect constables as much as any other rank.

Q91 Mr Jones: Do you have any figures or statistics for retiring officers, in terms of what those retiring officers do after finishing their 30 years? How many of them retire fully, and how many go into other careers?

John Sturzaker: I am not aware that we do. Certainly, we used some statistics in the response in June, but that was not a figure given. It is difficult to know how that information would be recorded.

Q92 Alison McGovern (Wirral South) (Lab): I have a brief question for Neil, primarily, although others might want to contribute. One issue in the Hutton review is accrued rights. It is one point where the Bill will almost certainly influence the private sector as well as the public sector. Do you think, as one of our other contributors mentioned this morning, that helpful definitions of accrued rights could be sought through the Bill? How would that affect schemes across the public and private sectors?

Neil Carberry: It is certainly the case that what an accrued right is is more of a matter of opinion than would be helpful for scheme sponsors at the moment. For instance, our house view is that retirement age is not an accrued right, but years of contributions clearly are. I think a move towards greater definition will be helpful. I can let the Committee have a note on that in due course, if it would be helpful.

Dai Hudd: Similarly, we would be happy to provide a note to the Committee, and possibly through the TUC as well. Hutton, in his definition of accrued rights, came the closest that I have seen to a definition, although not one that I would say we could all sign up to. We would all add things to it, but as a core definition of accrued rights, Hutton came pretty close.

Q93 Cathy Jamieson: One thing that has interested me over the years regarding all legislation is the potential for unintended consequences. I notice that the submission from Prospect and the FDA particularly addresses clause 28 and schedule 10 whereby, on the closure of certain schemes, people might be moved to other civil service pension schemes. Do you want to say more about the particular circumstances and what we might do to deal with such unintended consequences? Have other members of the panel identified anything to bring to our attention to probe further during Committee deliberations?

Dai Hudd: In terms of the concerns in our paper, we could certainly put a supplementary note to you to give you the detail of why that might happen. There are a number of public sector pension schemes that grew out of the civil service scheme. There is the atomic energy scheme, for example, and some of its derivatives. One proposal that is not unhelpful, provided the consultation is in place and is done by agreement, is that in future they should be rolled up into what may be the new civil service scheme.

There are some very clear potential benefits to that, but how it is done is crucial. Some of the benefits accrued in those schemes, because of the time they moved away from the civil service, have subtly changed. Abatement rules, for example, in the civil service differ from those in the other schemes. The unintended consequence may be that we arbitrarily take away reserved rights we thought we had agreed, because these people are within 10 years of the pension age and so on.

There has been no consultation as far, as we are aware, with any of those legacy schemes, so that they are prepared for the negotiations. The time scale is pretty tight to be able to have the discussions that we have already had in relation to the civil service, and they need to be in place. I am happy to put a supplementary note to you about some of those technical issues, and perhaps give advice to the Committee as to how the Bill could be structured to avoid what I am sure would be the unintended consequence of taking away some of the reserved rights that those people currently enjoy.

John Sturzaker: There is just one police-specific issue that occurred to us: the nature of retirement and the power to require a police officer to retire, which is provided for in regulations. It is not clear to us that that has been thought through in terms of interaction with the Police Act powers.

Q94 Jackie Doyle-Price: I wish to address Mr Rennie and Mr Sturzaker. I have a particular interest in the impact on police officers. They are working under different conditions from other public sector workers. We have been given figures for the average pension for other sectors but not for the police. Do you have that figure to hand, the average pension draw?

Ian Rennie: It is difficult to say what the average pension is. It is dependent on the rank from constable to chief constable. The 1987 scheme is based on two thirds of final salary. The 2006 scheme is a 35 years' scheme on half salary. To get an average across the range would be difficult. To give you some idea, the salaries are published and are in the public domain. It is two thirds of final salary in the 1987 scheme for 30 years' service. For 35 years' service in the 2006 scheme it is half salary.

John Sturzaker: I may be wrong but I think the Hutton final report might have that figure in it.

Q95 Jackie Doyle-Price: Right; it is not in mine. How concerned are you that police officers will opt out of the system? Obviously, there are changes but this still remains a good package on offer. We are getting a lot of rhetoric that people will opt out. How concerned are you that that will happen?

Ian Rennie: I do not think the biggest concern is opt-out. I think people will stay in for the protection of the accrued rights, for the current 1987 or 2006 pension entitlement that they have. Our big fear as we identified it is the contribution rate of 13.7%. That will make people who join think twice about joining the pension scheme at that contribution rate. We have identified that through the process, and even during our consultation we tried, within the cost ceiling, to reduce that down but were prevented by what I understand was a Treasury decision. So there was no movement on the contribution rate, which was disappointing. Such a high contribution rate, of 13.7%—particularly with the changes that are proposed by Tom Winsor about reducing the starting salary from the current £23,000 to £19,000—will make people who are coming in think, "I cannot afford to pay that out," so they will not join. If people do not join as new joiners, that in itself then creates a problem about funding within the cost ceiling, and about how that would be addressed. So it is a concern about new joiners.

I do not have the same worry about people opting out. I think people will opt out, and in fact I am aware of people who already have opted out of their pension schemes because of what is coming, and have invested their money elsewhere. However, the largest problem will be people not opting in.

Q96 Jackie Doyle-Price: They are poorly advised because they will not get the same return. You alluded, in your opening remarks, to the number of people moving to the police from other professions. We have the average age for that as being 27. Do you have any information as to how many of those people are taking a pay cut, as opposed to moving up the career ladder? The feeling I get about police officers—and I know some people who have moved into the profession from other areas—is that it is very much a calling and a vocation, and people tend to look at the offering in the round. They will be coming in with their own history of their existing provisions.

Ian Rennie: I will just say for the record that we do not advise people to opt out of the pension scheme.

Jackie Doyle-Price: No, absolutely right.

Ian Rennie: The advice we would offer would be the contrary. In relation to your second point, the average age of a recruit has been 27 certainly for the past few years that I am aware of. That figure comes from the assessment process for selection, which is called SEARCH—that is, Structured Entrance Assessment for Recruiting Constables Holistically. People come from a variety of professions. Our experience is that people do take a small pay cut, at the time, on the understanding that they will progress reasonably quickly up a scale that attracts a reasonable salary within five, six or seven years.

Part of the package of why people join and take that pay cut is security of employment. That is likely to change, with the potential introduction of compulsory severance and all the other issues, and changes to the terms and conditions of employment. The other significant issue for people when they join is that, when you join, you know that in 30 or 35 years of working you will have a pension that is reasonable and will allow you to live. Another issue is that, in the arrangements for the pensions, there is protection through ill health and provision for injury. We have yet to see how that will work through for people who become ill or injured while performing their duties.

Q97 Jackie Doyle-Price: It still will be a good package, by comparison. That figure of 27 presumably reflects a lot of people who have come in when they are much younger, and then people who perhaps come into the service when they are much older, when people typically change careers.

Ian Rennie: I understand that an average always puts you at the end of the spectrum. Let me just explain the SEARCH assessment. The way we recruit people now has changed dramatically. We have learned from experience over the years. You can go back to 1981, with Lord Scarman, moving on to the Stephen Lawrence inquiry and the Macpherson report, and all the way through to the Commission for Racial Equality's investigation into the police and the Bill Morris inquiry in the early 2000s. Through that process, the police have recognised that they have to recruit mature people, with the life skills and experience to deal with difficult confrontational situations and stressful positions. They have to set the qualification—I say qualification, but it is not a qualification, as such—for entrance, which is the procedure for going through the SEARCH assessment exercise, at a level that ensures that people have the maturity and life skills to deal with difficult situations.

You do not come in on qualifications, you come in on passing that test for having all round ability. People who are younger predominantly fail. The older and more mature you are, and the more life experience and skills you have, the more successful you are through SEARCH. There is also an academic path. You will find that younger people do not get in, because they have not got the life skills and experience to deal with the difficulties of the test. That ensures that we treat people with dignity and respect, and that we get the right people. The issue is—we hopefully have learned from experience—that if you do not attract and retain the right people, the public do not get such a good service. That raises a lot of complaints and does nothing for relations between the police and the public. When all is said and done, we have to police with consent and co-operation, and we have to work with communities. That is something we have done a great deal of over the past several years, to make sure that we deliver that service to communities. You need the right people with maturity to do that. I know they say that police officers get younger as the years go by, but that is only because we get older.

The Chair: I do not think there are any further questions. On behalf of the Committee, I thank you for your interesting evidence. Although we are not scheduled to hear from our next witnesses until 4 o'clock, I believe they are all present so, with the Committee's permission, I propose to continue.

Examination of Witnesses

Councillor Roger Phillips, Jeff Houston and Bill Galvin gave evidence.

3.51 pm

The Chair: Good afternoon, gentlemen. You are most welcome. Thank you for coming. Would you like briefly to introduce yourselves?

Jeff Houston: My name is Jeff Houston, and I am the head of pensions at the Local Government Association. My involvement with this process has been as the secretary to the LGPS 2014 project board, which is a mixture of the LGA members and the local government unions in pushing forward reform.

Councillor Phillips: I am Councillor Roger Phillips, and I am chairman of the LGPS 2014 project board. That covers the redesign of the local government pension scheme for England and Wales, which is the largest and only funded scheme in the public sector. It is the largest pension scheme in the United Kingdom and the fourth largest in the world.

Bill Galvin: I am Bill Galvin, and I am chief executive at the Pensions Regulator. As you know, the proposal in the Bill is to extend some of our powers from the private sector schemes into the public service arrangements.

Q98 Cathy Jamieson: Welcome, everyone. I would like to start with something that Councillor Phillips has already referred to: the local government pension scheme being the only major funded scheme in the public sector. You have given us a global context for that. Do you believe that the Bill reflects accurately that special position for the scheme? What changes do you think the Committee should look at as the Bill progresses?

Councillor Phillips: We have some concerns that, being a funded scheme, sometimes we can fit uncomfortably and be shoehorned into the rest of the schemes because of that funded status. Not only do we want members to have a safe and secure retirement at a mature age, but we need that for the sustainability of the pensions and to stop the crystallisation of the funds. There are a number of things that we have submitted to you—my colleague will go into more details—about which we have concerns. We think that they do not quite reflect that unique position. Perhaps Jeff will explain a bit more.

Jeff Houston: Yes, in particular the fact that the local government pension scheme is run on a local basis. There are 89 separate funds throughout England and Wales, unlike the single setup for the others. For example, clauses 4 and 5 refer to a scheme manager and scheme boards. Whereas for the other schemes they would be at the national level, we were given to understand that for the LGPS, they would be at local level, but that is not apparent on first reading of the clauses, and perhaps that could be clearer.

In our submission to the Committee, we made the case for the LGPS having a national board in its own right, for the same reasons that the other schemes would benefit from having a national board, and particularly with the liaison with the Pensions Regulator as we move into that new regime.

Q99 Cathy Jamieson: On crystallisation of the debt, which also came up on Second Reading, it was suggested that that is a real problem. To what extent do you believe there is a real risk of that being apparent or coming to fruition if a scheme were to close?

Jeff Houston: I think there are unfortunate uses of the word "close". From conversations with the Bill team, I do not believe that the intention is to bring about a closure as under section 75 of the Pensions Act 2004. I think the intention in clause 16 is to prevent further accrual rather than to close the scheme, although some of my colleagues who are pensions lawyers got very excited about that.

Q100 Cathy Jamieson: So is there something you would like us to do in relation to that?

Jeff Houston: It would be very useful if, through whatever clarification the Committee thinks is appropriate, it is made clearer that clause 16 is talking about no further accrual.

Q101 Cathy Jamieson: Do you believe that clause 12 reflects accurately the specific needs of the local government pension scheme in relation to setting the rate of employer contributions?

Jeff Houston: We have no problems with what clause 12 is trying to do. I think there are some interesting discussions to be had. In the current scheme, the objective of the valuation is for the contributions to be stable. To have that current with the new objectives of solvency and long-term efficiency, which could perhaps be more helpfully defined in the Bill, and having those going together at the same time is a little uncomfortable. Although we would welcome the increased oversight to ensure that valuations are being performed for the correct objectives and we would welcome that increased transparency, we would like a little more clarification as to who that person might be and what powers they might have.

Q102 Ian Paisley (North Antrim) (DUP): Further to the last question, are you saying that you would like the Bill amended, and the word "closure" removed because it has connotations that mean something very different in the pensions world?

Jeff Houston: When speaking to the Bill team, I was told that the word "closed" only has a meaning as in that clause. I made the suggestion that if in the clause the word "closed" was replaced with the word "relevant" it would mean exactly the same because it just refers to a relevant date. At the moment, it talks about a closing date, and that could be a relevant date. If it does not mean closed, as in section 75, it could be changed.

Q103 Ian Paisley: So you think that should be in the Bill to make it clear.

Jeff Houston: Yes.

Q104 Richard Fuller: We have talked in other sessions about intergenerational fairness and the massive unfunded obligation for public sector pensions that will cascade down to future generations to pay. The local government scheme is a different model from the rest of the public sector inasmuch as it is funded. One of the points raised by an earlier panellist was that the transition costs of moving other parts of the public sector pension scheme to a funded scheme would mean a generation of taxpayers essentially paying twice, and that has certain merits. What were the circumstances of the original setting up of your own scheme? How did they get across those problems?

Jeff Houston: The original local government pension schemes came from a collection of individual funds that were already there. Individual councils had already used existing legislation to set up their own funds—we are talking 100 years ago—so that funded situation was there at the beginning

Q105 Richard Fuller: Do you think that that is a more prudent approach to the funding of public sector schemes—to have them on a funded basis, rather than a tax-as-you-go basis?

Councillor Phillips: We are where we are, I suppose, is the best way to do that, and our situation is such that we would not want to go to an unfunded situation. We have funds in England and Wales of about £145 billion. As we said, we represent the largest fund, but if you also add the Northern Ireland and Scotland funds, that is, actually, quite a significant percentage of the equity market in the stock exchange. Throughout this, one of our main concerns is that, obviously, we have 1.6 million clients paying into pensions and we need to ensure that we continue with that sort of number of people. We want to avoid stopping people doing that, because that would be to our detriment. We want to make sure that it is still possible for them to continue to do that, and that they have no reason to switch off.

Q106 Richard Fuller: You make a very interesting point, Mr Phillips, about the fact that you are one of the largest investors. Of course, one of the advantages of pension funds is that they have a long-term perspective on investment and they can make long-term investment decisions. Do you think that there would be an infrastructure benefit—we are looking at funding for infrastructure—if the Government had looked at a greater expansion of funded schemes? Essentially, you could have killed two birds with one stone, with transition to a funded basis for our public sector pensions and funding provided for the long-term infrastructure projects that all parties would like to see.

Councillor Phillips: From our point of view—a consultation paper has come out in the last few days on infrastructure investment—there are two key issues with our funded scheme. One is that pension funds will invest that money in the best interest of their pensioners and potential pensioners. Whatever they invest it in must be safe and prudent, and they must make sure that that is a priority. The second issue, with regard to local government pension funds, is, very clearly, the issue of probity. You need to be careful how you invest in those infrastructure funds and the mechanisms that you set up. In the Heseltine report, I think recommendation 62, on infrastructure—I did not read it all but I did read that bit—outlays some of those pitfalls. Certainly, if you were in the Worcestershire pension fund, you may not directly invest into the Worcestershire bypass but you might contribute to an overall national infrastructure bond which included a number of projects in Worcestershire.

There are clearly issues there about how directly people relate to their money, and we have to watch that. Otherwise, again, the integrity of local government pension funds comes under threat; people could play all sorts of nasty messages with that and encourage people not to join a pension fund. We would not want that to happen.

Q107 Richard Fuller: A final point. I absolutely agree with you on the issues of probity, but also your understanding that this would provide funding support for longer-term investments within the general constraints of what the trustees think is in the interest of their members. Could I ask, for your own schemes, what proportion of the invested funds is located in the United Kingdom, and what proportion of your assets are overseas?

Councillor Phillips: I would not have that level of detail on me—I do not think that we have that level of detail. You have to remember that we have 89 funds, but we will get those figures—

Q108 Richard Fuller: But would it be fair to say that a large proportion of the pension fund money is invested in UK-based assets?

Jeff Houston: There would be a considerable sum invested. Picking up on a point I made earlier about a national board for the LGPS, one of the reasons why that kind of information is not easily to hand is because there are 89 different funds out there, with 89 different documents containing that information—there is not one place to go to, at the moment.

The Chair: It does not appear that we have any further questions for you, but this might be an opportune time for you to comment further on the Bill in general, if you so wish.

Councillor Phillips: We have already made the point, but we hope that, in looking at the Bill, you will recognise the difference in the local government pension scheme. I made the statement at the start that we are the fourth largest scheme in the world—do not ask me which the other three are; the Indian Railways company is one, but I am not quite sure what the other two are. The importance of that is that some of the lowest paid public sector workers are actually in this pension scheme. We need to keep the scheme going, and it needs to be viable in the future. We would not want to do anything that in any way destabilises it, because that goes against the principles of what we want, which is for people to have dignity in retirement. Having said that, our average pension is only £4,200. We have a large proportion of females, and their average pension is £2,800. Two thirds of our employees earn less than £21,000 a year. You should understand what this scheme is about: it is not all about chief executives, who always hit the headlines; it is very much about real people. We would want you very much to consider our recommendations and to be satisfied, hopefully, at the end of this that, yes, this funded scheme is properly taken care of and that if there is a need for amendments to be added, they are there in the Bill so that this pension scheme is sustained in the future.

Jeff Houston: I would just pick up the point that this is very much a Bill covering all of the public sector pension schemes. The local government pension scheme does, occasionally, sit uncomfortably within the Bill. As my colleague has asked, I would ask that the Committee consider very carefully how the local government pension scheme fits within the Bill. In particular, is the very correct oversight that HM Treasury has over the other schemes as appropriate for the local government pension scheme as it is for those other scheme?

Bill Galvin: The critical issue for us is that we will take into our role in the public service schemes the same approach we work to in the private sector: we will focus on education and enablement as much as enforcement. The key issue for us, as this legislative process works through, is that the scheme regulations, where many of the issues around separation of accountability and allocation of accountability are going to be worked through, make it clear who will be responsible for what between the responsible authority, the scheme manager and the pensions board. We would, I think, want to be consulted on that process, or at least to be seen as one of the organisations with which the responsible authority should consult, because, clearly, the interaction of the regulations with our approach to compliance, enforcement and the setting of standards will be very important.

The Chair: Thank you very much. My life is full of contradictions; having informed the Committee that there appeared to be no further questions, I think there are now two further questions.

Q109 Cathy Jamieson: In terms of the local government pension scheme, you are obviously speaking about schemes in England and Wales. Have you had any discussion with your counterparts in Scotland? Are there any comments you wish to make in relation to that?

Jeff Houston: Only very early discussions. In fact, I am up in Edinburgh a week on Friday to start those discussions off.

Q110 Debbie Abrahams: Mr Galvin, will your additional responsibilities put the Pensions Regulator under increased pressure, in view of the resources you currently have?

Bill Galvin: We have been assured that we will be given additional resources to help us carry out that task. That is quite important, because our primary role is as a risk-based regulator whose job is to protect members' benefits. In the public service schemes, of course, members' benefits are protected by a statutory guarantee of the delivery of those benefits. If we were asked to allocate our resources purely on a risk basis across private sector and public service schemes, we would by the nature of things devote most of our resources, as we do now, to the areas where members' benefits are most at risk: that is, in the private sector, where they depend on the level of funding in the schemes.

It is important that we are given a separate set of funding to do this. However, I do not envisage that being a huge amount of money, as much of our work will involve setting standards, working with people who genuinely want to make the schemes and provisions work and look after members' interests. Our role will be working with legislators in the schemes to set standards, making a big effort on education programmes and helping to provide benchmarks and transparency, as Lord Hutton envisaged. We will not audit. We might do thematic reviews, as we do in the private sector, but we will not audit individual schemes on a systematic basis. Our enforcement will assume that most people will do the right thing most of the time. We will check thematically across the schemes in terms of how people are meeting the standards that we set out.

The Chair: On behalf of the Committee, a big thank you to our witnesses. It is much appreciated.

Examination of Witnesses

Kevin Courtney and Chris Keates gave evidence.

4.13 pm

The Chair: Chris Keates is not yet here, but we shall continue. Mr Courtney, I hope you are not feeling too lonely.

Kevin Courtney: No, I will be all right. Thank you, Chair.

The Chair: You are most welcome. Thank you for giving evidence. Would you like to give us a bit of background about yourself before we proceed?

Kevin Courtney: My name is Kevin Courtney. I am deputy general secretary of the National Union of Teachers. I was involved in the negotiations with the Treasury as part of the TUC team, and in the discussions with the Department for Education about the scheme-specific aspects of the teachers pension scheme. Is that enough?

The Chair: Yes, thank you.

Q111 Mr Gibb: Welcome to the Committee, Kevin. It is nice to see you again. Why is your position still not hugely supportive of the final negotiated agreement, given that in the private sector, as we have heard in other sessions today, the number of active members of private sector defined benefit schemes has fallen from more than 5 million in 1996 to under 1 million now? The scheme that has been negotiated—skilfully negotiated, if I may say so, from your perspective and that of the other unions—has resulted in a continuation of a defined benefit scheme, albeit career average rather than final salary.

Some say—Lord Hutton said, and I agree—that a career average is fairer than a final salary scheme. We have to cope with longevity and increased costs, and we have to be fair to the taxpayer. No one within 10 years of their retirement age will be affected by this change, and for a further three years, there is a tapering for 13 years within retirement age. The salary calculated for the average salary scheme is indexed as time goes on; according to the teachers scheme it is indexed at CPI plus 1.6%. Given all that, why are you not marching in the streets celebrating what is a very good pension scheme for your members? I do not understand why there is still this hostility, given the realities of the type of schemes available in the rest of the economy.

Kevin Courtney: Thank you very much for the question. It is a long question with lots of parts. We agree that there is a real problem in British society, that there are so few people in the private sector enrolled in proper pension schemes. Some positive moves have been made on that recently, but we think lots more attention needs to be paid to it. We do not see that worsening the public sector schemes is a way to do that.

From our point of view, the perspective of our members on this matter tells us that they remain extremely concerned about the scheme that has been negotiated. So you are quite right: neither we nor our colleagues in the NASUWT have signed up to the pensions deal that is on offer. One of the things that we would point you to is a really deeply held concern that our members have—that they do not believe they will be able to work to 68. Seven thousand of our members responded to a survey. Well over 60% of them believe that less than 10% of teachers will be able to be successful working full-time in the classroom to the age of 68. Maybe they are right about that—maybe they are wrong. We think they are right, and it is certainly what is motivating us to continue to say that there is a serious problem with the pension scheme. Maybe teachers would view and value this aspect of the pension scheme more highly than others, but teachers are telling us that they really seriously value the pension age component of the scheme, because they do not believe they will be able to be successful teaching 30 teenagers or 30 five-year-olds until the age of 68. They do not believe they will be able to do it successfully.

Teachers tell us, when we talk to them in depth, that they think that teaching is a performance art where you cannot have an off-day. If your performance slips on one day it has consequences for the rest of the week, so you have to be on top of your game the whole time; our members tell us that they do not think it is going to work, getting to 68.

We had hoped, and even up to the last minute it was on the table in discussions with the Department, suggested by the DFE, that we could have an age on the pension scheme that was SPA minus three, so that the normal pension age for teachers would not go above 65 until the state pension age had gone to 68. It was not without costs, and not without our side paying the costs, but the Department made that suggestion to us, took it to the Treasury, and told us that the Treasury had signed off on it as a way of managing longevity risk. At the very last minute in the negotiations it was swept away, and we have still not received any explanation. That is certainly part of the reason why we have not signed up to the pensions deal.

Q112 Mr Gibb: You seem to accept that teachers are perfectly capable of working to 65, managing a class of five-year-olds or teenagers—that was the agreement negotiated in 2007. You seem to accept that. It is just the final three years that you are concerned about. Given the point just made about SPA minus, have we not got that in the scheme, in that you can take an actuarially reduced pension? You accepted that even with SPA minus there would be a reduction in the pension you would have to have in exchange for that SPA minus figure. Do we not have that, in essence, with the actuarially reduced figure? I think it is 3% reduction for each year you are retired before retirement age. Is that not the same thing?

Kevin Courtney: It is not—

The Chair: Order. Before you respond to that, Mr Courtney, can I just take the opportunity to explain to Chris Keates? We made a start; you are not at fault. Apologies. I do not know whether you picked up the gist of Mr Gibb's original question.

Chris Keates: I have, yes.

The Chair: No discourtesy was meant by the Committee to you. We are running a bit ahead of schedule. I thought I had better explain that to you before we went any further.

Chris Keates: No problem. I am glad I came early; thank you.

Kevin Courtney: We do not accept the formula that we have got from the arrangements is anything like a limit on the pension age that we are looking for. Many teachers will find it difficult to work to 65. That is a fact. But we negotiated that with the previous Government. We negotiated it alongside a mechanism for dealing with any extra costs that fell due in the scheme. Unfortunately this agreement rips up the previous agreements. We thought we had an agreement for a generation from that last scheme.

It is not that the pension age is now 68, although we think that is a major problem; it is that for a 34-year-old teacher now, it is at least 68 but they do not know how many more times it will change during their career. By the time they reach retirement, the pension age for that 34-year-old teacher might be 69 or 70. If they do not believe they can be successful in the classroom until 68, they certainly will not believe they can be successful in the classroom at 70.

Another problem with the deal on the table is that there is no protection of any accrued rights that people build up in the new scheme from 2015. If the pension age changes during their working career, they cannot take the benefits of that. If they had a plan to retire, to move to the country, to visit their family in Australia at age 64, and before they get there the pension age goes up by another year, that takes away 5% of the value of any pension they have accrued since the new scheme started. It is those sorts of concern that lead us still to be rejecting the deal that is on the table. We think there is something specific that could happen. You could make the Bill better by allowing individual schemes to make different decisions about retirement age.

My union does not understand why there has to be exactly the same formula on pension age for most of the schemes. It obviously is not there for the police, the firefighters, and the armed services—mainly male professions; but there is no protection for our mainly female members who think that they will not be able to be successful. We are not allowed to make separate decisions. That is what I was saying. We thought we were reaching some notion that we could have SPA minus three. It was taken away and no explanation has been given about why it was taken away.

Q113 Mr Gibb: Before we bring in Chris Keates, can I just ask you this? The accrual rates between schemes differ, as do the CPI rates and the agreed valuation rates. In exchange for retiring earlier would you be prepared to accept higher contribution rates to pay for that earlier retirement age for teachers, given that you are opposed even to the increase in contribution rates that is going forward? Would you propose even higher increases in contribution rates to pay for that earlier retirement?

Kevin Courtney: I am going to ask Chris to come in on that. She was not here at the beginning. I would just say that we never said at any point that we were opposed to negotiations about these matters. We always said we wanted a serious negotiation. We were asking why no valuation was done. The date on the valuation of the teachers' pension scheme is 31 March 2004. It is eight years since a valuation was done on the teachers' pension scheme. We were saying, "Bring us real information and we will talk to you." We had already agreed with the previous Government that there was potential for increasing contributions. But on the basis of no evidence, that is a very hard sell for us.

Chris Keates: That was exactly the point I was going to make. It is not about being opposed in principle to higher contribution rates in the context of having information about where there may be problems with the scheme. In fact we agreed under the 2006-07 scheme to "cap and share". Implicit in "cap and share" is that contribution rates could go up if the valuation showed there was a problem with the scheme. At that time it was implicit that there was potential for teachers' contributions to go up.

The thing that has dogged these reforms has been the fact that nobody has demonstrated a real problem with the teachers' scheme because we have never had the valuation done. If you look at it from one level, without a valuation you do not know the problem, if there is one, that you are trying to resolve. That has always been our argument about getting a proper valuation. The 2008 valuation obviously could not be done at that time because we only had the new scheme in 2007, and that would have been too soon to do it. It was due just after 2010, which is why, when the Government started to look at pension reform, the first thing both our unions asked for was a valuation of the scheme in order to see our starting point.

Q114 Mr Gibb: Of course, the revaluation could not take place until all the variables had been decided. Lord Hutton made it clear that there has to be major restructuring of public sector pensions if they are to be sustainable in the future. Chris, why is your stance is so different from the Association of Teachers and Lecturers? In its written submission it says it accepts the Government's proposed final agreement on the changes to the teachers' pension scheme as

"the best that could be achieved through negotiation".

Whereas your union says it is opposed to the programme for public sector pensions reform as representing an unfair attack on public service sector pensions in general and teachers' pensions in particular. Could you say why teachers are worse treated than those in other public sector schemes? Why do you think schemes in the public sector should be so much more generous than in the private sector, where we have seen a fall in the number of active members of defined benefit schemes—the type of scheme that the Government have maintained for the public sector—from 5 million to under 1 million, whereas it has been sustained in the public sector. Why should there be such a difference between the two sectors?

Chris Keates: There are a number of points I would like to raise, so thank you for the opportunity, Nick, to do that. First, in terms of the public versus private sector, we have always taken the view that it is not an issue between private and public sector. We believe there should be decent and fair pensions for all, whether they work in the private sector or not. We do not believe that because some employers in the private sector fail to provide decent pensions for their employees, that should be used as a reason to alter public service pensions. In fact, Lord Hutton says that we should not be about a race to the bottom. We should certainly not be about equity of misery.

If you look at the information from the Pensions Policy Institute 2012, it points out that for 2 million people in the private sector, who have defined benefit schemes, they are far better than in the public sector. Those statistics are on record. We do not see it as a comparison because we do not see that argument between the public and private sectors. We think it is about fair pensions for all people.

In response to why we did not sign up, on a number of occasions we have written to the Secretary of State and we have raised our concerns with you. I heard Kevin make the point, and I reiterate it, that we do not believe that we were ever engaged in genuine consultation and negotiation. We made clear from the start that we would be up for that, but there were far too many either unknowns or restrictions on what could be discussed. Kevin gave an example of one restriction. I know some of those were out of the control of the DFE. I know some of the constraints were imposed by the Treasury.

We believe that the DFE's proposals constitute a major worsening of terms and conditions for teachers. For example, we welcomed the fact that in the context of a scheme that is unacceptable for us, a 10-year protection was brought in. However, of course that disproportionately benefits, for example, school leaders, because it is basically about people at the older end of the profession and those in leadership positions, because of the age profile. Actually it is least likely to benefit women because of the ageing career profile and it is more likely to benefit white teachers than black and minority ethnic teachers. Only recently, again because of the age profile, have we started to have fair recruitment and the Aiming High projects of the previous Government.

We are concerned about potential discrimination. You will know that we have submitted two pre-action letters to the Treasury and the Department around the equality impact assessment. I welcome the fact that the Government and the Treasury have made some moves, in terms of collecting appropriate data, but we are still monitoring that very carefully.

We also believe that although the figures are not showing it at the moment, there is potential for increased opt-out from the teachers pension scheme. At the moment, of course, the figures do not show that, partly because despite our opposition to and reservations about the scheme, we are saying to our members, "Don't opt out of the scheme. We are still trying to get a much better deal out of this." We know that more than 58% of our members say that they are seriously considering opting out of the scheme. We are particularly worried about newly qualified teachers, because, obviously, we have to think of increased contributions in the context of the public service pay freeze and other issues that are taking place.

When I came in, Kevin was doing at length the whole issue of the normal pension age, the state pension age and the link between them. Also, we are concerned that the Bill now has the potential to worsen entitlements over time, and—because it is enabling rather than having specifics on the face of the Bill—things that have been promised, such as accrued rights, could be changed. You might want to come on to that when you consider the relevant clauses. Those broadly are our concerns, particularly whether the Bill is the way to deal with the pensions of public service workers, but especially—from our point of view—teachers.

Q115 Mr Gibb: I have one final question: if the pension ends up as currently proposed, would each of you advise your members to opt in, or would you advise them to go for an alternative?

Kevin Courtney: We are strongly advising our members to opt in and stay with the pension scheme. It will still be a good scheme; it will be much worse than it was previously, but it will have significant benefits as a scheme. We will be advising our members to stay in, but we are getting worrying signs from young teachers who come to us saying, "My marginal rate of taxation is 48%." That is 20% income tax, 12% national insurance, 9% on the student loan and 7% on the pension contribution. The only bit they can give up is the pension contribution. Above the student loan repayment threshold, 48% of their salary is lost immediately, and the only bit they can give up—the only bit that is voluntary—is the pension contribution. Then they say, "We have to pay this. At what age can I retire?" Our answer has to be, "We have no idea at what age you can retire. Currently, it is 68. It may be 69, or it may be 70." That is a problem with selling participation in a pension scheme when there is no protection on that question.

Q116 Mr Gibb: Chris, what is your advice to your members on opting out?

Chris Keates: Our advice to our members, at the moment, has to be that they must opt into the scheme. In fact, we put out information to newly qualified teachers, but from the point of view of ourselves and the NUT, we are, of course, still hoping that there can be more room for discussion on this very important issue. We have no problem doing that. I have to say that it is becoming increasingly hard to convince some of the newly qualified teachers to stay in the scheme. There are different issues for different groups. There are different issues for NQTs, and there are different issues, for example, for teachers aged 38 to 40, who describe themselves as the squeezed middle in all of this.

Going back to your point, Nick, on the actuarial reduction, there are teachers who, at the moment, are looking forward to the 60 retirement age. If they want to take the actuarial reduction, they will take five years at 5% and three years at 3%, which is a 34% cut if they want to go at the age currently in their scheme. That is the issue. There are some teachers who are in at 65, because that was the new scheme that came in in 2007. They will get the 3% reduction, but it is still a 9% cut. Teachers in the middle, who do not benefit from the 10 years, are looking at a massive reduction if they want to take the retirement age that they were planning for.

Q117 Chris Leslie: The need to ensure we have balanced and sustainable pension schemes is clear, and Lord Hutton has made some very strong points that many of us would agree with. It is difficult not to feel some sympathy with that younger generation of teachers when I hear the story you told, Mr Courtney, about the state of the negotiations.

As I heard it from you earlier, there was a willingness on behalf of the employee representatives to try to find a way within that cost envelope, which might have included some extra contributions from the employee side, to do some deal with the Department for Education in respect of the retirement age alteration. You implied that you hit some sort of wall, and that there was a refusal to discuss it. As soon as it went into the Treasury those ideas just fell by the wayside, when they might have been perfectly prudent and viable options especially if there was more give from the employee side. First of all, are you able to act on those frustrations? What is the next step for you in trying to move the issue forward? The Minister has had quite a quiet day so far, so hopefully he is in listening mode. He might want to ask you some questions directly, which might save a lot of time and effort. What would be your point to the Treasury Minister today?

Kevin Courtney: Mr Leslie, thank you very much for that question. I do not want to mis-sell our position. You said that we had said that we would do it within the cost envelope. We are hard-nosed trade union negotiators, and our position was that we wanted to see some flexibility on the cost envelope, but we were saying that we wanted to negotiate. We drafted and submitted papers that talked about concessions that we might make. We reached a position where we thought we had an understanding that state pension age minus three was on the table, and it was taken away at the very last minute with no explanation. I have been saying this—I have said it three times—and Nick, who was there, has not explained why that was taken away at the last minute. That is obviously not a good way to conduct negotiations.

Chris Leslie: He was not given much of an explanation of why he was taken away, either.

Kevin Courtney: Parliamentary in-jokes are not for me, but we have not had an explanation. Perhaps Mr Gibb was not given an explanation of why the Treasury took it off the table. We thought we were in a serious negotiation, although we were always worried that we were not. We wanted to engage in a serious negotiation, and those things were taken away at the very last minute. We have not signed up, and both we and the NASUWT have said that we want to continue talks to reach an acceptable settlement. We are not being allowed to take part in talks, so we are in dispute with the Government about this.

We had already signed an agreement with the previous Government—the cap and share agreement that Chris referred to—which said that if a valuation was done that showed that the costs had gone up, we would share the costs and above an employer's cap they would not have to pay any more. They were already at that cap, so we had already signed up to taking on all the extra costs, in practice, if we could be shown that the costs had gone up. The negotiations were very difficult when we had no valuation. Like I said, the last valuation was correct in 2004. Then these things were taken off the table at the last minute, which is no way to conduct serious negotiations.

Q118 Chris Leslie: Presumably, teachers up and down the country, particularly the younger generation, would be interested if you were able to elicit from the Minister a willingness to talk about the matter. That would be your ask of the Minister.

Chris Keates: May I add to that? Our natural instinct and that of our members is to engage with Government. That is what our members want us to do. We spent a lot of time consulting them and asking them how they wanted us to take this forward, and they always came back saying that they wanted to negotiate. Both Kevin and I were in the central negotiations, not just in the Department for Education teachers' pension scheme negotiations. We found quite often that we would start negotiating and one of the biggest frustrations was that you would think you had moved forward in terms of things that were on the table. Kevin has raised the decoupling of the state pension age and the normal pension age. The other issue was the final salary scheme. We were told for quite a considerable period of time that that could stay. If we could do it within the cost envelope, the Department was willing to explore a final salary scheme. Then we were told, "That cannot be on the table; it can only be CARE schemes." Every time we tried to do something, it was removed.

The other major problem was getting data that we could take back to our members and say, "Look, the Government have demonstrated that there is a real problem here. This is what we will need to do to address the problem." That is exactly the exercise we had to go through in 2005-06, because nobody at that time wanted the pension scheme to change. We were presented with data from the Treasury that we took back to our members. Our members were also concerned because when we made those changes the Treasury told us that the scheme was sustainable and viable into the long term, but the long term ended up being 2010.

Q119 Chris Leslie: I am sure that the Minister will want to ask you about your availability for these discussions in a moment.

Finally, I want to ask about clause 9, because the question of the pension age featured in Lord Hutton's recommendations. Specifically, he said that the link between the state pension age and the person's normal or deferred pension age should be regularly and independently reviewed to ensure that it remained appropriate in the light of scheme members' longevity. Are you surprised that that recommendation has not made it into the Bill?

Chris Keates: We are concerned that the Bill seems to pre-empt that. We are also concerned that the whole issue about the normal pension age and the state pension age was sold by the Government on the basis that the changes had to be made because people were living longer. Immediately, however, we see in the Bill that the retirement age for the police and firefighters is 60, with no question of that being reviewed, but for teachers and other public service workers it is 68. That is one area that is causing huge concern among people, particularly because all the evidence shows—I am sure that Kevin mentioned this before I came in—that teaching is one of the most stressful professions. The Bill pre-empts having such a review.

Kevin Courtney: What clause 9 does—except in subsection (2), where it gives protection to the male-dominated uniformed services that Chris referred to—is to stipulate that the normal pension age in every scheme has to be the state pension age, but it must be possible that individual schemes' members will value certain parts of the scheme differently and that there will be different characteristics across professions and careers. There is no reason, it seems to us, to specify in the Bill that the normal pension age must be the same as the state pension age. As I said, we were involved in discussions in which that age might have been different, and we were told that the Treasury had signed off on that in terms of longevity risk. Now that link has been written into the Bill, it seems to us, completely unnecessarily.

Q120 Graham Evans: I am really glad, Kevin, that you encourage your teachers to join the teachers pension scheme. You mentioned an example of young teachers who were thinking of not taking out the pension. During previous evidence, I used the example of two graduates aged 21 or 22, one of whom is looking at teaching or a public sector career with a DB scheme. They know what to expect, they have got job security, they have reasonable pay and conditions, and working as a teacher is an honourable and good profession to get into.

However, if you are looking at the private sector, you are looking at a DC scheme. You do not know what the future will bring and there is a certain amount of uncertainty and ambiguity about your career prospects, because industries change. They ebb and flow, and so forth, so you do not have that job security in the private sector. Using your analogy, I would say to those teachers, "Take a look at the private sector and take a view," but I would encourage them to stay in the teaching profession. The DB pension is a very good pension to have for any young person getting into teaching. If you would suggest anything other than that, I think you need to look again at what you are saying to your members.

My question to you is about the average working age. You have mentioned that you do not think teachers can carry on working until they are 68. Can you tell me what you think is a reasonable retirement age for teachers who have to stand in front of a class of 35 16 to 18-year olds? What is the current retirement age for your members, and what is the average mean pension? These questions are to both Chris and Kevin.

Chris Keates: At the moment, following the changes to the scheme in 2005-06, retirement ages are 60 for the people who were in the pre-2007 scheme and 65 for teachers in the post-2007 scheme. The average pension for teachers is about £10,000, based on the calculations done by the DFE.

On your question about defined benefit schemes, of course they are good schemes to have—nobody would argue otherwise—but I have to take issue with you about the situation that you describe and our ability to sell that in the context of job security and a whole variation of other things. Of course, that used to be the case, but it is not the case now in teaching. In fact, recent research that we did, which I will happily send to the Committee, shows that one of teachers' top worries is their job security. At one time, that was a huge benefit of the profession, but with many cuts to local authority services and a lot of casualisation of the profession, a big issue for newly qualified teachers is that over 50% are being taken on temporary contracts, even when there is a clear vacancy in the school. Last year alone, 15% of religious education teachers were made redundant as a result of the changes to the curriculum.

All of this is evidence we have presented to the DFE. There is a different context now as well. I agree with you that we want to say to our members, "This is a job you should want to do, and this is a scheme you should want to do," but there are lots of factors now that are coming into play.

Kevin Courtney: The question of the difference between the public and private sectors is clearly a really important question, but I want to go back to what Chris was saying earlier. Our position is fair pensions for all, and there is clearly a problem. My son left university last year and is working in the voluntary sector as part of the Olympic legacy. There is no pension scheme whatever. He will be auto-enrolled, but there is no other pension scheme for him. One of his colleagues left to be a maths teacher with Teach First, and is in the teachers pension scheme. Another of his fellow students, though, is working for Barclays bank and earning £37,000 a year. Whether his scheme is DB or DC, he will be very well off by the time he reaches retirement. There are differences, and our Government need to do something about providing proper pensions.

We need to look at ways of organising pensions more intelligently in the private sector. Some of the disincentives to private sector employers, such as having to have enough money in the bank to run the scheme if they go bankrupt, are really big disincentives to having a proper scheme. Maybe there needs to be a social insurance model—this is not a union position. I think we have to do something about the private sector. I agree with that.

But when teachers react as they do to the pension scheme, it cannot be separated from their perception of terms and conditions now. You say that teachers have good terms and conditions. I think you should go talk to some teachers about what they think of their current terms and conditions. They report to us and in independent surveys that their working hours are now very high—55 hours a week is not uncommon—that stress levels are very high and that they feel that their job security is at risk in the way that Chris talked about. Some Government decisions lead to job security being at risk, but many women in their middle 50s are reporting to us that they feel at risk of being dismissed or being found incapable due to the culture of accountability and the work load in schools. That is part of the mix of why teachers feel the way they do. When they say that they cannot work until 68, some of them think that something will happen to them before they get to 68 and that they will not be allowed to complete their career.

Q121 Graham Evans: Can I come back on a couple of things? I agree with a lot of what you say, but you are talking about leadership and management. If staff feel insecure, including females in their middle 50s, that is for leadership and management. They should not be put in that position.

On being made redundant, I am a governor of a high school, and I am not aware of any redundancies. In fact, there is a shortage of good-quality teachers in the sciences and maths. I appreciate that you used the example of RE; I have heard of that. There is a shortage of good quality teachers, and the overall thing that Lord Hutton has done here, despite what you may say, means that even if these reforms go ahead, it is still an attractive profession to go into with a very good career path. That may be to 65 and beyond, but if you join as a 20-something, with teaching you know exactly where you stand in terms of your career path and what you will get at the end of it.

Chris Keates: I can say that we would want that to be the case, and that is why we raised with the Government all of the issues that we have just outlined to you. We want teaching to be an attractive profession and we want to attract the best into teaching, and to retain them in teaching.

Q122 Alison McGovern: A straightforward question—I hope—on accrued rights. This is an issue that has been raised in our previous sessions, so I hope my fellow members of the Committee will forgive me for repeating the same question but I think that different perspectives are helpful. On the matter of accrued rights, is there an issue of definitions? Do you think that the Bill, as drafted, is helpful in defining what we mean by accrued rights, and do you have any suggestions on this matter?

Kevin Courtney: We think that there are problems with accrued rights in the Bill. Clauses 20 and 21 deal with the ability of the Government to make significant, adverse, retrospective changes to accrued rights and describe how that change can happen. They state that there has to be a process of consultation, but we are talking about a situation of the Government making significant, adverse, retrospective changes. That is not the way that private sector schemes are treated. I will say this: in my memory—Chris may correct me—this never came up in the central negotiations or the departmental negotiations. There was never any sense that those clauses would be part of the Bill. It means that public sector schemes are treated very differently to private sector schemes, for which section 67 of the Pensions Act 1995 provides that you cannot make significant, adverse, retrospective changes unless somebody tells you that, actuarially, they are the same, or unless you get individual members of the scheme's permission to make the changes, so there is really serious protection built in.

We cannot understand why the Treasury needs those clauses. If the 25-year guarantee means anything—we would like to come on to talk about that—there should not be these significant, retrospective, adverse changes. We suspect that that would also turn out to be illegal because we think that pensions will probably be interpreted as property rights by European Courts—maybe also by some courts in this country—and you could not make those changes without losing the case in court. We do not understand why this clause needs to be there, it did not come up in the negotiations and no explanation is being given for it, which worries us.

Another aspect of retrospective change, which I touched on, is that a relatively young teacher of 34, or a younger teacher with a current pension age of 68, can work for 10 years thinking that their pension age will be 68 and plan for that age. Then, they might find that, just before they get to retirement, it might be capriciously changed to 69. If that happens, they thought that they were accruing rights that they could take at a particular age but then that is taken away. That is another aspect of accrued rights that needs to be tightened up on in the Bill.

Chris Keates: In terms of making the Bill better, at the moment there is a lot of concern and anxiety out there on this issue of pensions, with a lot of uncertainty. Our view is that the Bill would add to that anxiety and uncertainty. We would prefer the protections to be in the Bill and to be subject to positive parliamentary processes rather than being in regulation or secondary legislation that can be changed far too easily. I do not think that it will give confidence to people if major protections do not end up in the Bill, so that is what we would argue for, in terms of improvements.

Q123 Richard Fuller: Mr Courtney, I think that you described yourself and Ms Keates as "hard-nosed trade union negotiators". Certainly, from my perspective, I am seeing a master class in the defence of self-interest without regard to the national interest, which marks your unions as well outside the mainstream that we have heard from today, such as Unite, Unison, GMB and Prospect. Of course, that is your right, as the views of your respective unions.

What concerns me is the other aspect of this, which is the affordability of pensions. The pensions bill is one that we pass on to taxpayers in the public and private sectors not only of this generation, but of the next generation—the people whom your members teach every day. In my own home town of Bedford, they teach them admirably and brilliantly well; it is hard work. But what would be your argument to that next generation about the resolution of this, in terms of affordability? We already know that we have a significant public sector debt that will be a burden on future taxpayers. Unfunded pension liabilities are in addition to that. Do you not think that the Government are trying to make a stride for inter-generational fairness?

Kevin Courtney: No, we do not think that.

Richard Fuller: I did not think you would, but I thought I would pose the question.

Kevin Courtney: Both of us have talked about the fact that with the last Government, we reached an agreement called "cap and share", which said that we would look at the costs and that we would talk about how to take those costs. We essentially said that we would take any extra costs. That is not a sign of unions that are denying that longevity might mean that there are extra costs on a pension scheme; it is not that at all. It is about how these things are worked through.

Lord Hutton also says that if you take the CPI change and none of the others, the proportion of gross domestic product falls from 1.9% to 1.4%, back to where it has historically been. So there is no pensions time bomb where public sector pensions are growing uncontrollably, according to Lord Hutton's report.

We also have evidence—because we looked for it—of how much money has been paid into the teachers pension scheme since it started in the 1920s and how much has been paid out. We have been through the records of the teachers pension scheme year by year, uprated by the standard method of GDP. We found that £46 billion more has been paid in as teachers' pensions contributions so far than has been paid out to teachers' pensions. We are not claiming that there is £46 billion to come back to us. When you set up a pension scheme, you always pay in more in the first years. You have recruited people who are paying into the pension, but there is no one who is taking money out, so you build money up. But that money is there to be paid out in future years. We are currently in a position where we have £46 billion in credit.

You asked a previous contributor whether they would want the funded local government scheme to be an unfunded scheme. Forty-six billion pounds would be a lot of money to have invested. We have effectively given that to the Government as an interest-free loan across the lifetime of the teachers pension scheme.

We do not think that we are being unreasonable. We want to talk about what the costs are and look at the pattern across the long term, which is the only way you can look at it. We want the Government to acknowledge that the reason why there is a peak now in pensions pay-outs is because baby boomers between 1945 and 1955 are retiring between 2005 and 2015. They are taking their lump sums, which is why there is such a peak now. We think you should acknowledge that and the fact that Lord Hutton says that as a proportion of GDP, the costs are not out of control, and then enter into a meaningful negotiation with us.

Chris Keates: Kevin has covered a lot of the points. The fact is that neither of our unions has ever said, "No change." That is the point we have been trying to say. NASUWT is not a deficit-denier; we know that there are issues with the country's economy. The issue we have with the Government is how you address those. We did not say, "No change" to the pension scheme. What we asked for was genuine negotiation and data on which we could make some informed choices. For example, we did not rule out the career average scheme. We did not rule that out, even though our members generally thought that we would like to stick with a final salary scheme. We pointed out that, if we were looking at fairness, those were the kind of schemes that you would look at. However, it depended on the cost envelope. I do not think we can be accused of not wanting to move this issue forward, because at no point are we on record as saying, "No change at all."

Q124 Richard Fuller: I wonder why so many other unions in other professions are in concord with the recommendations made here and why the ATL takes a different point of view. Does that not mean that you would be seen as being out of the mainstream?

Chris Keates: No, because you have to think, first of all, that there are different issues in a number of the schemes. In particular, some of the reasons why Unison felt able to move forward on some of the health schemes were very different, because, for example, of the salary profiles of their members, what was on offer and what could be done for them. In terms of the teachers' scheme, remember that, with the NUT and ourselves sitting here, and given the other two unions that did not sign up, you are talking to over 90% of the profession. Basically, 5% of the profession has decided to go along with the Government's scheme. We have consulted our members extensively on this issue, as has the NUT. I do not think that we are out of step; we are representing the overwhelming majority of the profession.

Kevin Courtney: In the teachers' scheme, the NUT, the NASUWT, the UCAC—Undeb Cenedlaethol Athrawon Cymru, which is a Welsh language teachers' union—and the University and College Union have not signed up. As Chris said, we are representatives of the vast majority of members of the scheme. That is in England and Wales. Our colleagues in Scotland, in the Educational Institute of Scotland, the Scottish Secondary Teachers' Association and the NASUWT in Scotland, have also not signed up. In Northern Ireland, the Irish National Teachers' Organisation and the Ulster Teachers' Union have not signed up. We are not out on a limb in terms of teachers' views about this pension scheme.

Q125 Ian Paisley: I am not unsympathetic to the points that you have raised. However, the teaching profile, the number of children in schools in Northern Ireland, is very different from the rest of the UK, unfortunately. I am very interested in what you have to say about not being opposed in principle to higher contribution rates being paid by your members. If that is an opening gambit for negotiations, it is an interesting one to start with. No doubt Ministers and Ministers' advisers will have heard that, and hopefully it will be of interest of them.

Coming back to pension needs, although I think there is some credibility in your argument, its greatest flaw is the position on physicality. With the greatest will in the world, I cannot equate the physical attributes required by a teacher with those required by a soldier, a police officer or a firefighter. They are not anywhere near. You have to accept that, and recognise that there is going to be a significant difference there. I do not want a 68-year-old firefighter putting a fire out in my house, rescuing my kids or rescuing me. That is stupid. I would respect a 68-year-old teacher more, as would my kids. Perhaps that is something about the culture that we live in. Are you prepared to concede anything at all on the issue of age for your members?

Chris Keates: I do not think it is just an issue of physicality. We are talking about the mental challenges of the job as well. It is an extremely demanding job. Kevin described the huge challenges involved in the job, particularly now, in terms of the accountability on teachers, how they need to perform, the scrutiny that they undergo, and all of those kind of things. We also need to think about quality of life in retirement. That needs to be an issue for all workers. We are not just making that case on behalf of teachers.

However, there are some issues of physicality that come in. A teacher is not necessarily simply a teacher, depending on what setting you are in. If you are in a highly challenging, specialist centre for high dependency children or children with particularly profound special needs, that can be demanding, both physically and mentally, as can work with younger children. There is enormous pressure in terms of delivering high standards; that is there throughout the profession, but also when you are talking about secondary teachers. It is a balance of all of those things.

It is also about what teachers themselves say about what they feel is their ability to do the job. There is a real difference between somebody who can choose to work to 68 and somebody who has been told, "You have to work until you're 68." That is a crucial difference as well.

Kevin Courtney: But we have accepted a difference between the three groups that you talked about: the firefighters, the police and the armed services. Their pension age is 60.

Ian Paisley: I think of them as a longer group.

Kevin Courtney: It is obviously a puzzle to the Prison Officers Association and community support officers why they are doing the same job but are not included. We accepted in the 2007 negotiations that the pension age for teachers would be 65, not without a lot of concern among our members. We have accepted a difference in the pension age between teachers and the other, uniformed groups. We think it is strange, though, that there is a huge level of protection for those groups, which we support, but there can be no consideration of any protection for the group of people we represent.

As Chris said, there are some aspects of physicality. If you work even in a mainstream or nursery classroom, you have to be able to bend. You have to be able to get down to the level of the five-year-old you are dealing with. If I were a 6-foot-7 nursery teacher, it would not be good teaching technique for me to stand up. You have to be able to bend. With teenagers, you need to be able to relate to them. Some people can do it at age 68, but we think that the vast majority would not be successful. But we have accepted that there is a difference between the groups, and 60 to 65 is the difference that we have accepted.

Q126 Cathy Jamieson: I have a fairly short question on something that we have not really touched on. Numerous teachers to whom I have spoken in the past and in some of the work I have done previously would

[Cathy Jamieson]

not have wanted the cliff edge of retiring completely. They would have wanted a winding-down scheme of opportunities. Will the Bill make it easier or more difficult to introduce part-time or phased retirement if teachers so wish? Is there anything in the Bill that is helpful in that, or does it hinder it?

Kevin Courtney: I certainly think that that would have been a productive place for us to have had discussions with Government. I think that you are right: many more people could work part-time to 68. It is a performance art, and you have to be on top of it every day. If there were a number of days in the week to do that, more people would feel that they could make that sort of contribution, but I do not think that that has been properly talked about or looked for as a solution in these matters.

Chris Keates: They are issues we have raised, because a winding-down scheme has been operating very successfully in Scotland, so we have raised those kinds of issue. This is what we were saying about the need to be able to have all sorts of options on the table.

Cathy Jamieson: I am sure that the Minister has heard that.

The Chair: There do not appear to be any further questions. I thank you both for your evidence at this session.

Ordered, That further consideration be now adjourned.—*(Greg Hands.)*

5.9 pm

Adjourned till Thursday 8 November at half-past Eleven o'clock.