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Institute of Employment Rights – Pensions Presentation

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There's no doubt when George Osborne made his Autumn statement in October 2010 he did not expect any real opposition to his plans for public sector pensions. Those pensions were, he declared, unsustainable. He was going to reform them, enrolling John Hutton as his willing helper, and, oh by the way he was going to do a smash and grab raid on public sector pensions to pay for the deficit that public sector workers had no hand in making.

There's also no doubt that if the government had wanted to reform public sector pensions in a way that would really make them fairer and more sustainable, it could have done so with a lot less bother and come to a much better settlement for both parties. It is interesting that both the tax payers alliance and the Institute for Fiscal Studies are both questioning whether the deal on offer will save costs or whether the deal merely shifts costs around the scheme.

The problem, all along, was the incompetence of the Treasury. It was staggeringly incompetent. To give just one example, but a telling one I think, the treasury did not announce the cost ceiling for the sector scheme negotiations until September 2011. It then demanded that scheme negotiations were completed by the end of the month – a deadline that was extended to the end of November, then to December.

Even when the negotiations split into sector schemes and were devolved to government departments, the dead hand of the treasury was always upon us. Each time unions came to an agreed position with the DFE it was undermined by the treasury. Meetings were delayed; positions put forward and supported by the DFE, and communicated to the union side as such, were undermined when the treasury said 'no'.

D day, the 19th December was a farce. We had the makings of a deal. Favourable early retirement factors which would make it possible for teachers to retire before the State Pension Age; a better accrual rate and full transitional protection for anyone within ten year's of retirement and tapered transitional protection beyond that. It was, just about, in our view, acceptable, particularly when you consider the distance moved between the reference scheme designed by the treasury and the deal achieved through two days of industrial action and subsequent negotiation. Then the treasury, at the eleventh hour, said no. Despite their argument that teachers are living longer and will be hale and hearty at 68, they believed that if there were enhanced early retirement factors, most teachers would take them. They insisted, therefore, that if there were to be any favourable early retirement factors there had to be a worse accrual rate. It took until 6.30 pm for them,

under pressure from the unions, the department and Ministers, to change their minds. The rest you know about. ATL signed the Heads of Agreement which meant, simply, that I would take the offer to my Executive committee for their decision. In a poll over 91% of those members in the TPS who voted agreed to accept the deal. They did so with a clear understanding of the economic context in which the talks were taking place – the sombre Autumn statement, the eurozone crisis and the flexing of muscles from the Tory right formed the context for the government's attitude to the negotiations. Our intelligence from the civil service was that the government would impose a settlement on terms, at best, of its own preferred scheme, if a negotiated deal could not be achieved. Indeed, on Monday 19th December, the last day for negotiations to be completed, the threat of imposition was a real and present danger.

I am not here to mount a defence of ATL's position. We are where we are and in my judgement the deal is the best that we can get by negotiation. If unions reject the deal, they will need to articulate their industrial strategy. In this dispute, I don't like it and I didn't agree to it but I'm not going to do anything about it, won't wash. There are ongoing negotiations over rather more technical issues – abatement, phased retirement, part time workers. The most crucial issue, in ATL's view, is opt out. We remain acutely concerned that contribution increases which, for the next three years are going to fund the treasury deficit, will make it entirely likely that young teachers, paying off their student loan, national insurance and tax, will decide not to opt into the pension scheme – as this is the only cost that they can defray if they are employed. Career averaging makes the non payment option even more attractive as there is an incentive to opt into the scheme later in your career when you are earning more and building up your pension pot more quickly. We continue to believe that opt out is a real danger to the future security of the TPS. We understand the department is worried about this too. We need to find an acceptable means to monitor and act if opt out increases to an unacceptable level.

But as the public sector pensions dispute moves towards its end game, we have a new show in town. Just last week there was a widely publicized report from the National Association of Pension Funds and the Pensions Institute which argued that the 500,000 private sector workers who retire every year are being short-changed by an average of £2,000 each when they buy an annuity where, in the words of the report, an "opaque", "bewildering" and "unfair" system means that people face "overwhelming obstacles" that prevent them from getting the best deal. It found that the system is so complicated that fewer than one in five retirees has the financial know-how to pick the right annuity.

The report outlined a raft of practices used by the annuity industry that can lead to a "significant loss of income in retirement" for private sector workers when they retire. Because most people with private pensions do not understand the annuity system, they opt for a low "default" annuity provided by the pension scheme provider, rather than shop around. But this can wipe

50% off their pension income. And then there are the hidden charges and fees charged by private pension providers. A commission averaging 2 per cent of a pension pot's value is retained by insurance companies or advisors when an annuity is bought. This means that a person with a £30,000 retirement pot will automatically pay £600 or more when they buy an annuity. Meanwhile some insurance companies automatically deduct "fees" of up to £1,000 from an average sized pot.

The report called on the Financial Services Authority to investigate whether these fees represent value for money. It is not only the pensioners affected who should be concerned, however, the government should be too because low payouts to pensioners will cost the Government between £100 million and £200 million in annual tax revenues. And the government response?

So, are we going to get an independent government enquiry? Will such sharp practices form the basis of a statement by the Chancellor? Sadly, it appears not. The Government has, thus far, articulated its response through Mark Hoban, the Secretary to the Treasury, who said that he "welcomed" the NAPF's contribution to the debate on how to help consumers get the best from the annuity market. I'm sure that he does welcome the contribution. The question is, what is he going to do about it?

And here we come to the nub of the problem. The government was clearly determined, in October 2010, to 'do something' about public sector pensions. The Chancellor thought that this would be an easy target. The government thought so too. Minister after minister, on and before 30th June and 30th November, went into TV studios and denounced gold plated public sector pensions and public servants living it up in retirement at the tax payers expense.

There is, however, one rule for the public and another for the private. It is not just the arrangements for annuities in the private sector that are a scandal – no, the plot gets much murkier than that.

Here I am grateful to a pamphlet by Richard Murphy, published last year, entitled 'Making Pensions Work'. His research reveals a very murky tale of government subsidy, poor performance and lack of transparency. The facts reveal that something should be done.

Did you know that, in 2007/8, the last year for which figures are available, more government subsidy, in the form of tax relief to individuals and to corporations, was given to private sector pension providers – 37.6 billion, than was paid out in private sector pensions that year (35 billlion)? In other words, the entire cost of private sector pensions in the UK in that year were made at direct cost to the UK government. And to provide further contrast, in that year 25bn was paid out in public sector pensions.

To put this in some perspective – a pension subsidy of 37.5 billion is almost exactly the same as the current UK defence budget. Questions have to be asked if such a sum is justified.

Particularly when nearly all the investment in private sector pension funds does nothing to help the UK economy. 99% of all investment in corporate shares and bonds made by pension funds is in what might best be called second hand shares or bonds already in issue. After the first purchase, not one penny of the money traded goes to the benefit of the company who first issued the shares. All of it goes to the previous owner which may, of course, be a pension fund, but the point is that none of this speculative activity does in any way benefit the productive economy.

Richard Murphy advocates fundamental reforms of the management of private sector pension investment in return for huge government subsidy.

He argues that if tax relief is going to be given to pension fund contributions then there must be conditions attached to doing so. A significant part of those pension fund contributions (he suggests 25% at least) must be proactively used to create new capital assets, infrastructure, skills and jobs. In addition pension funds must be required to invest for the long term and to minimise the transaction costs at present paid every time a stock or bond is bought or sold. This would mean that funds should be required by law to invest strategically as business partners and not merely speculate for short term gain, a role that is in any case and inevitably in conflict with their long term duty to produce returns for their members. And if they don't want to do this, pension funds must understand that there will be no tax relief to those who choose to invest in them.

Pension funds must also be much more transparent and accountable to their investors. They must produce accounts that are comprehensible to a lay person and must supply them to all members and in them detail their investment strategy.
We need employers to stop stepping back from pensions as a serious part of remuneration/workforce reward. They need to embrace the NEST (National Employment Savings Trust), make auto enrolment happen and set contributions at a rate that has a hope of giving a decent income in retirement. The current minimum (3% of an employees earnings and a further 4% employer contribution is very low. This sets an unacceptable return as a benchmark for employers to aspire to when this provision is still inadequate.)

In this way the compact that underpins pensions – a compact between older and younger generations will be honoured as it is being breached at present. The contract is, that the older generation through its own efforts creates capital assets and infrastructure in both the state and private sectors which the following younger generation can use in their work. And in exchange, the succeeding younger generation will, through their work, meet the need s of the older generation in retirement. This is not a compact that the current pension system even recognises. That is why it is in crisis. And that is why so many private sector workers are making no pension provision at all for their old age. They suspect they are being sold a bum deal and they are probably right.

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