

Consultation Response

Teachers' Pension Scheme: proposed changes to scheme regulations

To: Department for Education

By: Intergenerational Foundation

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The Intergenerational Foundation (IF) (www.if.org.uk) is an independent think tank researching fairness between generations. We believe that the government must consider the intergenerational implications of the proposed pension reforms.

1) Introduction

The Intergenerational Foundation (IF) is pleased to have the opportunity to respond to the public consultation on the proposed changes to the Teachers' Pension Scheme (TPS).

Since it was formed in 2011, IF can claim to have played an important role in leading the debate about intergenerational fairness in the UK, and we are regularly consulted by the media and policymakers to give our expertise on this issue.

IF believes policy should be fair to all – the old, the young and those to come. IF appreciates the recognition made by the government in relation to the intergenerational unfairness of current public sector pension schemes and welcomes the suggested draft reforms. However, IF also holds that the proposed changes will not sufficiently address the inequalities caused by the existing TPS and believe that further action must be taken.

2) Do the draft amendments achieve the policy aims as described in the consultation document?

IF agrees that moving all remaining active members of the legacy schemes into the new schemes on 1 April 2022 is an efficient way of ensuring that pensions are accrued in a fair manner. Allowing already-existing members of the TPS to make use of the legacy scheme for any service during the period between 1 April 2015 and 31 March 2022 is therefore also an appropriate measure to counteract the inequalities which have occurred since 2015.

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However, although these adjustments will rectify any unfairness between different scheme members, they do not address the main intergenerational fairness shortcomings of the TPS:

a) The scheme remains far too generous in relation to the level of contributions members are asked to make during their working lives.

b) The discount rate used to work out the future liabilities is set too high. While the use of a discount rate can be justified, the SCAPE rate currently used by the government to calculate costs is significantly higher than the real annual growth rate, which has led to an underestimation of the present value of future pension liabilities, and a resultant member contribution rate that is too low to cover the scheme's pension obligations. The whole scheme is therefore unfair, as the liabilities will need to be paid for by younger and future generations through general taxation.¹ Contributions made by all scheme members must therefore either be substantially increased, or alternatively, benefits received by members significantly reduced.

c) Those who join the TPS scheme from April 2022 will be at a disadvantage when compared to their predecessors. This is because those who were members before 2022 and those who are yet to join will have to contribute more, over a longer period, for less in retirement. Therefore, while the draft amendments outlined in this government consultation are a welcome start, they will not on their own achieve the policy aims. Additional changes must also be implemented.

3) Are any other amendments to scheme regulations required to achieve the stated policy aims?

a) A general knowledge of the injustice experienced by younger generations does not sufficiently halt discriminatory legislation. What is necessary is to have mechanisms in place which would bring intergenerational fairness issues to light. While the proposed remedies should be implemented, other measures must also be taken in order to achieve the policy aims in the consultation document.

b) It should be considered a duty for the government to take intergenerational fairness into account with respect to policies already put in place, as well all areas of policy in the future. IF therefore recommends that the Equality Act of 2010 is updated to include the wellbeing of future generations as a protected characteristic, and that a permanent independent body established to oversee government pensions policy decisions.

c) As long as the triple lock system on the State Pension remains intact, issues of intergenerational fairness will continue to permeate public pension schemes since many of these schemes follow the same indexation argument – i.e., increasing payments to one generation which are well above payments given to other generations. For example, while pensions increase in line with inflation, child benefit payments are uprated at a level below national inflation.² .../3

¹ Intergenerational Foundation. (2021). Are we Dis-counting young people's futures? Available from: https://www.if.org.uk/wp-content/uploads/2021/11/Are_We_Dis-Counting_Young_Peoples_FINAL.pdf [Accessed 20th January 2022]

² Intergenerational Foundation. (2021). Age Bias: How government spending is skewed against the young. Available from: https://www.if.org.uk/wp-content/uploads/2021/03/Government_Spending_By_Age_FINAL.pdf [Accessed 20th January 2022]

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d) The current triple lock system has served its purpose, as pensioner poverty is not only at an all-time low.³

e) The current triple lock system is unsustainable. The Office for Budget Responsibility projects that by 2060 the triple lock will have added 0.8 per cent of GDP to the annual State Pension spend compared to if it was linked to earnings.⁴

f) The UK population is living longer, placing further strain on all forms of pension schemes. Females are expected to live to 82.9 years, while for males life expectancy is 79 years. According to the Office for National Statistics, “These estimates rely on the assumption that current levels of mortality, which are unusually high, will continue for the rest of someone’s life. Once the coronavirus pandemic has ended and its consequences for future mortality are known, it is possible that life expectancy will return to an improving trend in the future.”⁵

g) In light of the above factors, governments may have to consider: reducing spending on other generations; increasing taxation on working-age people; increasing the state pension age; or relying heavily on bond markets. A radical option would be that in view of the generosity of the TPS, the State Pension could be reduced, or withheld, from those in receipt of a TPS above a certain annual income level.

If you would like to learn more about the work of the Intergenerational Foundation please contact:

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³ Francis-Devine, B. (2021). Poverty in the UK: Statistics:
<https://researchbriefings.files.parliament.uk/documents/SN07096/SN07096.pdf> [Accessed 20th January 2022]

⁴ Office for Budget Responsibility. (2018). Welfare spending: state pension: <https://obr.uk/forecasts-in-depth/tax-by-tax-spend-by-spend/welfare-spending-state-pension/> [Accessed 20th January 2022]

⁵ Office for National Statistics. (2021). National life tables – life expectancy in the UK: 2018 to 2020:
<https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/lifeexpectancies/bulletins/nationallifetablesunitedkingdom/2018to2020> [Accessed 20th January 2022]