**Conference Call On Behalf Of Members Of Prospect w/c 26/05/14**

*Conference Organiser: Pensions Officer for the Union - Neil Walsh (NW)*

*Please note that numbers given on the left hand of the page are designated minute markers (three-minute intervals)*

00:00 (NW): Okay, and thank you everyone who’s dialled in, I’ve just pressed start of record, erm, for the teleconference so that we’ll have a copy of this available for members who weren’t able to dial in. Just the background to why we’re doing this; is that there are clearly there are many implications for Scottish, of Scottish independence. Prospect absolutely has no position on erm, for or against Scottish independence or on which direction members should vote, but we do have a policy to try and help and inform members about the implications of independence on various aspects of their working lives and clearly pensions is one important part of that.

And to help people understand what those implications might be we have produced briefly notes which have been updated along the way, because as the debate has gone on their have been significant advances to the understanding of issues, erm, surrounding the implications of independence, for pensions. And I think there has been four versions of our briefing note on that so far. Erm, this teleconference is just another part of that. It’s mainly, hopefully, ten, fifteen minutes, quickly going through the issues and then the rest of the time trying to deal with the questions that people have that maybe weren’t addressed by the briefing note.

There’s going to be three main areas that we focus on: one that will affect everybody is the issue of state pensions because everybody in work will qualify for a state pension. Then the two other issues will effect one group and then the other, will be the impact on members of public service pension schemes and the impact on members of private sector pension schemes. So not everyone will be affected by both of those, most people should fall into one or other of those categories.

Okay, so to take State pensions first, now there’s been a lot said about what state pensions will be like under an independent Scotland and firstly there are the practical issues, erm, how will the new government you know, who, who will it pay out pensions on behalf of and how will the administrative arrangements be worked out. There’s no concrete answer to this from anybody yet. We’ve had a paper from the Scottish Government that says that they will honour the state pensions for anybody who is living in Scotland at the time of Scottish independence.

Clearly, precisely, who will pay out what will depend on the period of negotiation between any vote for independence and the final date of independence, ah, about eighteen months after that. There has been, I think, some kind of unfortunate kind of, erm, implications that there for some reason there will be doubt over what pension gets paid or something like that.

03:00

I think the UK pensions minister was very clear when he addressed, er, the select committee in the last few weeks that there is absolutely no fear that anybody who currently receives a state pension from the UK would be getting the same amount from an independent Scottish government after independence. The absolute intimacies of who’s owed what and which government has to pay on behalf of which person will be there for negotiation, but the beneficiary at the end of the day only needs to have confidence that there entitlement will be paid out

There are two groups of people I think, there are people who are already above state pension age and receiving state pension benefits or who will be above state pension age by the time of independence and will be in receipt of state pension by then. Erm, and the basic approach of the Scottish government has been say that they’re gonna retain what they think are the best parts of the current UK state pension system and to make improvements where they think it’s appropriate; and for existing pensioners that means the Scottish government promises slightly better improvements to your state pension benefits in the future.

So where, for example, the triple lock on the basic state pension is only guaranteed for this parliament in the United Kingdom, though at the start of this year David Cameron said it would be his party’s policy to guarantee it for the next parliament as well. But current UK government policy is only to guarantee the triple lock on the basic state pension for this parliament. The Scottish government has said it will triple lock it right through, forever. The triple lock for the, erm, savings, for the minimum guarantee element of the pension credit is granted by the Scottish Government and it is not there for the UK. The UK only promises earnings increases for the guarantee element of the pension credit. And again the Scottish government promises earnings increases for the savings credit element of the pension credit, whereas the UK government, last April, actually reduced the amount of the savings credit.

So, to summarise, I think for existing pensioners in receipt of state pension or who will be in receipt of state pension by the time of independence, should it happen as per the timetable, the Scottish Government says they’ll continue to pay out in respect of anybody living in Scotland their entitlement under the current system. But that once they’re free under independence to pursue their own pension policy, they will be slightly more generous than what the UK’s current policy is.

06:00

So effectively they’re saying vote for us, vote for independence and we’ll give you a slightly better pension. The UK Government’s answer to that is, I suppose is, that that’s all well and good, but who’s gonna pay for it; that if you prioritise extra benefits in certain areas, well then there are implications that will be there for tax, for borrowing for everything else.

When it comes to state pension for people who *won’t* have reached state pension age by Apr, by independence, and roughly I’m taking that to be, I know it’s not exactly, but the State pension system changes significantly in April 2016. By then the UK government intends to do away with the current basic state pension and state second pension that currently exist and for people and only people who reach state pension age after April 2016; so not existing pensioners, you’re covered by what we’ve just talked about. For people who reach state pension age after April, erm, 2016, there’s proposed to be a new single tier rate of state pension in the UK, that’s £144 per week.

Now, that number of £144 per week is kind of not very well understood, firstly it’s actually in 2013-13 terms. It was the number that was though of when they first introduced this policy which is over two years ago now. By the time of independence, you’re looking at the rate of that single tier pension being closer to £150, £160 per week. But secondly, just because the state pension system changes in April 2016, does not mean there will be a cliff edge.

If you were only going to be entitled to a lower amount, say just the full basic state pension of around about £115, £120 per week, the day before the new system is brought in, the n just because the new system is brought in you won’t automatically get the new £150, £160 per week from the state, either the UK or the Scottish Government if there was independence. There’ll be transitional arrangements for people who are currently in what are called contracted out occupational pension schemes and they include the electricity supply pension scheme, the civil service pension scheme, Research Council pension schemes, the final salary sections of the British Telecom pension scheme.

So the new single tier pension system for people who reach their pension age after April 2016 sounds all-singing and all-dancing and it’s going to be fantastic for everybody because it’s going to be at a rate of £160 per week; but actually it’s not going to immediately apply to everybody who might just be coming up to state pension age at around about the time of independence. However the Scottish Government is very clear that again much like people who are already over state pension age and already receiving state pension benefits, who are not affected by these reforms. The Scottish Government is very clear that they will match at least what the UK Government offers plus they will be slightly more generous.

09:00

So, for example, to pay for some of its wider state pension reforms, the UK Government is going to abolish something called the savings credit. Now the savings credit is a misunderstood, badly understood pension benefit for people particularly on lower earnings who would otherwise be caught by the savings trap due to the means-testing trap. The Scottish Government would retain that savings credit, the Scottish Government would also have transitional arrangements to protect those expecting to receive a state pension based on their spouse’s contribution record.

So, in the past state pension entitlement was an individual entitlement, but particularly say for married women who didn’t have many credits or working career of their own, they could get a state pension based on their spouse’s, and usually in the past the husband’s, contribution record. When the new single tier pension comes in, everyone will qualify for their own pension in their own right and the ability to qualify for one under the husband’s record will be gone. But the Scottish Government will give more generous transitional arrangements for people who might lose out in that situation than UK Government, would, and is currently proposing.

So, much like the people who are already above state pension age, the state pension system for those who reach state pension age after April 2016, will be no worse, according to the Scottish Government, than what the UK proposes to bring in and where they can, they will tweak it to improve it so that it is better for people who are paid a state pension from a Scottish Government. And again the same principles, I think, underpin those arguments as do, for the people who are already over pension age. It’s all very well and good, it sounds all very nice and attractive, I’m going to get better benefits if I get a state pension under the proposed Scottish, independent Scottish system. But, is there a question of what point do, are these affordable, ahh, you know the better benefits will have to be paid for by the borrowing or cuts in spending somewhere else. You know, if this is all meant to add up, that’s the UK Government’s argument.

The big, big policy difference between the UK Government and the Scottish Government is that the UK Government has plans to increase state pension age well into the future. They’re gonna bring forward a state pension age of sixty-seven to April 2028 and afterwards they propose to keep the portion of your adult life spent working constant. So as longevity improves, a pension age will have to increase and that will be assessed independently and legislated for automatically. The Scottish Government said they will establish an independent commission, judge the appropriateness of bringing

12:00 forward the state pension age to sixty-seven by 2028, and I suppose why it might not be appropriate is that we know longevity in Scotland is not as high as it is in the rest of the UK and therefore the increase in state pension age that far could have disproportionate impacts on people in Scotland.

However, as with the policy on state pensions for those already over state pension age and those about to or who will be over state pension age after independence, then the issue with perhaps delaying state pension age is, well is that affordable in the demographic context that an independent Scotland would be in and therefore would this, all the improvements that they propose to the state pensions mean that the Scottish Government would have to raise taxes or make cuts to public services or increase borrowing, or basically how would it be afforded, I think is the question that the, erm, how would it be afforded would be the question that the UK government puts.

I’ve just had a question through on my Blackberry, ahh, about the abolition of Savings Credits. Errm, because that’s a difference as I said between the UK, current UK policy and the proposed Scottish Government policy. Errm, Savings Credit is a recognition that if somebody makes provision towards their retirement today but ends up on a minimum level of means-tested benefit at retirement anyway, that effectively the savings they made today would have been wasted. So it’s particularly applicable to those who have lower levels of pension savings. Because if you have a good occupational pension income, that together with state pension should bring you well above means-tested, the means0tested level of benefit anyway.

If you don’t have a good pension, but you try your best to save towards one anyway, but get caught on the lowest level of means-tested state pension in the end, then what the savings credit would do, would give you some recognition for the savings that you made and would bump you above that minimum level of state pension, means-tested benefit. To pay for the new single tier pension, the UK government is just going to abolish that for people who reach state pension age in the future, after April 2016. The Scottish Government says it won’t abolish that. It’s obviously an important point for those that it affects, but because it only affects a small number of people, or a relatively small proportion of people, then the actual savings involved from abolishing it aren’t that significant. So, I hope that’s an explanation of that issue, and I’m thankful that the e-mail system has managed to work on that occasion.

15:00

Okay, so that’s the most significant area of pension policy under a new Scottish Government, an independent Scottish Government I should say. I think, and the reason I say this is the most significant is because that affects everybody and if you were to summarise the differences it would be to say that a. I don’t think that there should be any fear that suddenly state pension won’t be payable, you know the two governments would have to get together under independence to work out who is responsible for paying what to whom, but that everybody should get what they’re owed due to the national insurance contributions that they’ve made throughout their careers. I think anybody who suggests otherwise can be rightly accused of scaremongering.

That said, there are potential differences, policy will diverge under an independent Scotland, why would they keep exactly the same policy? Of course they wouldn’t. Now, in order to make independence attractive, the Scottish Government is promising quite attractive things to existing pensioners and people who will get to pension age after independence. Whatever you take it, whether it’s not abolishing the Savings Credit, whether it’s giving a triple lock for the minimum, minimum guarantee element of the pension credit. You know, whether it’s proposing to look at whether state pension age shouldn’t be brought forward to sixty-seven quite so early, the Scottish Government is offering particular carrots all over the state pension system to various groups of people.

And you will have to choose for yourself, whether those carrots are attractive and whether they’re credible because of course the UK Government’s argument and I presume the No Campaign’s argument has been that it’s all well and good to promise the earth, the moon, the stars in relation to state pensions but is it going to be actual, erm, is it going to be affordable or would there be then have to be consequences for tax, borrowing or cuts to other public services.

I have just had another question to say that, the assumption seems to be that the state pension is adequate. Er, I don’t think, ahh, I don’t think that’s necessarily an assumption underpinning this. Erm, the state pension, just say even the new single tier pension if it’s £150, £160 per week, I don’t think anybody thinks that’s enough to live on. But it’s not a bad building block either on which to base our private, our occupational pension savings. But whether it’s adequate in itself and I don’t think anybody would argue that it’s enough in itself. You know there are differences in how the governments are approaching or say they will approach state pensions in the future. That will affect Scotland differently whether Scotland became independent or Scotland remained in the United Kingdom.

18:00

So that’s the biggest single topic, I want to touch on, not touch on, I want to cover now two other areas. The first is public service pensions, an awful lot of people on the line will be members of public service pension schemes. Now if you happen to be a member of a public service pension scheme that’s already delivered by a Scottish administration and that includes the NHS, teachers’ pension scheme, fire authority, local government pensions, erm, then literally I can’t imagine what would be very different under independence because you’re already having your occupational pension delivered by a Scottish administrator and that simply it seems to me would be taken over under independence, the responsibility for each and every one of those schemes, NHS, teachers, police, fire and local government, would be taken over by an independent Scotland and continued to be delivered in precisely the same way that you’ve always been used to.

Now there are UK wide public sector pension schemes and particularly for our members, these would be the civil service and Research Council pension schemes and perhaps the Armed Forces pension schemes might be applicable, particularly maybe to people who are in the Ministry of Defence who were perhaps previously in the Armed Forces. The Scottish Government says that much like the way they’ll negotiate a split the state pension system based on national insurance contributions, that after an independence yes vote in a referendum before independence becomes practical, they will, er, negotiate with the UK Government over who should pay what for which members of the scheme and that yet again we shouldn’t worry that our public service pension won’t become payable.

Somebody will be responsible, one of the two governments will be responsible for your pension. The Scottish Government says the most appropriate way to divide up responsibility is for them on independence to take responsibility for the state and public service pension of anybody who lives in an independent Scotland at that time, the UK Government says that that might not be the most appropriate way. But I don’t think anybody says no-one will become responsible for your public sector pension after independence. It would be a matter for negotiation behind the scenes and actually you as a member should just continue on paying your contributions seamlessly if you are an active member or receiving your benefits seamlessly if you’re a pensioner member.

Of course the Scottish Government review of state pension age could directly impact on members of public service pension schemes because of course of the link now from next April, a lot of people who end up in the new public service schemes will have their pension

21:00 age linked to state pension age and if the Scottish Government were to delay increasing the state pension age in Scotland then that could have a knock on impact on the value of public service pension schemes, which would improve the value of public service pension schemes and again the question would be is this potential carrot credible to you, is it attractive to you, is it credible to you and how would it be paid for? Erm, you know what is the demographic context such that, you know, an independent Scottish Government could afford to make all these attractive changes to state and public service pensions without having to impact on all the other promise that are made and all the other things that a government will be responsible for.

Moving on to private sector defined benefit pension schemes and defined contribution schemes as well. Erm, you know, I suppose the Scottish Government has said an awful lot about what has gone wrong with private section pension policy of the last ten, fifteen, twenty years. But ultimately, when it comes to what model they should have for regulating these schemes in the future in an independent Scotland; when it comes to what the regulator should look like and whether or not there should be a pension protection fund, a lifeboat fund for private sector defined benefit pension schemes in, er, in Scotland. Well, despite the fact that a lot of the rhetoric from the Scottish Government is how, is critical of pension policy over Westminster, over what Westminster has presided over, over the last twenty or thirty years, actually they propose following current UK, erm, pension regulatory, er, requirements.

So I think implicitly, despite the criticism that is made of current Westminster pension policy, implicitly the Scottish Government seems not to have to many problems with it as they tend to propose following it very many ways. Erm, when it gets down to it, erm, regulation of private sector pension schemes tend to be behind the scenes. It’s really important, but is it something that actual members of pension schemes ever tend to notice or not. Well, not usually, not really, as long as in the extreme, for example, if a pension scheme goes under, there’s some kind of lifeboat there to protect members better than er, you know, if, if, than there had been no protection arrangements. And the Scottish Government, er, proposes to at least replicate what the UK government currently has in place.

There is however is a very significant issue relating to private sector pensions that has dogged, I think, erm, the entire pension issue, er, since, erm, ever since the first few papers on

24:00 this were published. And it’s relating to the EU regime for regulating pension schemes that are designated to be cross-border pension schemes and the argument goes like this: if Scotland were to become independent, then any pension scheme that was a private sector defined benefit pension scheme that had members both in Scotland an in the rest of the UK and frankly it’s difficult to think of any pension scheme that wouldn’t be covered by that, erm, because most defined benefit pension schemes are sponsored by large employers. And most large employers obviously through it, are, are. who do business in Scotland tend to also do business in other parts of the United Kingdom as well.

So any defined private sector defined benefit pension scheme that had members in Scotland and in the rest of the UK after independence would be designated as a cross-border pension scheme. And the EU has different regulatory requirements for cross-border pension schemes than the UK or Scotland have for domestic pension schemes. And the problem with it is that the EU’s regulations are very onerous. They require, basically, an annual funding review and they require that pension schemes are fully funded immediately rather than giving some years to sponsors to make up the funding requirements that a scheme needs.

Now while these things sound like they’re good, wouldn’t we want our pension schemes to be fully funded and not give employers years to make up any funding gap, erm. That is good form just the narrow point of view of members interests and related to their existing benefits, but it does imperil whether a scheme can continue going forward. Admittedly many people are in pension schemes that are guaranteed under various kinds of legislation; but if you’ve no guarantee to ongoing pension accrual and suddenly your employer’s meant to make good a deficit in a year, then they may not have enough money to do that and to pay for your pension. Your ongoing pension, as well and basically under the, if sponsors of private sector defined benefit schemes with Scottish members, were forced to comply with cross-border regulatory requirements; there would be a huge, huge pressure for them to close those schemes immediately to anyone they could close them to.

So this is a huge issue to which the Scottish Government has said, well look, this is the regulation as they currently stand, but those regulations can be changed. Now the directive that governs cross-border regulation of pension schemes is called IORP (*Institutions for Occupational Retirement Provision*), the erm, and the Commission recently proposed a revision to this directive, but it didn’t, despite early suggestions that it might, it didn’t propose loosening this aspect of the cross border regulatory regime.

27:00

So the Scottish Government then says, well we’ll just have to be really sensible and negotiate some transitional arrangements. Like Scotland, sorry like the Republic of Ireland and the UK managed and that’s all very well and good, but unfortunately it’s not clear how long those transitional arrangements would last for. The Scottish Government has said lets us and the UK government start negotiating with the Commission right now to make it clear what those transitional arrangements would be, cos they would be in everyone’s interests. If independence is to come about it would be silly for us not to have negotiated these transitional arrangements first. And I completely agree with that, the problem is the UK Government, because they want everyone to vote no, has no incentive to reduce the pressure related to the cross-border regulatory regime. And therefore as far as I can see, has have done nothing about trying to clarify what transitional arrangements might be available.

And, let’s remember as much as this impacts on members of private sector pension schemes in Scotland, this also impacts on those members of those same schemes in the rest of the UK as well. But as far as I can tell, no-one has done a great lot of work on clarifying what transitional arrangements would be available and basically whether or not they would do the job of relaxing the onerous cross-border regulatory requirements on sponsors of defined, of private sector defined benefit pension schemes.

So what if they didn’t do the job? Well essentially, either, the sponsors, I think there’s three options, sponsors would just have to meet the very onerous regulatory requirements and that would cost a lot of money and that would have lots of implications for what they were able to invest in, that would have implications for pay, presumably, because if they’re pumping more money into the pension scheme, is there enough money left available for a decent pay pot?

Erm, I’ve just had a question about what would be in place in the absence of EU membership in relation to a UK wide scheme. (chuckles) Erm, so if Scotland were not to be a member, I, I suppose, the position I’ve taken on answering the cross-border pension regulations is that it’s the Yes campaign’s own position that EU membership will continue. Erm, and therefore if EU membership didn’t continue, there would be a whole host of issues there. Which I think are way, way beyond pensions, so I’m taking the point of view that the Yes argument is that EU membership will continue therefore we have to worry about cross-border pension provision. If EU membership didn’t continue, then potentially we don’t have to worry about cross-border regulatory requirements, but potentially you’ve got far more other things to worry about instead that extend far beyond pension policy.

30:00

So I suppose, I think I’m arguing, not arguing, I’m not arguing, I don’t have a position, I’m trying to explain what would happen if EU membership carried on and cross-border regulations were there and if we didn’t have sufficient transitional protections in place then either your sponsors, that is your employers would have to pump millions of pounds into the pension scheme with all the implications that would have. Or they would have to carry out a fairly difficult process of literally separating out, divorcing the membership between Scotland and the rest of the UK and that might sound oh that’s not going to have much impact to me. But actually, that’s difficult. Because people move across the border, number one, but secondly, even if it was just that process, there’s a lot of admin costs around that and then you might end up in the smaller of the two pension schemes. There might be implications for funding.

Erm, the last option is and it’s one that people will, ahh, err, it’s one the erm, it’s the one that probably we’re most fearful of; is that if the transitional arrangements aren’t effective then we will, err, employers, rather than pay the extra money, might be looking at closing down their schemes instead. I’ve just had a question that’s saying one that the UK Government says the Scotland will have EU membership, I, I think I’ll try to stay clear of the EU membership question, simply as because A: it’s something I have no idea of certainly I’m not expert enough to comment on and B: it’s not what this is about. But then the other comment is that it’s the not helpful attitude of the UK Government. I think that’s something I think I can agree with because on our members’ behalf we would like to see and answer to this.

The fact that an answer might make the position of the Yes campaign easier, is not a good reason for the UK Government, I don’t think, not to seek an answer to this because it is everyone’s interest to have an answer regardless of the partisan impact that has on the debate in the run-up to September. And the last question is how European states Holland, Belgium, France, Germany, handle it. Well actually the kind of pension scheme we have is pretty, not unique to the UK, but the reason why this hasn’t been an issue for Germany and France for example particularly is that they don’t tend to have the same kind of pension scheme arrangements as we do. What the UK has is particular to the Netherlands, the Republic of Ireland and the UK. And so obviously, I think the best example has been the Republic of Ireland and the UK. When these regulations came in they were offered transitional protections and the Scottish Government points to that, but those transitional protections did end.

33:00

And a lot of Irish schemes ended up splitting their membership between Ireland and the UK, erm, I’m not aware of schemes that closed as a result but the Irish regulatory regime is quite different to that which exists in the UK, whereas as obviously the Scottish, independent Scottish Government would be starting off with, ahm, the same regulatory regime as there in the UK. Broadly this hasn’t been an issue for other countries cos the kind of pension scheme we have in the UK, the private sector defined benefit pension scheme only really applies to the Netherlands, UK and the Republic Of Ireland. Whereas when regulations are first brought in, it did cause a problem for the Republic of Ireland and the UK, I mean I think they are the vast majority of cross-border schemes of this kind in the UK. And I think the most common response after the end of the transitional period was for schemes to separate themselves out.

Ok, so I’m going to very, very briefly try and recap over all of that and then cautiously move us on to Q and A mode from err, from the, err, from, from the conference mode. Ah, so basically on state pension policy I don’t think there should be any fear of members out there that the state pensions won’t be paid, the question will just be who have to pay for it and that will be for the governments to negotiate between themselves and I’m sure that will be part of the wider settlement that will come about and everyone would seek a fair and reasonable outcome to that. Erm, the Scottish Government tends to offer slightly more generous arrangements for both the existing pensioners and people who get to state pension age after independence. I suppose the UK government’s response to that is, well in the demographic context, you know, how credible do you think that is, how attractive is it to you, but what would it mean? Can they offer you that without requiring tax rises or cuts elsewhere or extra borrowing?

On public service pensions, a lot of these schemes are already Scottish only and they will just carry on. So there is an NHS Scotland pension scheme, there is a Scottish teacher’s pension scheme and obviously there are local government pension schemes all over Scotland, they will just carry on. For the UK-wide public service pension schemes, the civil service, Armed Forces, Research Council schemes, an arrangement similar to what will happen for the, ahh, state pension system will have to happen. And on private sector pensions, I think ultimately, the biggest issue, I think, is that cross-border regime which mainly affects members of private sector defined benefit schemes.

Ahm, so the big threat that’s been put out there is that the cross-border regulatory regime would apply and it would be too onerous and there would be negative implications for that. The Scottish Government has said, look that’s been established as a potential threat, we think we can get around it, let’s work together to get around that now and the UK Government has

36:00 basically not been playing ball with that. Possibly because the UK Government doesn’t want to work around some of the challenges towards independence in the hope that they remain reasons to vote no. Erm, ultimately will it be a problem? It could potentially be one, but the Scottish Government is right, they can be worked around as well, but is the workaround if it results in say separate schemes, there will be expenses associated with that and there will be other implications for that as well such as like, will the scheme I’m in have as credible a sponsor as the scheme I was in before independence?

So I don’t think it’s possible to say too much more about that cross-border issue because simply there’s no final answers to it though people may have more questions. So what I’m going to try and do now is move into Q and A mode and when I do that, (line goes dead)

When I, when I move into Q&A mode, erm, if you have a question to ask, you simply press hash six and you’ll be unmuted and you can ask the question and then we’ll see if we can take them on a one by one basis.

Automated: (ALL PARTICIPANT LINES HAVE BEEN UNMUTED, PRESS HASH SIX TO MUTE YOUR LINE)

Neil Walsh: Actually I think it’s the other way around according to that, ahh, and if anyone has just e-mailed in, I’m afraid the Blackberry has just decided to go off, erm so you’ll have to repeat your question.

So, I hope that was useful, but if anybody has any questions, erm, please start now.

Caller 1: Hello?

Neil Walsh: HI there.

Caller 1: Is that, eh, Charlie Bruce here, that Neil is it?

Neil Walsh: It is, yes.

Charlie Bruce: Neil, I have a question on the, erm, what the, the latest thing that’s happened in the pension scheme, this is more on defined contributions, is in fact the er, the abolition of the requirement for, eh, people to buy an annuity.

Neil Walsh: Yep.

Charlie Bruce: And of course, it’s early to ask that question but it’s about you know, we need to have some clarity on that because there are indeed a lot of EC schemes around now.

Neil Walsh: Absolutely, yep.

Charlie Bruce And eh well, increasing

Neil Walsh: Well, just for

Charlie Bruce: Sorry, eh, and that would spill over into the NEST (National Employment Savings Trust) or SEST (Self-Employed Savings Trust) or whatever you want to call it. You know into the, ae, the work, the new workplace pension schemes too, you know?

Neil Walsh: Yep.

Charlie Bruce: Okay?

Neil Walsh: So just for everyone else, erm, the, the, the issue there is the Chancellor’s announcement in the budget earlier this year that, erm, that people that hold defined contribution pension pots and those who will be members of defined contribution pension schemes, but they will also be members of defined benefit schemes who have ABCs (Asset Backed Contributions) in the form of defined contributions pension pots. Previously, though there were workarounds, basically the vast majority of people with defined contribution pension pots had to use that pension pot to buy an annuity. And the problem with buying an annuity was that even the regulators who investigated this said that annuities were poor value basically the market wasn’t delivering.

39:00

Now we expected the budget to have an announcement about how they were going to make the market work, in fact, actually, the Chancellor announces that they were just not going to make anybody buy the annuity anymore. That they could take their pension pot whenever they wanted and just face the marginal rate of tax on it. Now that is supposed to come in from next April, so from April 2015, so that’s before independence would happen, so the independent and I haven’t asked the Yes campaign about this, I haven’t seen anything from the Yes campaign but the logic I have from almost everything else is that the law of the land on the day of independence, will be the law of land in the rest of the UK and in Scotland. Therefore any changes that are made to remove the requirement to annuitize in the UK before independence will automatically follow on and be there in Scotland as well.

After independence and on, I haven’t seen the Scottish Government say that they‘ll go back on that and therefore, I, I might, well, my best guess is that I clearly have no indication officially from either side what precisely would happen, my best guess is that those flexibilities would apply equally in an independent Scotland as they would do if people stayed in the UK.

Caller 2: Hi Neil?

Neil Walsh: Hi there.

Caller 2: Hello Neil, my name is Cathy Swan from BT here, erm, the question I would like to ask is with regards to the auto enrolment process and so at the moment many people have been auto enrolled Into erm, UK-wide pension schemes, for example ours is through Standard Life. I’d really like to understand the implications of any prospective changes to that scenario based on Scotland becoming an independent nation. Is there any kind of information you can provide us with?

Neil Walsh: Yeah, well, I think, the, the defined contribution schemes such as anyone provided by Standard Life or any other of the big pension providers or Nest as was mentioned by the previous questioner. Erm, those no real reason why those should be affected in any significant way by independence. So you’ve got a pension provider and your member’s contributions and their employer’s contributions and they’re going to that provider. Now, if some people end up living in an independent Scotland, there may end up being slightly different regulations. Currently, as independence happens, so if independence, day one of an independent Scotland, they would carry over all the existing regulatory requirements for Standard Life or whichever the provider would be to meet in respect of any member. Erm, so both, I suppose, the ability to be auto-enrolled, cos there’s lots of regulations around that, for example, from a trade union point of view, we think that the threshold for auto-enrolment is

42:00 far too high and it misses too many people, for example part-time workers. Now that’s, that’s a regulation, that’s a government regulation thing but that flaw, as we would see it, in the regulation exists currently in the UK regulations and would continue on in the UK and in an independent Scotland, day one. Of course the Scottish Government could seek to improve that, or the rest of the UK Government could seek to improve that through regulations. And then there’s what does the provider do?

Well Standard Life would have to behave in respect of your members the same, er, if they were in the UK as they would in the, in an independent Scotland. So all their requirements about the basic rate, erm, the basic rate of the regime, it’s called treating, treating members fairly (TCF – Treating Customers Fairly). Erm, so, I , I don’t think and I couldn’t think of any, so the whole talk I’ve given so far has been about pulling out the differences between the rest of the UK and an independent Scotland if independence were to come about. I can’t think of any significant differences for members of defined contribution pension schemes in the private sector that you know, that, that would come about as a direct result of independence. As an indirect result you might find policy going in different directions years down the line, but nothing has been announced so far that I would think would amount to a huge significant difference for members of those types of pension schemes.

Cathy Swann: That’s really helpful Neil, appreciate that, thank you.

Caller 3: Neil, Neil, can I ask a question about the opt out of the industry, we’ve yet had it reaffirmed about protected pension status.

Neil Walsh: Yep

Caller 3: What, what would be the situation one: with were, we were to become independent and two: what would be the impact on the private pension scheme in these industries?

Neil Walsh: Cool, well actually, I’m lucky enough, that last week at conference we had a panel debate between Nicola Sturgeon and Anas Sarwar and one the questions that the delegate asked was exactly about the topic of, erm, whether the protections that people have in various industries, so the electricity industry going back to the protected persons regulations, BT obviously had commitments made on privatisation as well. And Nicola Sturgeon, er committed in public that those would still apply to the relevant members under and independent Scotland. And that goes back to the principle that what’s law of the land in the UK on the day of independence, until a Scottish Government or a Scottish, or I should say until an independent Scottish Parliament changes it, would still continue to be the law of the land in an independent Scotland as well.

So all those protections for private sector pension scheme members in the electricity, nuclear industries and, ah, commitments made on privatisation to, er, people like BT’s pension scheme members, they all continue on after independence as well.

Caller 3: Even if the cross-border fund was in deficit and they decided to close it?

Neil Walsh: Well, yep, yeah, so well that’s the thing, so that bit I was saying about cross border pension

45:00 regimes being difficult for occupational, the sponsors of occupational pension schemes, presents a difficulty for a sponsor of a protected person’s pension scheme. They don’t have the option of closing it, they just have to find that cash somehow. Now, ultimately, it may come that we prefer to have a sit down discussion about how we deal with those things rather than force the sponsor to go to the wall, ahh, in order to keep up the pension scheme. But you know in all of these things, if ever there’s a problem with the pension scheme, when it comes to people who are protected persons and that’s a specific status granted on privatisation in statute, in, in, in the relevant legislation that led to privatisation, then the freedom of sponsors, the freedom of employers to make changes is greatly restricted. Because they are not allowed to turn down a pension scheme in respect of those members.

Caller 3: Thank you Neil.

(Silence)

Neil Walsh: Are there any other questions out there?

(Silence)

Neil Walsh: Hello?

Callers 4&5: (Indistinct)

Caller 4: I have a question.

Neil Walsh: I think there might be two, so whichever order (chuckles).

Caller 5: Ladies first

Neil Walsh: (Chuckle)

Caller 4: Okay.

Caller 5: Go on then.

Neil Walsh: I think he was offering, l, l, l, ladies first on that one sorry (Caller 4 can be heard saying “Yes” in the background)

Caller 4: Sorry, I’ve got a question about non-UK citizens. I’m living in Scotland and …

Neil Walsh: Yep

Caller 4: …but I'm not from Scotland. I’m just wondering what happens, erm, should Scotland become independent in terms of, erm, state pension entitlements and erm working years erm, outside the, erm, yes, Scotland and the UK? Whether there is any information available?

Neil Walsh: Yep, that’s a really good question, it’s not something I’d thought of before now. Ahh, erm, as it currently stands, you’ve got all these kinds of reciprocal arrangements between the UK and various other countries, particularly, it’s required that there under EU law, it’s required that there are reciprocal arrangements between the UK and every member of the European Union. Now Scotland obviously, (chuckling) I’m not, I’m trying to desperately stay away from the will Scotland be a member of the EU, er, argument. Erm, it, for no other reason than I know absolutely nothing about it. Erm, but, er, you know, even if someone were to argue Scotland wasn’t automatically a member of the EU. And this is just as a hypothetical, clearly Scotland would want to be a member and therefore I think, obviously, immediately seek to have the same reciprocal agreements in place.

So maybe I’m going too far in err trying to answer this, but I cannot see any situation in which you wouldn’t have a reciprocal agreement between Scotland and say any member of the EU. That your years here can count in the same way as they would for the UK against

48:00 state pension in your home system. And of course any occupational pension you build up in Scotland will just like any occupational pension built up in the UK, be payable from here, should you choose, or there’s a potential obviously to transfer it back home and have it in a home country pension scheme if it meets tax requirements that HMRC (Her Majesty’s Revenue and Customs) would put down and an independent Scottish version of HMRC, I’m sure would have similar requirements as well.

So, erm, I, I would briefly summarise as to say that I can’t think of any particularly negative implications that becoming independent would have on the pensions for people who might end up say for example retired in a, but in a, outside the UK. I think the protections would be pretty the same whether or not you were a member of a UK scheme and contributing to the UK national insurance fund or a member of a scheme in an independent Scotland and contributing to Scotland’s own national insurance fund. So I think it should be fairly neutral, but obviously it’s something I’ve just considered for the first time right now, so perhaps a little more research to be done on that.

Caller 6: Neil. Sorry, can I, can I just pop in their quickly, as my name’s Gerry Chambers and somebody who is actually now starting think about the state pension in particular. Erm, I worked in Ireland, I had the pleasure of working in Ireland for ten years, many, many, many years ago. And in researching that recently I have just uncovered that I will be entitled erm, to a pension, er, it’ll be balanced out reciprocally between, er, the thirty odd years I have here in the UK and the ten years, sorry I will have in the UK, and the ten years I accrued in the Republic Of Ireland back in the seventies and eighties.

Neil Walsh: Yep, yep and I think that’s absolutely true and I think that would be, that will remain the same, yeah the Scottish Government would seek to make sure that remains the same, whether or not it’s a UK, whether or not Scotland remains in the UK or becomes independent

There was a…

Caller 5: Hello? Hi. I’m the one that let the lady in.

Neil Walsh: Excellent sir, yep?

Caller 5: I, I think my question is very similar to what she asked, erm, I’m, I’m currently in receipt of a pension from a private company, but I’m not from Scotland and I may well move back down into England..

Neil Walsh: Yep.

Caller 5: ..from a post independent Scotland.

Neil Walsh: Yep.

Caller 5: Errrm, what are the implications four our pension. I assume none, but I, er, who knows?

Neil Walsh: Yeah, no. I, I, er, it’s a similar question erm, to the last one, but I think it’s a similar answer. Ahhm, like for example, worst comes to worst and for this you could just have pension continue to pay out to your existing Scottish account and transfer it yourself, erm, to, to an account in the rest of the UK, should you end up living in a foreign country. As it stands, a lot

51:00 of people who are members of UK pensions ends up retiring to the likes of South Africa, the south of France, Australia, New Zealand. So retiring to a different county to the one you accrued your pension in, isn’t exceptional or unusual or anything like that and isn’t a huge drawback. I should say, I should point out that there is actually a current drawback in that people who retire to certain countries, don’t get their UK state pension increase, but that will not happen between the UK, the rest of the UK and an independent Scotland because EU law doesn’t re, allow erm states not to increase the pension that is payable to people who retire to other EU states.

So, (unclear interruption) and indeed it would be absolutely ridiculous to suggest that, er that that Scotland and the.. I think an analogous position would be, right now if you retired to the Republic of Ireland, you know, you would have, you know a fully indexed pension, fully protected, it would be no different right now and I don’t think if Scotland were to become independent that it would be treated certainly any worse current, than, than the current situation is for the Republic Of Ireland.

Caller 5: Alright, okay thank you.

Caller 7: Neil, apologies if you’ve answered this one already, I was a wee bit late joining the call.

Neil Walsh: Nope, no problem.

Caller 7: Right, if, if, you get, sorta your pension paid and BT are still based in the rest of the UK, they’re a headquartered company and the currency changes within Scotland,

Neil Walsh: Yeah,

Caller 7: Right, have you covered this one or am I?

Neil Walsh: No, no, but I was looking forward to this question. (chuckles)

Caller 7: If the currency changes, what are the options for me? Can I get, open a bank account in England and get paid in that amount of money, but then I would have to pay a transfer charge to change it to Scottish currency?

Neil Walsh: Yeah, erm. The way I’ve addressed this so if you briefly notice is much like my duck out from the EU question, where I’ve said that the government policy is that they will remain a member of the EU and therefore I’m addressing that. Ahh, government policy is that an independent Scotland would continue to use Sterling, whether as part of a currency union or not. However, erm,

Caller 7: There is the Colombia question, where, what, why they use the US Dollar.

Neil Walsh: Yeah, yeah, but, but so they’re quite clear that sterling will continue to be used, the obviously the UK Government is saying, yes but not in a currency union. The UK Government cannot stop Scotland from using Sterling, but it can obviously not, decide not to agree to a currency union. I’m desperate not to get bogged down in the currency question for the same reason...

Caller 7: Uh-huh, no, no I just…

Neil Walsh: I didn’t answer the EU question.

Caller 7: Your pound paid into one bank account could be worth more than a pound paid into another bank account.

Neil Walsh: Exactly, exactly.

54:00

Caller 7: I just wondered if there was legislation within BT that said you had to get it paid into a bank account of the country of residence.

Neil Walsh: Yeah, look, what would happen is if again let’s use the Republic of Ireland as a, er, similar example again. Because of course, erm, the Republic of Ireland does have a different currency and always has, well except for a very short period after independence. It always has had a separate currency, whether it was tied to Sterling, where for many years it was tied to Sterling, it wasn’t always. Errm, and your entitlement is what you’ve built up already, so up until any point in change of currency, you’re all entitled to a pension built up in the form of, er, er, Sterling.

Ahhm, now at some point in time, a new currency comes in, they’ll be an exchange rate that should be equivalent between the two and therefore whether the scheme decides to pay you out in Sterling or in Scottish pounds, it would have to, or whatever they might become, they would have to, erm give you the value that you’ve already accrued so I think it would be for the scheme to decide whether or not they pay out in Sterling or whatever the equivalent is. But if there is a different currency, they would only be able to pay out what the equivalent, er, value under Sterling would be.

But, aahm, I’ve been trying not to put an answer to that question using the backdrop of, using the backstop of the government, the Scottish Government’s position is that Sterling will continue to be used. Erm, but er, you know, I appreciate that this is a huge question that members, that members would have. Erm, I, I, I can’t see it working out to the detriment of members because the legislation requires that, you know, no detrimental changes can be made to the pension that you’ve already built up to any point in time.

Suddenly it could, if for example, a Scottish pound was only worth, ahh, ninety pence Sterling, well and then your pension was ten thousand pounds per annum, they suddenly couldn’t start paying you ten thousand Scottish pounds per annum, they’d have to pay you eleven thousand one hundred or whatever the equivalent is in Scottish pounds per annum to make it equivalent to the value you’ve built up in your pension in Sterling. So, that’s the best I could do at this stage.

Caller 7: No, no, I understand that and it’s I know it’s not an easy question to answer. And probably a lot of the uncertainty around it causes the uncertainty.

Neil Walsh: Yeah, I suppose what I’ve been trying to kind of say there are lots of areas of uncertainty. Some of them are currency, some of them are whether we’d be a member of the EU or not

57:00 and some of them are pensions. So, I’ve been trying to answer the pensions uncertainties, taking for granted other that the other uncertainties are bigger items. So, we may have issues about whether or not we, Scotland, and independent Scotland is a member of the EU, but actually that’s much wider than just pensions, so I’ve been trying to say the pensions issues are taken, taking for granted the EU, and taken for granted the currency answer then these are the issues on pensions alone. Obviously if Scotland ends up not in the EU or not using Sterling then there are implications not just for pensions but much broader…

Cathy Swan: Can I butt in on the EU question?

Neil Walsh: Of course, yes.

Cathy Swann: Erm, just, there is no mechanism to actually put Scotland out of the EU, because your passport actually says you’re an EU citizen and your rights under the EU. I think it took Iceland three years to get out when they wanted to leave. So I think the EU question is again a red herring.

Neil Walsh: Yeah, yeah, I know and I’m not sure and I,I,I,I,I,I,I, I’m suppose, ca, ca, Cathy I would say is I know nothing, I know nothing about that.

Cathy Swann: It’s just that I have a member of the anal, I have got a friend who is a member of the European Parliament so he explained it all to me on the. You know even if you want to leave the EU it takes about three years. Cos there is no mechanism to leave.

Charlie Bruce: You’re a member, yeah.

Neil Walsh: Sure, sure, I’m just really trying not to discuss anything, not to discuss the currency issues or...

Cathy Swann: Ok

Neil Walsh: ..not to discuss the EU thing, not for political reasons…

Cathy Swann: Sure.

Neil Walsh: ..it’s just that I don’t know anything about it. But, but, be that, as it’s just that kind of thing, if those are areas of controversy that areas that people are concerned about or areas they’re thinking about, I think for pensions, it’s kinda, it’s second order. I think you take those bigger issues for granted, however you feel that might go and then to take those for granted and then work the through how what it might mean for pensions, I hope. (chuckle)

Gerry Chambers: Neil, there’s one other quick point I just wondered about, I vaguely remember, em, thinking back, err, em, it may still be the case, erm, I remember people having Sterling accounts in Dublin, erm, so they c,could get paid in Sterling.

Neil Walsh: Yep.

Gerry Chambers: So I think there is a precedent there for that.

Neil Walsh: Yeah, yeah.

Gerry Chambers: Yep, ayy, I had one other quick question too and it’s maybe just looking forward a little bit more in terms of pensions and benefits generally. I just wondered what Prospect’s view was on er, looking at, erm, re-modelling the whole, because, at the end of the day we have some of the worst pensions in the EU. Erm, and when we look at other, my, I’ve got a son living in Finland and I’ve looked into that aspect of the, the way they do things there. So not, how, how would Prospect feel about looking out how we do the whole thing in terms of pensions and benefits in regards to the additional, erm, payments that workers make either through their union or through their salaries, err, that gets the pay related thing back into the whole aspect of it?

Neil Walsh (60:00): Yep, yep. I mean that that’s, that’s a huge area. I suppose what I would say is that pension policy is evolved really significantly in the UK over the last few years and will do over the next few years as well. Erm, when we say that the UK as well is one of the worst pension systems in the EU, I think that’s because, ehm, we tend to separate pension policy into three pillars. The first pillar is what you get from the state, the second is what you can get from your employer and then the third is what you do yourself. And across the EU, the UK’s first pension pillar is usually, you know, one of the weakest. So that’s the state pension, even if you get 150 or 160 quid a week from the (unclear word in background) government under the system, that is often viewed as being one of the lowest across the EU, but we do have a really good second tier pension for those who are lucky to be in a defined benefit pension scheme. So for our members in the public sector, for our members in BT and in the electrical industry before these schemes were closed, we have a really good occupational pension system for a minority of workers.

What we’re trying to do, what pension policy generally, government and everyone is involved, is trying to do, is trying to improve that occupational pension system for those who don’t have access to those good quality defined benefit pension schemes. An also that’s what enrolment is seeking to do in baby steps. And I think that would have to be, under UK or independent Scottish Government policy, you know, to improve significantly, you know we’re going to have catch more people in auto-enrolment, but also ratchet up the minimum employer contribution to those kind of schemes. So you have employers contributing thirty percent to members of defined benefit pension schemes and yet under legislation in a few years they’ll only be required to pay three percent on behalf of somebody who has just been auto-enrolled into a scheme and that difference is too big.

So I think going forward, erm the state pension regime, you know, er, I, I think this reform will be, err, will hold for many years to come, I can’t see any government changing this significant reform that they’ve just passed through the Pensions Act 2014. We may have had our issues with it, but that’s what we’re left with. Now, I think, when it comes to improving pensions policy I think it’s a case of yes, lobby to defend those defined benefit schemes where we have them, but recognise that members, membership of them is dying out because they’re closed to new entrants and as members of those schemes begin to retire, they’re not being replaced by new entrants into those schemes.

Those new entrants are going into defined contributions schemes and where we need to go is to improve the average employer contribution rate to those schemes. Whether that’s through trade unions negotiating for higher employer contributions to those schemes or also having the legislation so that where there aren’t trade unions, and lets recognise that there are many places in the private sector where there are not trade unions, making sure that the minimum employer requirement under the legislation is higher than just three percent. Push that up through the legislation.

63:00 So, where organised, let’s negotiate to improve employer contributions to defined contributions schemes. Where not well organised, legislate to make sure that the bare minimum they have to put in is more than they currently have to.

Okay, erm, I see we’ve just strayed into after two o’clock, it’s been over an hour now, so I’m going to stop recording and I’m going to thank everybody who has dialled in. I hope this has been useful, erm, obviously there’s the e-mail address, erm, that everyone has contacted, erm, to get the login details. So, please if there are any questions that occur after this or that you weren’t able to raise please, erm, e-mail that in and I, we’ll take, we’ll take the opportunity to e-mail a response back and based on this and our debate last week at national conference, erm, and the issues that came up, we’ll tweak the briefing note further to incorporate a little bit more all the issues that people asked about today.

But otherwise thank you all very much I,I hope it was useful and I hope we’ll be able to do things like this, erm, in the near future in the run up to the referendum as well.

(Ends 64:13)