COMMITTEE FOR SOCIAL DEVELOPMENT

OFFICIAL REPORT
(Hansard)

Proposed Pensions Bill

9 June 2011

NORTHERN IRELAND ASSEMBLY

COMMITTEE FOR SOCIAL DEVELOPMENT

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Members present for all or part of the proceedings:
Mr Alex Maskey (Chairperson)
Mr Mickey Brady (Deputy Chairperson)
Mr Gregory Campbell
Mrs Judith Cochrane
Mr Michael Copeland
Mr Sammy Douglas
Mr Mark H Durkan
Mr Alex Easton
Mrs Pam Lewis
Mr David McClarty

Witnesses:

Mr Sam Dempster	)	
Mr Gerry McCann	)	Department for Social Development
Ms Anne McCleary	)	

The Chairperson:
Anne McCleary and Gerry McCann are staying for this part of the meeting, and they have been joined by Sam Dempster. You are very welcome. I remind members that papers relating to this matter are in their folders and that the session is being reported by Hansard.

Ms Anne McCleary (Department for Social Development):
Thank you for the opportunity to brief the Committee on the main provisions of the Pensions Bill

that is being considered by the House of Commons. I emphasise the fact that no decision has been taken on a corresponding Northern Ireland Bill. We are still preparing an equality impact assessment and hope to publish a consultation paper in the very near future. However, I think it fair to say that, subject to ministerial and Executive approval, it is anticipated that provisions in the Westminster Bill will be replicated in a corresponding Assembly Bill.

The Westminster Bill contains measures relating to the following: first, the state pension and, in particular, changes to the state pension age; secondly, automatic enrolment into workplace pensions; thirdly, indexation and revaluation of occupational pension schemes and pension compensation; fourthly, the financial assistance scheme; fifthly, the operation of the pension protection fund; and sixthly, judicial pensions.

I will go through the key factors, one by one. Under existing legislation, state pension age for women will equalise with that of men at 65 by April 2020. It will then increase to 66 for men and women by April 2026; go up to 67 by April 2036, and to 68 by April 2046. That is the existing state of play. The Government announced a review of the timetable and, last June, issued a call for evidence in Britain. The Department for Social Development also issued that call for evidence in Northern Ireland. We received two responses, including one from the previous Committee.

Issues arising from the call for evidence were addressed in the command paper 'A sustainable State Pension: when the State Pension age will increase to 66', which was published in November 2010. The Bill accelerates the equalisation timetable and the increase to 66. The increase to 66 will be brought forward to April 2020, and, as a consequence, women's state pension age will be equalised at 65 by November 2018, rather than the original timescale of April 2020. That will bring it forward by 18 months.

We estimate that around 7,000 women will be affected by the acceleration of the timetable. Roughly equal numbers of men and women, around 69,000 in each case, will be affected by bringing the increase to age 66 forward to 2020.

Increasing the state pension age will lead to corresponding increases in the minimum

qualifying age for state pension credit and the winter fuel payment, which are directly linked to state pension age under existing legislation.

The upper age limit for receipt of working age benefits, such as jobseeker's allowance and employment and support allowance, will also increase. I apologise to the Committee for what is coming next, because it is turgid. The Bill abolishes payable uprated contracted-out deduction increments. Those are currently paid where a person postponed taking their occupational pension and earned increments on their guaranteed minimum pension. Occupational pension schemes are only required to uprate those guaranteed minimum pension increments after 1988 and up to a 3% maximum. Payable uprated contracted-out deduction increments are intended to make up the difference. However, the average payment is less than £1 a week. Believe it or not, that is a simplification measure. As I think I have said before, I take the view that if I can understand something then I hope I can explain it. Any award already in payment will not be affected, so this is basically to do with simplification. It involves, on average, payment of less than £1 a week.

Mr Campbell:

I would not like to hear the complicated measure.

Ms McCleary:

The next topic is automatic enrolment into workplace pensions. Millions of people across the UK are not saving for retirement. Legislation passed by the Assembly in 2008 was designed to address the issue by introducing a requirement for all employers to automatically enrol eligible employees into a workplace pension scheme. That will start in 2012 for the largest employers and will be phased in over a four-year period. An independent review was announced in June 2010 to examine the scope of the automatic enrolment policy in light of changes that had taken place, such as the economic downturn and fiscal deficit, the review of state pension age, further increases in life expectancy and the decline in private sector pension coverage.

The review group published its report last October. It made several recommendations designed to support the introduction of automatic enrolment by easing the burden that employers will face in complying with the legislation while maintaining the key aim of ensuring that low-to-

moderate earners are able to save for their retirement. As a result, the Bill contains a number of provisions, including the introduction of an earnings trigger, at which point an employee must be automatically enrolled into a workplace pension. Mr Douglas referred to that in the preceding evidence session. The trigger will be set at the threshold at which a person begins paying income tax, which is £7,475 a year.

Other provisions include the introduction of an optional waiting period of up to three months before the automatic enrolment duty on employers begins and changes to the way that an employer can certify that their pension scheme meets the necessary quality test.

The next issue is that of occupational pension schemes and pension compensation. Under current legislation, the Secretary of State for Work and Pensions is required annually to specify by Order revaluation percentages based on the percentage increase in the general level of prices in Great Britain over an annual inflation reference period ending with the most recent September. The Department makes corresponding provisions for Northern Ireland.

In June 2010, the Government announced that it would in future use the consumer prices index (CPI) as a general measure of inflation for uprating social security benefits. That would include additional pension, but not the basic state pension or pension credit, and included public sector pensions. However, it was subsequently announced that CPI would also be used in the revaluation and indexation of private sector occupational pension schemes, increases to financial assistance scheme payouts and the revaluation and indexation of pension compensation. The Bill contains provisions to give effect to those changes.

The next issue is that of the pension protection fund. A number of technical amendments are being made to legislation governing the operation of the pension protection fund. That fund provides pension compensation to people who were members of eligible pension schemes where the amount of pension is usually based on a person's salary at or around the date of retirement. Those schemes are usually called defined benefit schemes or final salary schemes.

Pension compensation is paid where the employer sponsoring an eligible defined benefit scheme has experienced a qualifying insolvency event — in other words, has gone bust — and

where there are insufficient assets in the scheme for remuneration at the same level as the pension compensation. The fund is managed by the board of the pension protection fund, referred to as the board. The amendments in the Bill will reduce unnecessary bureaucracy and include provision to permit the board, when able, to determine the funding position of an eligible pension scheme without obtaining a fresh actuarial valuation. The board can decide whether to use other information. The Bill provides that a determination made by the board that an actuarial valuation is not required can be reviewed.

The Bill will also enable the board to issue a notice to scheme trustees and to the regulator that it is to assume responsibility for a scheme containing such information as it considers appropriate. It will remove the requirement that the period during which the board assesses whether to assume responsibility for a scheme must last for a minimum of 12 months. That will enable the board to transfer some schemes into the pension protection fund earlier.

Next, the Bill will provide that calculation of pension compensation paid to pension credit members includes revaluation, if revaluation would have been applied under the rules of the relevant scheme to the pension credit members' benefits. It will prescribe circumstances in which a person who is entitled to pension compensation by virtue of pension compensation sharing may choose to receive it from a date later than the normal benefit age. That is just a bit of flexibility.

The Bill will require certain changes to scheme rules, which will have the effect of increasing the amount of compensation to which members of the scheme are entitled to be disregarded.

A number of provisions in the Assembly Bill will extend to Northern Ireland.

Mr G McCann (Department for Social Development):
This is the Westminster Bill.

Ms McCleary:
My apologies: a number of provisions in the Westminster Bill will extend to Northern Ireland. The Assembly has already agreed to that and passed a legislative consent motion on 21 March. I will not therefore detail those provisions, which relate to the financial assistance scheme and to

judicial pensions.

That concludes my outline of the Bill. My colleagues and I — but probably my colleagues — will be happy to take questions.

The Chairperson:
Are you saying that your colleagues may give us a more convoluted version? *[Laughter.]*

Mr Brady:
Thank you for trying to explain this subject, Anne. For some of us around the table, what will happen to pensions in the 2020s and 2030s may well be academic. Unfortunately, for others that will not be the case. I want to ask about the changes as they affect women. Is it true that women are affected already this year?

Ms McCleary:
I think you are probably referring to the media coverage of the last few weeks or months?

Mr Brady:
No. I am referring to people who have contacted my constituency office. For example, one woman who was 60 years of age on 14 December 2010 will not receive her state pension until September 2011. Therefore, she has effectively lost nine months of her contributory pension. This has not affected men, because 65 is still the legal retirement age for them. However, it will affect women's entitlement to winter fuel payments as their pension age increases.

This was not made clear under the last mandate, when we were getting some of this stuff through. It is only through the outworking that it is becoming clear that women are being particularly penalised. If you pay into a contributory system, it is not unreasonable to expect that when you reach the age at which you expect to receive your contributory benefit, you should get it. However, women are having to wait nine months. This is also affecting women's entitlement to pension credit because, again, the pension age has increased. As I have said, that seems to be most unfair, because it does not affect men. I do not think that that issue has been properly addressed.

Ms McCleary:

The first thing I have to say is that it was seen to be unfair that women were able to retire earlier in the first place. It was due to the need to make things fairer that legislation in relation to pension age was made. Some people will say that this undoubtedly affects women, because they are the ones who are being moved. However, this has been known about for a while. It has only become a matter of concern recently because people were not interested in this kind of thing in the past and it is now beginning to bite, which is unfortunate.

Mr Brady:

It is like many things in life. Until you become a pensioner, you are not particularly interested because it does not affect you. It is also like becoming widowed or whatever. Until it affects you, you are not necessarily aware of it.

Ms McCleary:

It was not generally known that these changes would come.

Mr Brady:

The difficulty is that there is no transitional protection for those people. They are losing a lot of money. I need to make that point. This change, or reform, is supposed to improve things, but many women will lose out over the next five years. No one told them that they should not have paid into the system, because this was not foreseen.

Ms McCleary:

I understand. The issue is about expectations and the fact that those are no longer, apparently, being met. People did not appreciate that the change would occur and I do not blame them for that.

Mr Brady:

The argument is that things may well improve in the future, but people could lose a year's contributory pension. It is not non-contributory. People can work on after they reach pension age, although they may pay more tax when they hit that ceiling. However, they are still losing

out, which is the reality. This is not something that women would have been aware of before they reached the age of 60, and it will come as a bit of a shock to them.

That is only one example. I have dealt with a number of cases in which this has happened, and I presume that it will continue to happen. I think that the Department needs to have a better explanation for people. It is OK to say that this is part of a reform. However, the financial implications need to be explained to people, and, in the case I referred to, that explanation was not given. The woman in question was simply told that that was the case; and, having reached pension age, she could not understand why she was not receiving a pension. The issue needs to be addressed.

Mr Campbell:
My question is on the same point. You said that around 7,000 women will be affected by the changeover. You are certainly right about the publicity that the change has generated: there was quite a lot of activity in Westminster about it, including a special debate a couple of weeks ago in which I participated.

You are quite clear about the fact that 7,000 women will be affected, but will you clarify the extent to which they will be impacted? I believe that it will be for a finite period of time, but will you clarify precisely how long it will be? What sum of money are you talking about, and for how long will people be affected?

Mr Sam Dempster (Department for Social Development):
I do not have figures for the money involved. However, just over 5,000 women will have their pension age delayed by up to a year, and for between 1,600 and 1,700 it will be delayed by up to 16 months. From those figures, I suppose we could work out the amount of money and let you know.

Mr Campbell:
Are those two figures added together to get the total number of women?

Mr Dempster:

Yes, approximately 7,000 women will be affected, of which 5,000 will have their pensions delayed by up to one year, and approximately 1,700 will have their pensions delayed by more than a year.

Mr Campbell:

How long do they have in which to prepare for that unexpected change? Will it be about six years?

Mr Dempster:

Under existing legislation, many of those women would have expected to reach the pension age at 65: the change will delay that. From speaking to the Department for Work and Pensions (DWP), we understand that, in the autumn, it will begin to notify people who will be affected.

Mr Campbell:

When will it take effect for most of them? People obviously know their expected retirement date, and most, if they are planning ahead, will try to plan for that. How long will they have until they reach that unexpected delay of either a year or 16 months?

Mr G McCann:

For the first tranche of women affected, it will be about five years. After that it will increase.

Mr Campbell:

How many of the 7,000 are included in that first tranche? Is the number significant, or is it all of them?

Mr G McCann:

I am not sure that we have an exact figure for that. As I explained, the state pension age will go up on a scale, and it will change each month over the period of two years. I cannot tell you exactly how many people will fall into the first month, the second month or the third month. We do have a rough figure.

Mr Dempster:

I am sure that we could probably work out the figures.

Mr Campbell:

That would be good. This is a Westminster issue that will come to us. It will be a difficult battle to fight, but battle lines are being drawn. Most people are looking to the longer-term and saying that there will be good news for pensioners 20 or 30 years down the line, which is good news for those who will be retiring then. However, for others, particularly women, who will retire in the next five, six or seven years, there is a period of time during which they will be disadvantaged. They did not take account of the change two or three years ago because they did not expect it. Five or six years is not a lot of time to prepare for a de minimis position that they cannot have been expected to clarify or prepare for a couple of years ago. That is a battle for elsewhere, but it is something that we need to be aware of.

Mr G McCann:

What you are saying is absolutely correct. However, it is fair to say that we all know this is happening because it is simply one of the ways to cut the deficit. I do not think that there is any other way to argue it. That is what it is about. So, we cannot help you out from that point of view because it is not really our policy.

Mr Dempster:

We agree that communication is an important issue, and we are talking to DWP about that at the minute.

The Chairperson:

It is also being presented as equalising the age of retirement.

Mr G McCann:

That is being done now under the Pensions (Northern Ireland) Order 1995, which, to my shame, I worked on. Therefore, the changes that Mr Brady referred to have been around since 1995.

Mr Copeland:

I want to go back to the lady that Mickey referred to. She retired but has to wait for nine months before she is entitled to her pension. When her pension entitlement kicks in nine months after she was anticipating that it would have, will her entitlement be based on a 100% contributions rate or will she be nine months short in terms of contributions?

Ms McCleary:

No. It will not affect her contributions-wise. As much as anything else, the legislation reduces the amount of contributions that you have to make to be entitled to a full state pension.

Mr G McCann:

The changes that were made by the 2008 Act bring down the number of years that are needed to get a full pension. Previously, a man had to work for 44 years to get a full pension and a woman had to work for 39 years.

Mr Copeland:

Was having to work for those periods of time the same as making contributions — *[Inaudible.]*

Mr G McCann:

The Assembly cut that down to 30 years for both men and women. Under the changes, more women now get a full pension, and they would not have got it in the past but for the fact that the Assembly passed that Act.

Mr Dempster:

Furthermore, previously, you had to pay one year's contributions in order to access the scheme, whereas now women can build up entitlement to pension based on credits only, for instance, if they have taken time off to care for children or a sick relative. That is also an improvement for women.

Mr Copeland:

"Credits only" is when a contribution is made or assumed to have been made on their behalf.

Mr Dempster:

Yes.

Mrs Cochrane:

We asked about the figures and were talking about 7,000 women being affected. Am I right in thinking that the equalisation timetable given in annex 1 in the report is in respect of the women who will be affected and will be notified soon?

Mr Dempster:

That relates to women who are affected by the acceleration to 65.

Mrs Cochrane:

It would be useful if figures could be given under each line to show how many women are affected and by how much money. When people come and ask us about it, we would then be able to communicate it better.

Mr G McCann:

Yes. I am sure that we can look to see whether we can break that down. The money lost relates to the amount that they would get as a full state pension and that depends on the person. If someone worked for 30 years or cared for someone for 30 years, they would get a full pension, but, if they had not, they would not be entitled to a full pension. Therefore, I am not sure that we can give you that exact detail because it will vary from person to person.

Mr Dempster:

We might be able to provide illustrative figures based on someone experiencing a delay of, say, eight months, 12 months or 14 months.

Mr G McCann:

We will see what we can do with the stats that we have available.

Mrs Cochrane:

Thank you.

Mr Douglas:

I have a couple of points on automatic enrolment. You might be able to give a black and white answer to my first question. Your briefing paper talks about the age requirement being 22. Might there be any grounds for age discrimination? As we get older, we all realise the importance of pensions. I did not realise the importance of pensions in my earlier days. My children are in their early 20s, and I have been talking to them about the importance of getting a pension from the early days. Is there a possibility of some age discrimination?

Mr G McCann:

We mention age 22 as the age at which an employer has to automatically enrol eligible workers. If someone under that age wants to opt in, they can.

Mr Douglas:

If I read the paper correctly, my concern is that the proposal will add at least 3% to employers' contributions. Given that the economic climate does not look too good for the next number of years, that will put major pressure on small businesses.

Ms McCleary:

That is why the change was made so that automatic enrolment is only for people who earn over £7,475, which you referred to. That recognises the fact that it could be awkward and bureaucratic for very small employers.

Mr G McCann:

The other point is that that rate is to be phased in. The employer does not have to pay 3% from day one. Those rates are being phased in until 2017. It starts at a fairly low rate and ratchets up over time. The whole point of that is because of the point that you make. It is so that a small employer does not suddenly get hit with an extra bill from day one. It is to be phased in.

Mr Brady:

I assume that the figure of £7,475 is based on the lower earnings limit.

Mr G McCann:

No, it is based on the rate at which you start to pay tax.

Mr Brady:

So, you do not have to pay tax or National Insurance if you earn less than that a year.

Mr G McCann:

Yes, that has changed recently.

Mr Brady:

It used to be around £97 a week. On Sammy's point, is the qualifying age of 22 based on a different minimum wage being paid to people who are under 21?

Mr G McCann:

No, it is the rate at which you pay tax. I do not think that there is a link between it and the minimum wage. As far as I know, it is part of the new taxation system, which is aimed to help people who do not earn that much.

Mr Dempster:

Essentially, it is to make it a bit easier for employers. They will start to calculate tax at that threshold, and that is also where the earnings trigger will kick in.

Mr Brady:

The point about the 3% payment is very important, because a lot of small employers will simply not be able to afford it.

Mr G McCann:

As I said, that is why it is to be phased in up to 2017. We are aware that it could hit jobs, so we are trying to phase it in gently.

The Chairperson:

Anne, Gerry and Sam, thank you for your time and effort. It is a complex issue, so thank you for

your attempts to simplify it.