Northern Ireland Assembly

Committee for Social Development

OFFICIAL REPORT
(Hansard)

Pensions Bill: Departmental Briefing

2 February 2012

NORTHERN IRELAND ASSEMBLY

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Members present for all or part of the proceedings:
Mr Alex Maskey (Chairperson)
Mr Mickey Brady (Deputy Chairperson)
Mr Sammy Douglas
Mr Mark H Durkan
Mr Fra McCann

Witnesses:

Mr Seamus Cassidy	Department for Social Development
Mr Gerry McCann	Department for Social Development
Ms Anne McCleary	Department for Social Development

The Chairperson: I welcome Anne McCleary, Gerry McCann and Seamus Cassidy. We are at the start of the process. What we are doing today is not clause-by-clause consideration of the Bill. We are still getting information and clarification from Anne and her team. Today, we will deal with the provisions in Part 1 of the Bill. If we need additional clarity on certain aspects of the provisions, this is our opportunity to get it before we move on to clause-by-clause consideration at a later stage. We have the Pensions Bill in front of us. Anne, will you give us a quick reminder of the Part 1 provisions?

Ms Anne McCleary (Department for Social Development): Thank you, Chairman. As you said, we have been invited here today to brief you on Part 1 of the Bill. We all know that, in the coming weeks, we will be considering each clause individually, so we are limiting ourselves to an overall outline of Part 1 today. We have already spoken about the Bill on a number of occasions and, indeed, discussed some of the provisions at quite considerable length. So bear with me if you feel that you have heard all this before.

Part 1 contains a number of provisions relating to state pension, the most substantive of which — the changes to state pension age — are designed to ensure the long-term viability of the state pension in the face of an ageing society. We will look at state pension age first.

Under existing legislation, the state pension age for women will equalise with that for men at 65 by April 2020. It will then increase for both men and women to 66 by April 2026, to 67 by April 2036 and to 68 by April 2046. Official projections of average life expectancy have been revised upwards since those changes were legislated for. So that is already in the system. Projections made by the Office for National Statistics in 2008 indicated that men and women reaching age 66 in 2026 are expected to live, on average, 1·5 years longer than was projected when the current timetable was set.

The Westminster Government announced a review and, in June 2010, issued the paper 'When should the state pension age increase to 66?: A Call For Evidence'. The Department for Social Development issued it here. We received two responses, including one from the previous Committee. In November 2010, the Government's response was published in the command paper 'A sustainable State Pension: when the State Pension age will increase to 66'. In light of increasing life expectancies and an ageing population, the Government concluded that the current timetable is simply unsustainable. The proposed Bill implements a revised timetable providing, first, for women's state pension age to equalise with men's by November 2018 rather than April 2020 and, secondly, for the increase to 66 to be brought forward to October 2020.

We will now look at the effect on state pension. We estimate that equalising state pension age by November 2018 could affect around 7,000 women born between 6 April 1953 and 5 December 1953. Approximately 70,000 women and 69,000 men born between 6 December 1953 and 5 April 1960 could be affected by bringing forward the date on which the age increases to 66. Overall, around 146,000 people could experience a delay in reaching state pension age. A total of 131,000 — 62,000 women and 69,000 men — may experience a delay of up to a year. Around 15,000 women may experience a delay of between 12 months and 18 months. Under the original proposals, approximately 800 women born between 6 March 1954 and 5 April 1954 would have experienced a delay of two years. However, under the revised proposals, no women will face a delay of over 18 months.

The increase in state pension age will lead to corresponding increases in the minimum qualifying age for state pension credit and the winter fuel payment because they 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 (JSA) and disability living allowance (DLA), will also increase. So, although state pension and other pensioner benefits will not be payable, the full range of working-age benefits will be available for those who cannot work or are in financial need. For those with less than full entitlement to state pension, the amount payable by way of working-age benefits could be higher than the amount payable in state pension.

The Bill abolishes payable uprated contracted-out deduction increments, commonly known as PUCODIs. Those are currently paid where a person postponed taking their occupational pension and earned increments on their guaranteed minimum pension. Occupational pension schemes are required to uprate guaranteed minimum pension increments only for periods after 1988 and up to a 3% maximum. Those payable uprated contracted-out deduction increments are intended to make up the difference. However, the average payment is less than £1·27 a week, and the numbers entitled to them are very small. Payable uprated contracted-out deduction increments do not apply to service after April 1997. That is a simplification measure and any award already in payment will be unaffected.

The Pensions (No. 2) Act (Northern Ireland) 2008 provides for various additional pensions — graduated retirement benefit, state earnings related pension and state second pension — to be consolidated into a single amount. Originally, that was to take effect from April 2020, and Part 1 of this Bill allows that to take effect from a date set by order made by the Department.

That is our outline of Part 1.

The Chairperson: Anne, you touched on the fact that the abolition of certain additions to the state pension will affect a relatively small number of people and that the average, I think you said, was £1 something a week.

Ms McCleary: Yes, that is for the PUCODIs.

The Chairperson: I am trying to establish the net number of people affected. If those provisions go ahead, are there other transitional measures that could be introduced to deal with that if required or to address the issue of the number of women who will face an 18-month delay before they qualify? How do we offset some of what may be described as disadvantaging elements?

Mr Gerry McCann (Department for Social Development): At the moment, about 3,400 people get those and that is out of a total client base of about 248,000.

The Chairperson: So, at the moment, only 3,400-odd people are getting paid those, and the average they are paid is £1 something a week.

Mr G McCann: Yes.

The Chairperson: That is helpful to know because I am trying to get a sense of the scale.

Mr G McCann: The other point is that those people will not be affected by the change. Any payments that are now being made will carry on. Only anybody new will be affected by the Bill coming into force.

Ms McCleary: It is the new people.

The Chairperson: If new people who would ordinarily have applied but under the new arrangements will not, how will they be disadvantaged?

Mr G McCann: They will not get the £1·27, or it could be much less. At the moment, just a few pence are payable for some cases.

The Chairperson: Forgive my ignorance —

Mr G McCann: We would not know the answer until we would look at each case, but we expect the amount of money involved to be very small.

The Chairperson: I am trying to look at the consequences and whether it affects any passport arrangements or whatever.

Mr G McCann: We would not expect PUCODIs to affect any obvious passported benefits.

The Chairperson: OK.

Mr G McCann: It is purely for people who were in a scheme but did not take their pension at the time that they should. Therefore, they earned extra pension under their scheme.

The Chairperson: OK. That is helpful, because, as I said, I am trying to get a sense of the scale.

Some of the key issues in Part 1 that people have taken exception to thus far are those around equalisation. Most people say that they cannot disagree with the principle of equalisation of the qualifying age for men and women. However, NIPSA has formally put on the table its case for equalising that at the lower age rather than the higher age, which is probably fair enough. Fra further qualified that, in a way, by saying that there should be provision for people to be able to work beyond retirement age, if they so choose.

I am trying to work out how far to widen our discussion. I believe that, when the time comes for members to vote on whether they agree with the equalisation, they may want to seek to amend it to the lower or higher age. They may want to agree to ask that everybody's retirement age is increased to 66 and then older at a later stage. We can debate this until the cows come home, but I suspect that we do not need to debate those particular issues much more, apart from when we formally decide on them.

Mr F McCann: I thought that there was consequence in those provisions for 7,000 women who face losing £60 or £70 a week for two years.

Ms McCleary: That number of women will be affected with the 18-month period. That is all —

Mr F McCann: So there are sizeable consequences.

Ms McCleary: We are talking about different issues. Before, we were talking about PUCODIs —

Mr G McCann: That is the state pension point as opposed to the PUCODI point. We talked about there being no big consequences in relation to the PUCODI point.

The Chairperson: I appreciate that.

Mr G McCann: The change in the state pension has consequences for women, who will lose their right to state pension for a period of months.

The Chairperson: I appreciate the difference. Has any work been done on transitional arrangements? The Government would say that they have moved to reduce the number of women who would be adversely affected, but we still have people — I think that the figure is 7,000 or so — who will face an 18-month delay. Has any further work been done to calculate what it would take to dispense with that delay or to phase it in?

Ms McCleary: In terms of money?

Mr G McCann: Do you mean in terms of money if we were not to go ahead with it until 2018?

The Chairperson: Can any other transitional arrangement be made so that, for example, we phase in equalisation over a longer period for the category of women who currently face an 18-month delay?

Ms McCleary: The Government change of six months, which has had various descriptions applied to it, has a cost of £30 million a year in Northern Ireland attached to it. That is for six months.

The Chairperson: A cost of £30 million.

Ms McCleary: Yes, £30 million.

The Chairperson: So, for example, would it take another £30 million to take those others —

Ms McCleary: At least, one would have thought.

The Chairperson: I am just wondering. I am trying to get a sense of —

Ms McCleary: Yes.

Mr G McCann: We are doing some work on those figures at the moment. We have a ballpark figure, but it has not yet been verified. Therefore, I am a bit loath to give it.

The Chairperson: Sure. I know, for me, if I am going to make a decision —

Mr G McCann: I can give you a figure but tell you that it is not verified. We estimate it to be somewhere around £57 million, but I stress that that has not been verified.

The Chairperson: OK. Is that to address the issue of the 7,000 or more women who —

Mr G McCann: It is what it would cost if we were to put off the changes that are to take place for those women between 2016 and 2018. Apart from the state pension, you have to take into account other benefits that link into state pension, such as state pension credit and winter fuel payments. All of those have to be taken into account.

Mr Durkan: Does it take into consideration benefits that they may receive prior to reaching state pension age but that would be taken away from them?

Mr G McCann: Yes. Again, we would expect those costs to rise but by only about £10 million. Were we to break parity on this point, our problem would be that we would have to find all of the higher figure — the £57·5 million. We would have to pick up all of it because we would not get back any of the other savings.

The Chairperson: I take that point. If it comes to members casting their votes, it is helpful to know what it would cost should we want to address the anomaly for the 7,000-odd women who, it is argued, would be put in a very disadvantageous position. I accept your qualification that the amount has not been verified, but it could cost in the region of £57 million. Is that what you are saying?

Mr G McCann: Yes.

The Chairperson: OK.

Mr F McCann: If we get those figures — I do not mean to be derogatory — can we have them in plain speaking so that we know the breakdown? I know that when you sit down, obviously, you take in a number of considerations. However, sometimes, when you look at it, it is not always what it seems.

Ms McCleary: We will try to make it —

Mr G McCann: How we get the figures is actually based on the figures for Britain. We apply that to how many people we have here with regard to the population make-up. That is how we arrive at the figures. It is a fairly simple calculation. However, it is the best that we can do.

The Chairperson: Mark made the point that those people would already be on benefits. I appreciate your point, Gerry, that, when those benefits are taken away, that money goes into the black hole of the Treasury. It does not come here. Therefore, for all that we know, the figure in real terms could be £5 million, £10 million or £47 million out of that £57 million. We do not get to see that.

Ms McCleary: It cannot be offset.

Mr G McCann: The difference between the two is about £47 million. However, the point is that it does not matter because we would still have to pick up the £57 million.

Mr Durkan: I would like clarification on the figure of £700 million that the Minister used in the Chamber the other day. What was he referring to and where did he get that figure from?

Mr Seamus Cassidy (Department for Social Development): Again, that is based on equivalent figures for Great Britain and the population make-up and number of people in various age bands.

Mr F McCann: There is a big difference between those figures.

Mr G McCann: If we give you the balance of years that that covers, that may explain it for you.

The Chairperson: Again, for the purpose of the conversation, I accept entirely the notional projected figure of £57 million. Let us say that it is £57 million. Is that a one-off cost? If the Assembly was to decide to relieve the anomaly for the 7,000-odd women and it costs us £57 million, would that be it over and done with?

Mr G McCann: As regards the cost for the period of time that we are talking about, that would really last until we bring ourselves into line with Britain; until the point at which people here would end up being paid on the same basis as people in Britain. At that point, there would not be any extra cost to the Northern Ireland block.

The Chairperson: I am asking whether the £57 million that you are talking about would be a one-off cost to the Executive.

Mr G McCann: It would be spread over two and a half years until the end of November 2018.

The Chairperson: Therefore, the £57 million would be spent between now and then but the figure would remain the same.

Mr G McCann: Over the period between 2016 and 2018.

Mr Cassidy: Yes; through 2016 and 2017 until November 2018.

The Chairperson: I am trying to work out what would happen, theoretically, if the Assembly decides that it will address that anomaly — if it decides that there is nothing else it can do, but it will do that one thing. Over a period, it will cost £57 million. I accept that that figure is not verified. I am just trying to work out the consequence of action that the Assembly might consider.

Mr G McCann: The problem for Northern Ireland would be having to find £57 million over a fairly short period. Therefore, the hit is actually quite big.

The Chairperson: Fair enough. It is a big hit in any circumstances.

Mr G McCann: Yes. I mean that it is big because it is within a fairly short period of time as opposed to its being spread out over 10 or 20 years.

The Chairperson: I appreciate that. We are talking about 2018 at the latest.

OK, fair enough. That is one issue. Does anybody else want to raise a specific question?

Mr Douglas: I want to ask a quick question and return to the issue that Fra raised about the hundreds of millions of pounds in relation to parity. I wonder where we stand as regards parity. Anne, I have quoted you a number of times. I hope that I have quoted the right figure. When I asked you about parity a number of weeks ago, I think that you said that it could be as much as £4 billion. Is that right? This man is talking about hundreds of millions of pounds.

Ms McCleary: I remember vividly that particular occasion. The context of that was that I was asked whether a particular variation from parity would cost x amount. However, if there were to be more breaches and that was regarding as Northern Ireland deciding to almost declare UDI on welfare reform, the whole thing could cost £4 billion.

Mr F McCann: This may be an unfair question, but is the regionalisation of different payments that they are talking about not a breach of parity?

Ms McCleary: The coalition Government is not exactly keen on that.

The Chairperson: I was interested when Bumper referred to that earlier. Another party raised that matter.

Ms McCleary: It is not the kind of thing that you jump into without finding out the answer before you ask the question, if you know what I mean. It is the old thing that they always train lawyers to do: never ask a question unless you know the answer.

Mr F McCann: I suppose that when you are in power you can do whatever you want anyway.

Ms McCleary: At the end of the day, if you are going to do that and you are going to go down a regional route, you are opening up a whole can of worms because everything becomes regionalised. There was a discussion earlier about the cost of living. Certain things are more expensive here, and other things are less expensive. It is getting the balance.

Mr F McCann: I suppose that you could say that the implementation of the local housing allowance was also a breach of parity because it worked at different rates in different parts.

The Chairperson: If I remember correctly, in earlier discussions, the talk from the Treasury was that — I am paraphrasing — if you are going to breach parity on anything, take responsibility for all of it. That is where the big global figure comes from.

Ms McCleary: Yes, that is the context of it.

The Chairperson: The question that most people are trying to grapple with is, if we decide in conscience that we will breach parity on one bit, how much is it going to cost us? Can we afford £57 million? Could we have afforded £9 million year on year for making up the cost of accommodation? That has never been tested. The issue that some Members in the Chamber or some of the parties have been grappling with is whether we can, in some way, breach parity to offset what we think are the worst aspects of this programme and how much it will cost us. Can we afford it? That is why we are trying to grapple with the actual figures. The difficulty thus far is that it has been global figures — big figures — and we are being told that we cannot breach that. Why not? Let us test it. I am only throwing out some people's views.

Ms McCleary: You have asked the question specifically about this, and we have given you the figure specifically on that. The global figure is a huge figure, obviously, but it applied particularly to the context that you have explained.

Mr Cassidy: If you consider that sort of angle, you have to think about how it is going to be implemented. You have to decide who is entitled to that lower state pension age here. Is it anyone just arriving in the country now, or is it someone who has been here for x number of years? There are other issues attached to that.

The Chairperson: That point is helpful. That is important.

Mr G McCann: To come back to what was said by Mr McCann, we have been conscious of the whole policy of parity, and one of our concerns has been that, if we do break it, where does it end up under the statement for funding arrangements at the moment. We are fully funded if we keep parity with GB. One of our concerns has always been that, if we end up without parity, the next line from London might be that, if you are going to do that, and the gap in Northern Ireland between rates of benefits and rates of pay is small, you should be paying out less in the way of benefits in Northern Ireland. One of our big concerns is that, if you breach parity, where does it end?

Ms McCleary: It is a can of worms.

Mr G McCann: It could be a dangerous route if they were to put that on us. One of the problems is that they could say that we should be cutting our benefits.

Mr Brady: It is interesting that, when we talk about regionalisation, all we ever hear are the negatives. We never hear any positives. You talk about opening a can of worms, but we do not know because it has never been done. It is interesting when you talk about the issues attached to introducing a retirement age here. Surely, the same applies to the benefits system as it stands. European Union legislation means that someone can come in from the European Union and claim benefits. However, somebody who was born here and who has lived in America for 20 years has to come back and show that they are habitually resident. There are anomalies in the system anyhow.

Mr Cassidy: I am simply trying to point out that once you go down that road there are many other questions.

Mr Brady: Presumably, the same European Union regulations would apply because it is a benefit.

Mr Cassidy: The European Union regulations will not apply between here and the rest of the UK.

Mr Brady: Technically, they do. If people come in from one of the European countries, they can claim benefits. If you come to Britain from Poland, you can claim benefit if you are entitled.

Mr Cassidy: Yes, but let us say, for example, that the retirement age is much higher in Wales or Scotland. I am suggested that there is a possibility that people from there may decide to come to Northern Ireland, pre-retirement, to avail themselves of a lower —

Mr Brady: I take your point, but again, that is something that, presumably, would have to be discussed. I always find the discussion on parity interesting. Years ago, when order books were the norm, people coming from Britain to the North on holiday would come into the advice centre where I worked and say that they had been to the post office but the staff had refused to change their order book. Our order books were printed with the legend NI, GB, IOM and Channel Islands, so if you had a book from here you could change it anywhere. However, British books were not, so when people said, "I thought this was part of Britain", I had to say, "Well, we have been told that it is supposed to be." That was an interesting anomaly in the system. That dichotomy has always been there.

Mr G McCann: Under the existing law, as it works at the moment, anybody in Northern Ireland can claim their pension in Britain based on what they have paid in here and vice versa. Seamus's point is that, if we end up being out of kilter —

Mr Brady: You will be inundated.

Mr G McCann: — because of what happens, would we get people coming here? The other issue that we know about in relation to England, if we were to do this, is that, if the person came here and claimed for a pension and got it but ended up back in England, I expect that we would have to pick up the costs of that as well.

Mr Brady: I understand that.

Mr G McCann: There is an extra cost as well; it works that way too.

Mr Brady: I wonder, Chair, whether Finaghy could accommodate all those people.

The Chairperson: It would end up like Florida without the palm trees.

Nobody else has indicated that they wish to speak. Part 1 is relatively simple; the issues are substantive, but the debate has been simple so far. Anne, Gerry and Seamus, thank you for being here and for your patience this afternoon and for dealing very well with the questions so far. I look forward to seeing you next week.