From the Office of the
Minister for Finance & Personnel

Department of
Finance and
Personnel
www.dfpni.gov.uk

DFP Private Office
Craigantlet Buildings
Stoney Road
Belfast BT4 3SX

Telephone: 028 9016 3371

Email: private.office@dfpni.gov.uk

Your reference:
Our reference: COR/232/2013

Daithi McKay
Chairperson
Committee for Finance and Personnel
Room 419 Parliament Buildings
Stormont
BELFAST
B T4 3XX

17 May 2013

Dear Daithi

Thank you for your letter of 1 May 2013 regarding the DFP Committee's recommendations that DFP proposes to the Executive that the following steps are taken to further inform decisions:

i. that the full scheme triennial actuarial assessments are revived and completed and the findings of these assessments are shared with all relevant parties, including the trade unions;

ii. to take up the offer from the Government's Actuary Department to calculate the estimated savings from the proposed reforms in relation to each of the relevant local schemes; and,

iii. that research is carried out to establish the wider macro-economic impact of the reforms for this region, including the potential reduction in labour market opportunities which may occur if people work longer.

Scheme Valuations

The Public Service Pensions Bill in Northern Ireland will provide for a common framework for valuations of the public service pension schemes. As valuations are complex and highly technical procedures, and it would not be practicable to include the detailed specifications on the face of the Bill, this detail will be contained in published directions. These directions will apply to all of the public service pension schemes created by the Bill. Directions will specify how the data, methodology and assumptions used in a valuation will be set.

The initial level of the employer cost cap will be set with reference to the 2012 scheme valuations, with subsequent valuations being used to measure future costs against this cap. The scheme cost cap mechanism which the Bill will introduce will maintain costs between floor and ceiling limits in a way which takes account of factors such as changing trends in longevity and improved sustainability. The pension reforms are also designed to preclude future contribution increases outside of normal operation of the new cost cap mechanism.

Consideration will be given to the involvement of public service employers, scheme actuaries and trades unions, when considering the approach to valuations to ensure that directions reflect individual scheme circumstances and economic and demographic changes.

Consequently, I do not consider that there is a need to spend further time or resources in conducting the valuations which some schemes have pending or in process. It would be more prudent to concentrate on delivering the valuations required to implement the new schemes from 2015. Indeed, it is for this reason that I wrote to my Ministerial colleagues to advise them of this position. In response, the Education Minister agreed that work should begin to make the necessary legislative changes which would permit the Northern Ireland Teachers' Pension Scheme to move straight to completion of a 2012 valuation. I have not received any further responses from other Ministers with responsibility for a Northern Ireland Public Service Pension Scheme.

Government's Actuary Department (GAD)

We need to be mindful that the rationale for commissioning GAD to undertake this piece of work was solely to demonstrate that there would be **a cost** for any delay beyond April 2015 in implementing the Executive decision taken on 22 March 2012.

As previously explained, the Health and Social Care Scheme in Northern Ireland was chosen by GAD for detailed analysis as it is the biggest public service pension scheme in Northern Ireland. This analysis demonstrated that, if we fail to make the deadline of April 2015, the savings which will be forgone for the Health and Social Care Scheme are estimated to be in the region of £100m per year. Although this is not direct cash saving, it is likely that HM Treasury will seek to use a similar type exercise and recoup this directly from the Northern Ireland Block allocation.

However, in response to your request, GAD has now confirmed that to undertake further similar exercises for the other Northern Ireland public service pension schemes would cost in the region of £20,000 - £30,000. I have therefore instructed my officials to commission GAD to undertake this analysis for each of those schemes. My officials will endeavour to provide this information to the Committee when it becomes available. It should be noted that this further estimate will be done on the assumption that all the schemes in Northern Ireland adhere exactly to the provisions in their counterpart scheme in GB. The Executive decided on 8 March 2012 to implement Pension Reform for the schemes in Northern Ireland in line with their equivalent schemes made under the Westminster Act. However, in the eventuality that a different approach to the overarching policy is adopted a more detailed analysis will be required. This will result in actuarial fees for each scheme potentially exceeding £100,000 and for all six schemes could the total cost could therefore exceed £600,000.

Wider macro-economic impact of the reforms

I stated in the Assembly on 26 November 2012 that the purpose of the Bill is to implement a policy decision taken by the NI Executive. The Executive is cognisant of macro-economic issues associated with its policies, including the financial impacts for Departmental Budgets and public services which will be incurred if its agreed policy for pension reform is not implemented. Spending more on public service pensions will effect a diversion of available funding from other areas. The NI Executive and Assembly will have further opportunity to consider and reflect on the macro-economic costs and social consequences that may be associated with the content and timetable for this Bill when it comes before them in the coming months.

There is no indication that there will be any reduction in labour market opportunities as a direct consequence of the pension reforms. The same number of employment opportunities will exist. However, during any adjustment period some of these may well be filled by people from different ages. It is acknowledged that some of these trends are already evident as our population is getting older and that public service employees can already choose to work longer as a general trend to remove the default retirement age.

Lord Hutton, who chaired the review of public service pension reform, reported that final salary pension arrangements in the public service are unsustainable and recommended their replacement with alternative models which share the cost of pension provision more equitably between public service employees and the tax payer whilst continuing to protect the accrued rights of current employees. Northern Ireland has to date maintained parity with Great Britain in the approach to public service pension provision. Lord Hutton's report recommended that this policy of parity should be maintained and that the key design features of the proposed new schemes should be part of a UK-wide policy framework that extends to each of the Devolved Administrations, including Northern Ireland. His report indicated that final salary schemes restrict labour market mobility, and that, at the macro-economic level, a more flexible labour market should increase efficiency across the economy as a whole.

To undertake a full macro-economic impact analysis would be a huge piece of work which would take a considerable amount of time and cost a substantial amount of money. There is a strong case for reform in line with the Hutton recommendations, as Devolved Administrations, which do not adhere consistently to the policy framework for all their public service schemes, will have to bear the cost of this hit on Block finances allocated from Central Government. Any such reduction in the Northern Ireland Block will have an automatic economic impact on the regional labour market.

I hope this updates you on the position regarding the issues raised in your letter.

Yours sincerely

Sammy

SAMMY WILSON MP MLA