STRONGER TOGETHER
CONGRESS
Irish Congress of Trade Unions
Northern Ireland Committee

NORTHERN IRELAND PUBLIC SERVICE PENSIONS BILL

Response of the TRADE UNION SIDE (TUS)

Comprising the 34 Affiliated Unions of the Northern Ireland Committee – Irish Congress of Trade Unions (NIC-ICTU) and non-affiliated unions

PROPOSED AMENDMENTS/DELETIONS/ADDITIONS AND COMMENTS TO THE NORTHERN IRELAND ASSEMBLY'S PUBLIC SERVICE PENSIONS BILL

&

***Increasing the Retirement Age for Public Sector Workers: Effects on the Wider Labour Market*, a discussion document produced by The Nevin Economic Research Institute.**

August 2013

INTRODUCTION

1. TUS is the acronym used for the purposes of this submission, standing for 'Trade Union Side'. We have chosen this terminology as the trade unions involved in negotiations on Public Sector Pension Reform comprise more unions than are presently affiliated to the Northern Ireland Committee of the Irish Congress of Trade Unions.

2. Congress represents 34 trade unions in Northern Ireland. These unions are engaged in representing over 250,000 workers who are employed in the full range of economic and social activity in our society. Non-affiliated unions which are represented in these negotiations include the Royal College of Nursing and the British Medical Association.

3. This paper is a composite of the submissions on this issue being submitted on this Bill by individual trade unions. We ask that readers of this submission take the time to read each submission, due to their specific expertise in each of the public sector pensions schemes affected by this proposed legislation. This TUS submission aims to offer a flavour of the views being offered by the trade union on behalf of their members presently in these pensions schemes and, it should be noted, all of those joining the schemes in the coming years and even decades.

4. Please also note the second part of this submission, a discussion document produced by the Nevin Economic Research Institute (NERI) entitled ***Increasing the Retirement Age for Public Sector Workers: Effects on the Wider Labour Market.*** This is in response to the kind invitation by the Finance & Personnel Committee for trade union input to a wider macroeconomic analysis of the issues at stake with Public Service Pension Reform. It has been prepared by Paul MacFlynn, the Belfast-based economist with NERI.

5. The evidence of the TUS is therefore presented as two appendices, which ought to be read in the context of our earlier submission to the DFP consultation of August 2013, which can be read here: http://www.niassembly.gov.uk/Documents/Finance/Inquiries/Public%20Service%20Pensions%20Bill/TUS%20Response%20to%20Public%20Service%20Pension%20Reform%20(April%202013).pdf

6. The TUS thanks the Committee for its diligent investigation of this important issue, as we look forward to assisting the Committee on this and other debates.

APPENDIX 1

PROPOSED AMENDMENTS/DELETIONS/ADDITIONS AND COMMENTS TO THE NORTHERN IRELAND ASSEMBLY'S PUBLIC SERVICE PENSIONS BILL

The following sets out proposed changes to the Bill for consideration by the DFP Committee. The NICICTU Trade Union Group is happy to go over the amendments, etc in detail with the Committee. The amendments etc, in the main, are proposed to tie in with the detailed TUS comments on the DFP pre Bill consultation.

The wording used is not designed to be the direct "legislative" wording necessary to make good in the Bill the intent of the TUS. The TUS also reserves the right to bring forward additional proposals throughout the passage of the Bill.

Clause	Comment
1	What is the position in respect of other schemes eg Ulster Sheltered Employment NI Water and the X Border Bodies?
3(3)(b)	The TUS would wish to see this clause amended so to ensure that it cannot provide for any detrimental (Henry VIII) changes.
3(5)	TUS is concerned that this provides DFP with absolute rights of veto. This is especially so for the LGPS/NILGOSC Scheme which historically as a funded scheme requires DOE approval following negotiations with the NILGOSC employers and trade unions.
5(5)(c)/5(7)(b)	This needs amending to provide that the member representatives are appointed from the recognised trade unions for the Scheme via consultation with NIC ICTU. Please see the submission from NASUWT regarding the context of Clauses 5 & 7, and some suggested amendments.
7	A question arises as to the potential for the Pension Board to also fulfil the role of the "Scheme Advisory Board". There is no detail as to the construction of the Scheme Advisory Board, TUS would propose it should be equal numbers of employers and

	employee representatives and that the employee representatives be appointed in line with the proposal at 5(5)(c)/5(7)(b) above.
8(1)	Delete sub-clauses (b) and (c), these must be provision only for a defined benefits scheme.
8(2)(b)	Add after “a deferred benefits scheme” – “of a final salary basis” and delete all else.
8(3)	delete.
8(5)	If not deleted (see 8(2)(b) comment and to read “positive resolution”.
9(2)	In respect of NILGOSC a funded scheme this determination should be for DOE following Consultation with the NILGOS Employers and Trade Unions.
9(3)	This should be amended to provide only for a positive change in prices or earnings.
9(5)(a)	Deletion of second clause "if... and”
9(5)(b)	delete
9 (6)	This raises issues as to the revaluation provisions in the Heads of Agreement for specific schemes eg teachers scheme.
10(1)	delete
10(2)	add “ (c) member of the prison service who is a prison officer”
	Please also note the FBU have submitted additional information regarding an amendment to this clause.
10(3)	delete
10(4)	delete
10(5)(c)	delete
11(2)	How does DFP intend to consult with the Pension Boards, Scheme Advisory Boards and in particular recognised Trade Unions given the importance and potential implications of actuarial valuations. The question also arises to the role of DFP in the LGPS/NILGOSC Scheme, especially on view of the separate scheme actuary.

11(4)	To what weight is the consultation with GAD given vis-à-vis consultation with others, especially when the norm is for DFP to ignore the views of consultees contrary to Lord Woolf's Judgement in R v North and East Devon health Authority and the Assembly's Research Paper NIAR 246- 12, 27/4/12.
11(5)	delete
12(3)	This should not cover the NILGOSC Scheme. The issue also arises of how costs are dealt with that arise as a consequence of the employer/DFP/GAD/HMT actions eg (i) increase in ill-health retirements due to increasing the age of retirement, (ii) HMT earnings growth projections; and/or (iii) Changes to the Discount rate.
12(4)	taking account of 12(3) how will DFP consult stakeholders (see 11(2))
12(5)	amend taking account of 12(3) and 12(4)
12(7)	there is no reference to protections for members.
12(8)	amend taking account of 12(3), 12(4), 12(5), and 12(7).
12(9)	amend to "affirmative resolution".
13(3)	clarity is needed with regard to the NILGOSC Scheme that the Actuary will only be the Scheme's Actuary and not GAD or another DFP and/or DOE appointed Actuary.
13 6 (c)(ii)	For NILGOSC this needs to be clarified so as to refer to the NILGOSC Committee.
14 (2)(b)	DFP should be required to consult with all key stakeholders on the "directions".
15 (3)	As with 14 (2) (b)
18 (4) (a)	There is an issue in respect of the term "closing date" as this could result in the scheme having to make good the deficit.
18 (5) (a)	The date should be amended to 1 April 2015 or later if the new scheme is deferred to post April 2015.
21 (1)	As pensions are deferred pay this should provide for negotiations with TUS. The consultation reference should be "with a view to reaching agreement" and be cognizant of the requirements of consultation.

23 (i)	Delete, there should be no scope for retrospective changes (Henry VIII)
24 (1) (c)	All Schemes would wish to have the privileged position given here to holders of Judicial Office.
25	This may be the appropriate clause to provide for a revised “Fair Deal” provision on the face of the Bill (to include ABS in the NILGOSC Scheme).
26	Delete, to enhance scheme sustainability there should be no scope to bolster private pensions
28 (2) (a)	Delete, there is no justification for a NILGOSC April 2014 implementation date.
30 (3)	There will be a requirement to consult the TUS.

APPENDIX 2

Research for new economic policies

Paul Mac Flynn
Researcher
Paul.macflynn@NERInstitute.net
www.NERinstitute.net

Increasing the Retirement Age for Public Sector Workers: Effects on the Wider Labour Market

Introduction

Raising the retirement age for public servants in Northern Ireland will have unintended economic implications that could ultimately undermine the efficacy of such a policy. Raising the age of retirement has become a popular policy antidote in the last two decades mostly based on the assumption that people are living longer and therefore should be able to work longer. Longer life expectancy and falling birth-rates have also lead many to question whether pensions public or private, could ever be affordable at the current age of retirement. These are serious policy concerns but the effects of changing the make-up of the labour force may have unanticipated consequences.

- Serious labour market displacement in the short term. Labour markets to not adjust immediately and even less so when they are in a distressed state.
- The lump of labour fallacy may not hold. The public sector has unique characteristics which are not present in the private sector.
- Forcing people to work later may increase costs elsewhere. Studies have shown that increasing mandatory retirement ages may lead to significant increases in disability entitlements.

Background

Looking at the economy as a whole, if the government decides to increase the retirement age for all employees several things would happen. It is in its essence a sizable increase in labour supply. In any economy, a labour force has upper and lower age limits. These usually start at 16 or 18 and end at 65, and so for any given population we can estimate the amount of people available to work. Economic inactivity or the labour force participation rate excludes people who chose not to be available for work. What is left is a measurable and predictable labour force which is made up of both employed and unemployed people, the labour supply.

On the other side of the equation there is labour demand, the amount of units of labour or employees required in the economy. It is closely linked to the rate of employment but only closely because in situations of full or near full employment, companies may require workers who quite simply are unavailable, therefore demand exceeds supply. Even in situations of high unemployment labour demand may not be met due to skills mismatch or other frictional labour market factors. However in most situations labour demand is usually met by the constituent labour force. The level of employment can be a determining factor in labour demand, because the spending power of workers ultimately determines business decisions relating to employment and investment. In an open economy both labour supply and labour demand can also be affected by external factors. Increases in demand for exports can push labour demand, and increases in immigration can push up labour supply.

Raising the Retirement Age

A proposal to increase the age of retirement is essentially a proposal to increase labour supply in the economy. An increase in the labour supply does not simply lead to increases in unemployment. Many people worry that increasing the age of retirement will increase youth unemployment, that people who would under normal circumstances retire, now occupy jobs previously available for young people. However this interaction isn’t always borne out. In fact most economists dismiss it as the lump of labour fallacy. It is a fallacy because the number of jobs in an economy is not fixed. As mentioned before labour supply and labour demand interact and are determinants for each other. If Labour supply is increased, labour demand can adjust to meet that new supply. However none of this interaction is immediate. There is a significant lag and while long term effects may be broadly positive, there can be significant frictional difficulties in the short term.

There has been much research investigating the effects of altering the retirement age on youth unemployment. Banks, Blundell, Bozio & Emmerson (2008) and Jousten, Lefèbvre, Perelman & Pestieau (2008) look at the effects of early retirement schemes in the UK and Belgium respectively. They find that reducing the labour supply through early retirement schemes had no effect on reducing youth unemployment, and further they find no correlation between employment among the old and employment amongst the young, both are closely correlated with the business cycle. Gruber, Milligan & Wise (2009) look at a cross-section of countries, using several estimation techniques, they find no evidence that increasing the employment of older persons leads to worse outcomes for youth unemployment.

However, it is worth noting that the above studies represent statistical correlations monitored over long time periods. This will show a period of time that is long enough for the labour market to have adjusted to a new configuration. There are significant short term difficulties that these studies do not pick up. Barrell, Kirby and Orazgani (2011) model the effects of various retirement age scenarios for the UK. They find overall positive effects in the long run, but with serious caveats and short term problems. They find a temporary increase in unemployment in the first years following an increase in the retirement age. While these short term effects may be ameliorated over the medium term the speed at which this happens is determined by how businesses react to the change and make the necessary capital investment to bring about additional employment. This is a significant finding, particularly in the current economic context, where investment throughout the UK is at historically low levels and persistently high unemployment has led to excess labour supply for a number of years. Under normal circumstances we may expect that the labour market could clear within 5 years, but the present economic circumstances could alter this time-frame drastically.

Public Sector

The analysis so far has focused on the effects on the effects of raising the retirement age for all. The lump of labour fallacy argues that the number of jobs in the economy is not fixed and that economic activity can make up the gap in employment. This may be true for the private sector of the economy, but the same cannot be said for the public sector. In the public sector, employment levels are driven by government service provision and not by the business cycle. The number of jobs in the public sector is to a certain extent fixed. If people working in the public sector do not retire at their current age, they will be filling a post that would have naturally become vacant. As is common in the public sector, following internal promotions, an entry level position would arise when a person retires. That entry level position would now not become available. It could be argued that the private sector would be able to fill this gap, but that is too simplistic. People, who join the public sector, usually have skills that are quite specific to the public sector, teachers, nurses, social workers etc. The overall labour market may provide additional employment but there is likely to be a lump of labour that will not be in demand. Martins, Novo & Portugal (2009) examined the case of Portugal where only the female retirement age was increased from 62 to 65 in 1994. They examined firm-level statistics and found a significant employment effect on young female workers. They found that firms hired one fewer female worker for every older female worker that was retained. This is the kind of short-term displacement that cannot be identified by broad labour market indicators.

Productivity

Increasing the retirement age also raises further concerns over the productivity of older workers and the evidence here is mixed. Productivity will depend on many factors including length of service, type of work and personal factors. Populations in most western countries are generally healthier and living longer which this has lead most to conclude that if people live longer, then they can work longer. However, while medical advances may mean that people can survive longer with illness and conditions associated with old age, it is far from certain that we have reached a point where a significantly longer working life is possible. A report by the General Audit Office (GAO, 2010) in the US highlighted many of the health issues surrounding retirement ages. They found that a third of workers in the60-61 cohort reported having a work-limiting health condition and an increase in the rates of disability. The report draws on two previous studies in the US, Li and Maestas (2008) and Duggan, Singleton, and Song (2005), both of which found significant increases in enrolments to disability benefit schemes. The OECD (2002) made similar finding for other countries including the UK where disability becomes a pathway to retirement. What this suggests is those workers being kept in in work after retirement age are significantly more likely to develop a disability and thus require further benefits. This is a point that needs to be taken into consideration discussing the public finance implications of raising the retirement age. It would be careless to assume that every worker will be able to continue working, and there may be a significant rate of attrition into disability schemes which could significantly reduce the financial benefit of this policy.

This discussion note aims to provide some analysis of how changes to the retirement status of public sector workers may have wider economic effect. Firstly the short term effects of increasing the labour supply could be exacerbated by the current distressed state of the labour market. Secondly the lump of labour fallacy may not hold in the case of the public sector whereas it may for the economy as a whole. Finally the efficacy of raising the retirement age could be seriously undermined by an increase in disability amongst older workers who would otherwise have retired.

References

Banks, James, Richard Blundell, Antoine Bozio & Carl Emmerson (2008) Releasing Jobs for the Young? Early Retirement and Youth Unemployment in the United Kingdom Institute for Fiscal Studies Working Paper W10/02

Barrell, Ray , Simon Kirby and Ali Orazgani (2011) The macroeconomic impact from extending working lives Department for Work and Pensions Working Paper No 95

Duggan, Mark, Perry Singleton & Jae Song (2005) Aching to Retire? The Rise in the Full Retirement Age and its Impact on the Disability Rolls NBER Working Paper No. 11811

Government Accountability Office (2010) Social Security Reform: Raising the Retirement Ages Would Have Implications for Older Workers and SSA Disability Rolls Report to the Chairman, Special Committee on Aging, U.S. Senate (Nov 2010)

Gruber , Jonathan, Kevin Milligan & David A. Wise (2009) Social Security Programs and Retirement Around the World: The Relationship to Youth Employment, Introduction and Summary NBER Working Paper No. 14647

Jousten, Alain, Mathieu Lefèbvre, Sergio Perelman & Pierre Pestieau(2008) The Effects of Early Retirement on Youth Unemployment: The Case of Belgium IMF Working Paper No. 08/30

Li, Xiaoyan & Nicole Maestas (2008) Does the Rise in the Full Retirement Age Encourage Disability Benefits Applications? Evidence from the Health and Retirement Study University of Michigan Retirement Research Centre WP 2008-198

Martins, Pedro S., Álvaro A. Novo & Pedro Portugal (2009) Increasing the Legal Retirement Age: The Impact on Wages, Worker Flows and Firm Performance Institute for the Study of Labour Discussion Paper No. 4187 (May 2009)

OECD (2002) “V. Increasing Employment: The role of later retirement: Conclusions” in Economic Outlook (Dec 2002) Issue 72, p150