Northern Ireland Assembly

Research and Information Service Research Note

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Public Sector Pensions Reform:

options for a full macro-economic appraisal

Introduction

This Research Note is prepared for the Committee of Finance and Personnel (CFP) to facilitate its decision on commissioning a full macro-economic appraisal of the Executive's forthcoming legislative reform for public sector pensions in Northern Ireland (NI).

The Note first outlines relevant background information, including key developments involving the United Kingdom (UK) Government, the Executive and the Assembly, which collectively will impact on CFP's decision. Thereafter the Note explains why the Research and Information Service (RaISe) is not in a position to provide such an analysis. But RaISe could facilitate CFP in securing such an analysis; albeit with significant caveats that should inform CFP's ultimate decision on this issue.

1.0 Background

The following sub-sections outline key developments relating to public pensions legislative reform throughout the UK.

1.1 Westminster

1.1.1 Independent Public Service Pension Commission – Terms of Reference, Scope, Recommendations and Outcome

In 2010, the 'Independent Public Service Pension Commission' (hereinafter 'Hutton') was established.

Its ***terms of reference*** were: [1]

> *To conduct a fundamental structural review of public service pension provision and to make recommendations to the Chancellor and Chief Secretary on pension arrangements that are sustainable and affordable in the long term, fair to both the public service workforce and the taxpayer and consistence with the fiscal challenges ahead, while protecting accrued right.*

Furthermore, in reaching its recommendations, Hutton was to consider:[2]

- the growing disparity between public service and private sector pension provision, in the context of the overall reward package, including the impact on labour market mobility between public and private sectors and pensions as a barrier to greater plurality of provision of public services;
- the needs of public service employers in terms of recruitment and retention;
- the need to ensure that future provision is fair across the workforce;
- how risk should be shared between the taxpayer and employee;
- the organisations that should have access to public service schemes; implementation and transitional arrangements for any recommendations; and,
- wider Government policy to encourage adequate saving for retirement and longer working lives.

The above terms did not include analysis of the long-term macro-economic consequences of the recommended reforms in terms of identifying effects on labour market and economic outcomes. Therefore, no detailed analysis was carried out and included in the Hutton Report. However, the Hutton recommendations were framed with the intention of ensuring public sector pensions did not act as a barrier to labour market mobility, which would be harmful to the wider economy. But there is no measure or analysis of this consequence in Hutton.

Hutton's ***scope of coverage*** extended to all the major public service pension schemes across the UK, including: civil servants; armed forces; NHS; teachers; local government employees; police; fire fighters; and, the judiciary.

The Hutton Final Report recognised that a number of public service pensions schemes were the responsibility of devolved governments in the UK, and not Westminster. (Note: the levels of responsibility for public service pension policy vary across UK devolved jurisdictions.[3])

1 http://www.hm-treasury.gov.uk/indreview_johnhutton_pensions_tor.htm
2 Hutton, *Independent Public Service Pensions Commission: Interim Report*, 7 October 2010, 2.14.
3 For Scotland, public service pension policy for the vast majority of schemes is revised to Westminster. The exception to this is responsibility for the pensions to some non-departmental public bodies (NDPBs).
For Wales, devolved government has power in relation to pension schemes for Assembly Members, Welsh Ministers and Members of local authorities. In addition, it has power to make regulations for fire fighters' pensions in Wales.
For Northern Ireland, the Assembly has power for a number of public service pension schemes: Northern Ireland Teachers' Pension Scheme; Local Government Pension Scheme (Northern Ireland); Principal Civil Service Pension Scheme (Northern Ireland); Health and Social Care Pension Scheme (Northern Ireland); Fire fighters' Pension Scheme (Northern Ireland); and,

Despite this, schemes across the UK have essentially remained the same as those established by Westminster. Hutton ***recommended*** that its proposed new schemes should be "part of a UK-wide policy framework that extends to Scotland, Wales and Northern Ireland, with limited adaption of other features to meet local circumstances".[4]

Shortly after its conclusion in March 2011, the UK Government announced the ***outcome of Hutton*** – i.e. an increase in member's contribution rates by 3.2% on average by 2014-15. This is expected to deliver additional member contributions of £2.8 billion by 2015. The total increase is to be phased in across three years, with the first 40% of the increase introduced in 2012/13.

1.1.2 The Public Services Pensions Act 2013

On 25 April 2013, the *Public Services Pensions Act* (the *2013* Act) was enacted by the UK Houses Parliament. The main elements of the *2013 Act* are:[5]

- Enable the creation of new public service schemes based upon Career Average Revalued Earnings (CARE);
- Link the Normal Pension Age (NPA) to the SPA except in schemes for uniformed services which would have a NPA of 60, subject to regular review;
- Provide transitional protection for those closest to retirement – people within 10 years of their NPA on 1 April 2012 would remain in existing schemes. The specific details of these arrangements for each scheme would be set out in scheme regulations;
- Introduce an "employer cost cap" – a mechanism to manage changes in scheme costs should they breach a limit;
- Introduce new requirements for management, regulation and administration of schemes;
- Introduce new common procedures for changing scheme rules in future, with enhanced requirements for certain changes made within 25 years of 2015, and for retrospective changes expected to have significant adverse effects for members;
- Extend access to public schemes to allow public service workers whose employment is transferred to new employers to retain membership of public service scheme;
- Add the new schemes to the list covered by the *Pensions Increase Act 1971,* so that same arrangements in respect of increasing pensions in the old schemes apply to new schemes (i.e. increases in line with CPI); and,
- End existing pension arrangements for future holders of Great Officers of State.

From research undertaken to date by RaISe, it appears that a full macro-economic appraisal was not undertaken on the Public Services Pensions Bill.

Police Service of Northern Ireland Pension Scheme. But responsibility for pensions for the armed forces and senior judiciary is reserved to Westminster.

House of Commons Library, Standard Note SN6545, 12 February 2013, pg 11.

4 IPSPC: Final Report, 3 March 2011.

5 House of Commons Library, Research Paper 12/72, Public Service Pensions Bill, 29 November 2012, pg 5.

1.2 The Executive

When the Executive agreed not to lay a Legislative Consent Motion for the above Bill, it appears that the Executive – in March 2012 - agreed in principle with the UK Government that it would follow parity when introducing similar legislation in the Assembly; specifically for the schemes for which it has responsibility. In a written briefing to CFP dated 4 January 2013, the Department of Finance and Personnel (DFP) explained this commitment as follows:[6]

- To commit to the policy for a new career average revalued scheme model with pension age linked to State Pension Age to be adopted for general use in the public service schemes; and,
- To adopt this approach consistently for each of the different public sector pension schemes, in line with their equivalent scheme in Great Britain, and not to adopt different approaches for NI.

In relation to estimated costings of this legislative reform, DFP commissioned an estimate of the savings foregone should the reforms not be implemented for the Health and Social Care Scheme by the Government Actuarial Department (GAD). This analysis estimated the annual cost of savings foregone would be £100 million – around 7% of the pensionable pay bill. When DFP extrapolated this 7% across the other public service pension schemes affected, the total cost of savings foregone was estimated by DFP to be £262 million.[7]

Further to CFP requests for additional estimated costings analysis of the forthcoming legislative reform, in May 2013 DFP commissioned further GAD analysis, which is to be available to CFP on 21 June 2013. In specific terms:[8]

> *… the Department has now commissioned the Government Actuary's Department (GAD) to provide scheme-specific calculations for the four other unfunded pension schemes — teachers, police, fire fighters and civil servants. The cost of that further work by GAD is likely to be in the region of £20,000 to £30,000. That information should be available and will be provided to the Committee in early June. It should be noted, however, that those estimated costs are based on schemes agreeing to adopt scheme designs that are equivalent to the GB ones. If schemes here choose a different scheme design, the fee for doing more detailed work could exceed £100,000.*

Finally, from research undertaken to date by RaISe, it appears that there has been no full macro-economic appraisal undertaken on the anticipated Public Services Pensions Bill (the Bill), which is to be introduced into the Assembly in June 2013; neither by the Executive or other.

1.3 The Assembly

The Assembly is expected to enact and implement:[9]

- similar primary legislation for NI by April 2014; and,
- related subordinate legislation for NI by April 2015.

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6 DFP letter to CFP dated 4 January 2013.
7 Statement to the Assembly by Sammy Wilson MP MLA, Minister for Finance and Personnel, 26 November 2012.
8 http://www.niassembly.gov.uk/Documents/Official-Reports/Finance_Personnel/2012-2013/130522_PublicServicePensionsBill_WayForward.pdf
9 DFP letter to CFP dated 4 January 2013.

This will be progressed as follows:

- 17 June 2013 – DFP is anticipated to introduce the Bill in the Assembly;
- 28 June 2013 - The Bill is to progress to second stage; and,
- 29 June – The Bill is to progress to committee stage; and CFP has indicated to DFP that it would seek to consider the Bill with relevant timeframes in mind.

2.0 Role of RaISe

This section first sets out the reasons why RaISe is not in a position to provide a full macro-economic appraisal; followed by an explanation of what RaISe could do to facilitate the formulation of other options.

2.1 No in-house or procured analysis

At present, RaISe does not have the resources to undertake such an in-house analysis of the Public Service Pensions legislative proposals, given the scale of the data collection and analysis required, within the apparent time frame in which such an analysis is needed. In part, this lack of resources arises from the Assembly's current Recruitment, Vacancy Management and Redeployment policies.

Moreover, RaISe cannot 'contract out' analyses such as this, as its current budget has insufficient funds for this research.

2.2 Facilitating the formulation of other options

Generally speaking, the analysis required involves the use of statistical models to manage financial uncertainty. For the purpose of designing an optimal policy or legislative proposals, statistical analysis is undertaken of relevant data to test its underlying assumptions, and thereby make educated predictions about its implications.

To facilitate the formulation of other options, RaISe could assist CFP in securing someone to undertake a full macro-economic appraisal – either: appoint a Specialist Advisor (paid £200 per day, excluding VAT); or, select an Expert Witness (unpaid). This individual would provide advice and expertise to CFP, including researching, compiling and presenting to CFP a written macro-economic appraisal, in accordance with the CFP-approved terms of reference (ToR). This appraisal would inform CFP's report on the forthcoming Bill.

For the Specialist Advisor/the Expert Witness, RaISe would compile a short list of suitably qualified candidates, ensuring to check that the individuals listed would not have a conflict of interest with the proposed work. This shortlist would be based on: CFP's agreed ToR for the piece of work (including a list of tasks that are to be completed, estimated delivery timetable and the individual's time commitment – up to a maximum number of days); and, CFP's agreed person specification. (RaISe could contribute – as appropriate - to the draft ToR and the person specification.)

When considering the viability of the above, the following caveats should be factored into CFP's decision:

- The potential costs for CFP to commission such an analysis would presumably be high, given the nature of the work involved. Presently it is difficult to estimate these costs due to the absence of key determinative information, e.g. ToR and related delivery timetable.

- The timescale would probably make procurement a challenging option, if the appraisal is to inform CFP's report on the Bill. 17 June 2013 is the anticipated introduction date of this Bill. It is now the middle of June. Procurement exercises from start to securing an individual/organisation could take about 6-12 weeks, depending on complexity and difficulties that may arise in the process. Then time needs to be factored in to collect the large amount of data relating to existing schemes, first locating and identifying it, and then undertaking and compiling an analysis, followed by delivering a report on the analysis.

- There potentially would be issues about data collection, including: (i) specifically what data would need to be accessed; (ii) where it is located; and, (iii) what questions would need to be asked and answered for analysis purposes. Gathering data for this type of analysis would probably raise challenges, given the scope and scale of the data concerned.

- The likelihood of securing an Expert Witness would presumably be low given the nature of the work involved, and the unpaid status of such an individual.