

PUBLIC SERVICE PENSIONS BILL 2013

From: CHRISTINE PAULEY

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Summary

Business Area : Corporate HR

Issue: Proposed Public Service Pensions Bill 2013

Restrictions: None

Action Required: To note

BACKGROUND

1. The Committee has requested that Corporate HR officials attend the meeting on 9 January 2013 to provide information on a proposed Public Service Pensions Bill. The Committee has not been briefed by officials before on this issue. However a written update was provided on 25 September 2012 (Ref: MISC76/11-15) to inform the Committee of the background to the Coalition Government's programme for public service pension reform and the core provisions of the Public Service Pensions Bill introduced at Westminster on 13 September 2012. That paper also provided an assessment of the legislative options for implementation of public service pension reform in Northern Ireland and the proposal by the Minister of Finance and Personnel to seek Executive approval for a legislative consent motion in the Assembly to extend the Bill to the devolved Northern Ireland schemes.
2. On 13 December 2012 the Department informed the Committee that the Executive had declined to agree to the proposed legislative consent motion at its meeting on 22 November 2012 and that the Minister now intends to introduce an Assembly Bill to give effect to pension reform in Northern Ireland.

PUBLIC SERVICE PENSION REFORM - POLICY

3. The proposed Bill will give legislative effect to the Executive's decision of 8 March 2012 to introduce major changes to public service pension schemes. In particular the Executive agreed to:
 - I. Commit to the policy for a new career average revalued earnings (CARE) scheme model with pension age linked to State Pension Age to be adopted for general use in the public service schemes; and

- II. 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 Northern Ireland.
4. The agreed policy is formulated on recommendations made by the Independent Public Service Pensions Commission for reform of public service pension schemes as part of its fundamental structural review of public service pension provision. The Commission reported that the public service pension structure in the United Kingdom has not responded flexibly to rising pensions costs and increases in longevity in the past few decades and it is not tenable in the long-term.

Career Average Revalued Earnings (CARE) Schemes

5. The Commission's final report stated that final salary schemes did not provide the "right design for future public service schemes" and that final salary schemes:

"unfairly benefit high flyers who can receive up to twice as much in pension payments per £100 of contributions. It exposes taxpayers to salary risk (the risk that higher than expected salary rises increase the cost of providing pensions), which should be borne by the scheme member who benefits from the salary rise. And final salary creates a barrier to employees moving from the public to private sector. These inherent problems of final salary schemes impact on fairness and sustainability and have led the Commission to conclude that an alternative model should be chosen for the future".¹

6. The Commission's report concluded that CARE schemes can provide more equitable outcomes for lower and moderate earners, are fairer for the taxpayer and less costly for future employers to provide.
7. The report recommended that pension rights already accrued in the unreformed schemes up until the date of commencement of the new arrangements should be protected.

Scheme Pension Age linked to State Pension Age

8. The Commission's final report also recommended, that for future accruals in the new CARE pension schemes, the normal scheme pension age for most public service employments (but not those for the uniformed services) should be linked to the State Pension age and that the link between the State Pension Age and Normal Pension Age should be regularly reviewed, to make sure it is still appropriate. The reference to the uniformed service related specifically to the Armed Forces, the Police and Firefighters. It was not just those in a uniform (such as Prison Officers, Immigration Officers etc, who are not excepted from the link to state pension age), nor those with a potentially physically demanding role (such as paramedics). The Commission concluded that:

"The introduction of the link to the State Pension Age, which will initially move Normal Pension Ages to 65, will move the proportion of adult life in retirement for public service pension scheme members back to about a third: roughly where it

¹ The recommendations of the Independent Public Service Pensions Commission are contained in its final report which was published on 10 March 2011. www.hm-treasury.gov.uk/indreview_johnhutton_pensions.htm

was in the 1980s. The current State Pension Age of 65 is already the Normal Pension Age for most new entrants to public service pension schemes. Moving to this for future accrual will more fairly distribute the benefits between scheme members. In the long term, the timetabled increases in State Pension Age should help to keep the proportion of adult life in retirement for members around this level, on current life expectancy projections".²

Westminster Public Service Pensions Bill

9. A Public Service Pensions Bill was introduced in the House of Commons on 13 September 2012. The Westminster Bill's progress has been swift to date, having already completed committee stage and 3rd reading in the House of Commons, the Bill entered the House of Lords on 5 December 2012 and received its 2nd reading in that House on 19 December 2012. The Bill is expected to achieve Royal Assent in **May 2013**.
10. The Westminster Bill will provide the core legislative framework to enable each of the public service pension schemes which fall within its remit to introduce secondary legislation to amend their schemes in line with the Coalition Government's objectives for reform based on the recommendations of the Independent Public Service Pensions Commission.
11. The reforms in the Bill will apply for pension schemes made for the following classes of public service employees:
 - civil servants;
 - the judiciary;
 - local government workers health service workers;
 - teachers;
 - fire and rescue workers members of police forces; and
 - members of the armed forces.
12. The Westminster Bill contains provisions which require the majority of the public service schemes within its scope to implement these reforms by 1 April 2015 (The relevant date for Local Government Pension Schemes is 1 April 2014). HM Treasury has confirmed that the policy intent is for the provisions of the Westminster Bill to apply to all public sector schemes, including bespoke schemes which make pension provision for employees of public bodies not captured by the main schemes, although in some cases this may be to a longer timescale.

Scope of the Proposed Assembly Bill

13. The main devolved public service schemes and their responsible Departments which will fall within the remit of the proposed Bill are detailed in the table below:

² Independent Public Service Pensions Commission Final Report - 10 March 2011

Pension Scheme	Minister	Department
Northern Ireland Teachers' Pension Scheme	John O'Dowd MLA	Department of Education
Local Government Pension Scheme (Northern Ireland)	Alex Attwood MLA	Department of the Environment
Principal Civil Service Pension Scheme (Northern Ireland)	Sammy Wilson MP MLA	Department of Finance and Personnel
Health and Social Care Pension Scheme Firefighters Pension Scheme (Northern Ireland)	Edwin Poots MLA	Department of Health, Social Services and Public Safety
Police Service of Northern Ireland Pension Scheme	David Ford MLA	Department of Justice

14. In Northern Ireland, superannuation arrangements for armed forces and senior judicial appointments remain reserved. The policy intent of the proposed Northern Ireland Public Service Pensions Bill is for the provisions of the Bill to apply across all devolved public sector employments in Northern Ireland. In addition to the schemes listed above, the provisions of the proposed Bill will apply for devolved judicial appointments administered by the Department of Justice. In other public bodies where bespoke pension schemes exist to make pension provision which is not captured by the main Northern Ireland public service pension schemes, for example, the North/South Pension Scheme, these will also be within the remit of the Assembly Bill.

Core provisions of the proposed Bill

15. The core provisions of the proposed Bill, based on the recommendations of the Independent Public Service Pensions Commission, will implement the policy agreed by the Executive on 8 March and are in line with reforms being carried in the Westminster Bill.

16. The core provisions are:

- a move to a Career Average Revaluated Earnings (CARE) scheme model of pension saving;
- a direct link to equalise schemes' Normal Pension Ages with the State Pension Age (except for the police and fire and rescue services);
- a Normal Pension Age of 60 (subject to regular review) for the police and fire and rescue services;

- transitional protection measures for scheme members who are within 10 years of their existing Normal Pension Age on 1 April 2012; these groups would remain in the existing schemes (except for the local government scheme, where transitional protection is to be provided by means of an underpin). Those within a further 3-4 years of normal pension age would have an option for a delayed transition to the new scheme;
- a final salary link for any final salary pension accrued prior to the date at which the new schemes will commence;
- a scheme cost cap with a default mechanism to maintain employer scheme costs within set cost floor and ceiling limits;
- extension of scheme access arrangements to allow public service workers whose employment is compulsorily transferred to a new employer to retain membership of a public service scheme; and
- revised measures for the management, regulation and administration of schemes.

Timescales for Bill

17. The projected timescale for Royal Assent being secured for the Bill has been provisionally set for **April 2014**. This timescale presupposes a date for the Bill's introduction in the Assembly in **June 2013**.
18. Following enactment, secondary legislation will be required to amend the rules of each devolved public service pension scheme to give effect to the reform measures carried in the Bill. This work will be taken forward by each of the Ministerial Departments which have individual responsibility for pension schemes (as outlined in the table above). It is estimated that this process may take up to 10 months to complete. Current estimates are that the requisite secondary legislation and revisions to schemes' administrative processes will be in place by **February 2015**.
19. These projected timescales remain within the range of the deadlines contained in the equivalent Westminster Bill which require delivery of reform in the main public service schemes by 1 April 2015. The Chief Secretary to the Treasury has confirmed to the Minister of Finance and Personnel the Treasury expectation that public service schemes in devolved administrations should comply with these deadlines. (The relevant date for Local Government Pension Schemes is 1 April 2014 and the Minister with responsibility for the Local government Pension Scheme in Northern Ireland has already indicated his intention to introduce a revised scheme in line with that date).
20. A copy of the estimated timetable for completion of both primary and secondary legislative processes is attached at the **Annex** to this paper for the Committee's information. The timetable remains extremely tight and ambitious. It does not allow for any slippage and assumes that decisions are taken at the earliest opportunity to allow the legislative process to progress. The timetable provides for consultation on the policy content of the Bill being launched in January 2013 – which is in advance of the expected date for proposals in the Westminster Bill being finalised.

21. Members will wish to note that in a statement to the Assembly on 26 November 2012 the Minister of Finance and Personnel indicated an estimated date for Royal Assent for the Assembly Bill occurring in January 2015. The Minister also gave an undertaking to take steps to advance the legislative process wherever possible. The revised timetable is a consequence of progress made in this area, including the prioritisation of the Bill in the Office of Legislation Counsel's programme for DFP legislation. Executive Ministers have been informed of revised timescales.

Financial Implications

22. The Minister of Finance and Personnel provided details to the Assembly on 26 November 2012 on potential costs associated with failing to meet the HM Treasury deadline stipulated in the Westminster Bill for introduction of pension reform by April 2015.

23. The estimated total savings which could be forgone from the main Northern Ireland public service schemes on an annual basis from a failure to implement the reforms has been estimated as in excess of £260m. Estimates specific to the individual schemes are³:

SCHEME	COST
Health and Social Care	£100m
Northern Ireland Teachers	£62m
Principal Civil Service Northern Ireland	£60m
Northern Ireland Fire and Rescue Service	£23m
Police Service of Northern Ireland	£18m

24. On 3 December 2012 the Chief Secretary to the Treasury confirmed in writing to the Minister that a failure or delay in passing the necessary legislation to implement the pensions reforms in line with the deadlines contained in the Westminster Bill will result in a proportionate reduction in the Northern Ireland block grant.

25. In line with the revised legislative timetable the current expectation is that, with Assembly support for the speedy passage of the Bill and its conclusion by April 2014, each of the devolved Northern Ireland public service schemes will be in a position to implement reform to the timescales set out in the Westminster Bill. The Minister has advised that accountable Ministers who subsequently fail to deliver the required amendments to their schemes will have to shoulder any additional financial pressures.

³ Estimates are based on a calculation method provided by the Government Actuary's Department and based on a formula which presupposes a potential saving attributable to pension reform of 7% of annual pensionable payroll.

Consultation

26. Following the establishment of the Independent Public Service Pension Commission the Department of Finance and Personnel hosted a visit to Northern Ireland by the Commission in September 2010 and facilitated bilateral meetings between representatives from Northern Ireland public service pension schemes, employers and trade unions and the Commission on issues central to the reform of public service pensions which will be carried in the proposed Bill.
27. The Department of Finance and Personnel has provided initial briefings on the provisions of the proposed Bill at meetings of the Pensions Forum and with members of the Northern Ireland Public Sector Pensions Group (NIPSPG) who have in turn shared these updates with their relevant trade unions. Nationally, the Coalition Government has consulted centrally with the major trade unions including the National Trade Union Committee (NTUC) comprised of the seven nationally recognised trade unions in the civil service (PCS, POA, Prospect, FDA, NIPSA, Unite and GMB) on plans for pensions reform.
28. The proposed Bill has cross-cutting effect and the Department of Finance and Personnel is taking the lead role in the establishment of a central forum for the purpose of facilitating collective consultation between representatives of each scheme impacted by the Bill and a collective trade union grouping (such as NIC-ICTU), for the purpose of policy consultation on the Bill.
29. It is proposed that public consultation on the policy content of the proposed Bill will commence in January 2013.

Human Rights and Equality

30. The Department will conduct an equality screening exercise to determine any potential impact on Section 75 groups and any subsequent equality impact assessments required.

Summary and Next Steps

31. Civil Service Pensions within the Corporate HR Directorate will co-ordinate work on the Bill and will be the single point of contact for Ministerial Departments which have responsibility for schemes on all issues connected with the drafting of the Bill.
32. Officials will continue to keep the Committee updated on developments on this matter including the timetable for the proposed Bill. Officials are available to provide further information and clarification to the Committee as required.

Timetable for Public Service Pensions Bill in the Assembly

Executive Stages

Submission to Minister with Draft Executive paper on policy and legislative route.	Executive meeting for clearance of policy and the legislative route	Delivery of Final instructions to OLC and Drafting Period	Bill to Executive and Approval to Introduce	Bill to Speaker for Clearance and Introduction	Pre-Introduction Briefing for Departmental Committee
<p>Submission sent on 26 August 11</p> <p>Executive Paper issued on 16 September 2011</p> <p>Sixth Draft issued on 5 March 2012</p> <p>Executive Paper issued</p>	<p>Executive agreement on 8 March 2012 to Policy Recommendation in E (12) 42 to maintain parity with changes to equivalent Schemes in Great Britain.</p> <p>i. to commit to the policy for a new career average revalued earnings (CARE) scheme model with pension age linked to State Pension Age to be adopted for general use in the public service schemes; and</p> <p>ii. to adopt this approach consistently for each of the</p>	<p>GB Bill announced in Queens Speech 9 May 2012.</p> <p>Public Service Pensions Bill introduced at Westminster on 13 September 2012</p> <p>Royal Assent for GB Bill expected May 2013</p> <p>OLC intend to provide 1st Draft NI PSP Bill end Jan 2013 based on latest version of</p>	<p>13 June 2013 meeting or by Urgent Procedure</p>	<p>13 June 2013</p>	<p>First submission sent 22 September 2012.</p> <p>Further written submission required and evidence session now scheduled for 9 Jan 2013</p> <p>Formal session 24 June 2013</p>

Submission to Minister with Draft Executive paper on policy and legislative route.	Executive meeting for clearance of policy and the legislative route	Delivery of Final instructions to OLC and Drafting Period	Bill to Executive and Approval to Introduce	Bill to Speaker for Clearance and Introduction	Pre-Introduction Briefing for Departmental Committee
<p>on 02 April 2012.</p> <p>Fifth Draft issued on 20 November 2012</p> <p>Final paper issued 22 November 2012</p> <p>Submission sent 23 November 2012</p>	<p>different public sector pension schemes in line with their equivalent scheme in Great Britain and not to adopt different approaches for Northern Ireland.</p> <p>Executive decision on 22 November 2012 Number E(12) /176 not to use a LCM. A Northern Ireland Public Service Pensions Bill to be introduced to the Assembly.</p>	<p>draft Westminster Bill.</p> <p>Final Instructions to OLC for NI Bill expected March 2013, dependant on passage of Westminster Bill and informed by outcome of consultation.</p> <p>Final Draft NI Bill expected May 2013.</p>			

Assembly Stages

1st Stage	2nd Stage	Committee Stage	Consideration	Further Consideration	Final	Royal Assent
24 June 2013 (before Summer Recess)	2 July 2013	3 July – end Nov 2013.	14 Jan 2014	Jan 2014	Feb 2014	April 2014

Secondary Legislation following Public Service Pensions Bill in the Assembly

Public Sector schemes in Northern Ireland will have individual responsibility to introduce amendments to scheme rules in line with provisions introduced for the equivalent schemes in Great Britain.

Timetable for secondary legislation for Public Service Pension Schemes in NI (including (PCSPS (NI))

Expected Royal Assent for NI Public Service Pensions Bill	April 2014
Drafting secondary legislation	Feb 2014 (after Final Stage of Bill)
Consultation with TUS and on EQIA (if necessary) on draft amendments/regulations. Also briefing to Departmental Committee	March - May 2014
Analysis of Consultation Ministers agreement to go to Committee	May/June 2014 Sept 2014
Consultation and briefing with Departmental Committee on the report of the outcome of consultation	Oct – Dec 2014
Laying amendments/regulations (21 day rule where applicable)	February 2015