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Mr Shane McAteer
Clerk
Committee for Finance and Personnel
Room 419
Parliament Buildings
Stormont

Our Ref: CFP272/11-15

21 October 2013

Dear Shane,

At its meeting on 2 October 2013, the Committee agreed to seek from the Department information on what research has been done or can be done to provide a cost-benefit analysis specifically on the implications of Northern Ireland not aligning the Normal Pension Age with the State Pension Age as proposed in the Bill.

The Department has commissioned two major actuarial analyses from the Government Actuary's Department concerning the impacts of not implementing the required pension reforms contained in the Bill in their entirety. Details of this work have been presented to the Committee. The purpose of this work has been to provide an estimate of the cost of any delay or failure in introducing the required reforms in order to illustrate the potential scale of the financial penalty which HM Treasury has confirmed it will apply if the policy is delayed or not implemented.

Additional work to provide a separate cost-benefit analysis on the specific implications not aligning the Normal Pension Age with the State Pension Age as proposed in the Bill has not been commissioned by the Department for the following reasons:

I. The NI Executive had already considered and agreed (on 8 March 2012) the policy that new public service pension schemes will have pension age linked to state pension age and that the policy should be applied consistently in line with changes for the equivalent schemes in Great Britain. The Westminster Public Service Pensions Act 2013 has already set the general pension age for these equivalent schemes at state pension age;

II. At its meeting of 26 June 2013 the Committee considered options for further work to assess the macro-economic implications of the Bill including an option to request the Department to undertake further cost analyses of the reforms, including the linking of scheme and state pension ages. The Committee declined to pursue this option but left the way open for Trade Union side to provide further evidence in this area. In response Trade Union Side provided a discussion paper by the Nevin Economic Research Institute: 'Increasing the Retirement Age for Public Sector Workers: Effects on the Wider Labour Market' as part of its written submission to the Committee on 30 August. On 30 September 2013 the Department provided a written response to the Committee which has addressed each of the issues raised in the paper provided by Trade Union Side;

III. The agreed policy to link scheme and state pension age is based on the recommendation of the Public Service Pensions Commission to manage longevity risks for the taxpayer and to facilitate trends for increasing life expectancy and options for deferral of retirement. It reflects progressive policy contained in existing Government legislation for State Pension Age for the population in general. It also reflects the general convention of inter-operability whereby the benefit and contribution provisions for scheme pensions age between public service pension arrangements in Northern Ireland Health and Great Britain are almost identical. The Department's view is that any divergence from the general policy on scheme pension age from the equivalent schemes in Great Britain is unnecessary, would be contrary to the Executive's agreement on pension reform on 8 March 2012, and would have inevitable financial implications against the Northern Ireland funding made available from HM Treasury.

In summary the cost of the work commissioned from the Government Actuary's Department to date already represents a significant expense which is in excess of £37,000. Additional work in this area would cost in the region of £10,000 to £15,000 plus VAT and will take 3 to 4 weeks to complete.

This costing would provide an approximate estimate of the long term annual cost of not aligning Normal Pension Age with State Pension Age by building on the work GAD previously carried out for the Department on the potential cost of delaying the implementation of the reformed schemes. The estimated cost would be based on the same methodology and assumptions, and subject to the same limitations.

The exercise would consider only the civil service, teachers and health schemes in Northern Ireland as the Normal pension age for police and firefighter schemes will not be linked to State Pension Age under the Bill. Also, the exercise would address the 'costs' of not aligning Normal Pension Age with State Pension Age, but would not address the 'benefits' of such a policy.

A more detailed analysis, for instance looking at how costs may evolve from 2015 to the long term, would cost considerably more and take considerably longer to issue.

For the reasons outlined above the Department's view is that a further actuarial analysis aimed at specifically quantifying the implications of Northern Ireland not aligning the scheme pension age with the State Pension Age under the Bill would involve nugatory work and expense particularly when the purpose of the cost analysis exercise was originally to point out the substantive cost to the NI block which has been clearly indentified.

I would be grateful if you can bring this update to the attention of the Committee.

Yours sincerely,

Judith Finlay

JUDITH FINLAY
Departmental Assembly Liaison Officer