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

Our Ref – CPF244/11-15

7 June 2013

Dear Shane,

Public Service Pensions Bill – Response to Consultation

Following the evidence session on 22 May 2013, during which Officials provided an update on the response to the Consultation on the Public Service Pensions Bill, a number of specific issues were identified as requiring follow up action.

These issues are as follows:

- electronic links to recent publications quoted during the session;
- illustrative examples of how the shift to CARE will be applied in different cases;
- clarification on what a full macro-economic analysis would entail;
- detail on the extent to which Lord Hutton's work examined the NI circumstances;
- clarification on whether the proposed directions In respect of scheme valuations will be subject to Assembly procedure/control; and,
- Work done to ensure the Local Government Pension Scheme (LGPS) fund is adequate.

ELECTRONIC LINKS

Links to the publications referred to by Corporate HR officials at the Evidence Session on 22 May 2013 are attached below:

- Work Longer, Live Healthier by the Institute of Economic Affairs

http://www.iea.org.uk/sites/default/files/publications/files/Work%20Longer,%20Live_Healthier.pdf

- A Pensions Policy Institute Briefing Paper on the impact of the Coalition Government's public service pension reforms.

https://www.pensionspolicyinstitute.org.uk/uploadeddocuments/20130517_PPI_BP3_-_Implications_of_Coalition_Gov_Reforms_to_PSP.pdf

ILLUSTRATIVE EXAMPLES

Examples of pension payable on retirement for NICS staff before and after introduction of proposed new scheme are attached at **Annex A.**

MACRO-ECONOMIC ANALYSIS

In order to conduct a macro-economic analysis the follow steps would be required. A detailed Terms of Reference (ToR) would need to be developed for a technical Review such as this which set the specific objectives that it would need to address. Consideration would then need to be given to how this Review would be delivered and the resources that would be required to address each of the objectives in the ToR. Given the technical nature of the significant pension costing and macro-economic modelling elements of this work, it is envisaged that substantial specialist external consultancy support would be needed. A public procurement exercise would need to be undertaken to source this external consultancy support.

In terms of the macro-economic modelling, a large data collection exercise would need to be undertaken as a first stage. This would include collation of data for all public sector workers who are members of a pension scheme, their demographic profile, occupational grouping, and retirement patterns etc. A bespoke macro-economic model would need to be developed that incorporated this information as well as a full range of other economic variables. This would need to be constructed in a way which enabled it to model the linkages and influences of these factors on broader labour market and economic outcomes. This would be a very technical exercise requiring significant external specialist economic resource.

The model would then need to be used to project and separately identify the impact of pension reform on labour market and economic outcomes. This would be heavily dependent on a wide range of economic and behavioural assumptions. A number of differing scenarios, based on various assumption sets would need to be run. These scenarios might include various combination of where: pension reform is / is not implemented; differing assumptions around economy recovery & growth; differing in/out migration patterns; differing public sector spending patterns; and differing propensities of pensioners in terms of spending and saving patterns.

A final report would need to be produced documenting the findings of such a Review drawing on all aspects of the research. It is anticipated that any conclusions based on the macro-economic modelling would need to be heavily caveated given the uncertainty associated with a model of this nature. It would also be very difficult to reliably separately identify the economic impact attributable to pension reform, given the many other variables that impact on the wider macro- economic environment including labour market and general economic conditions, and the assumptions that would need to be made in this regard.

In terms of the macro-economic impact it is also worth pointing out that the level of employment in the Northern Ireland public sector is not determined by the pension offering, but rather is influenced by a broad range of factors that determine the need for public services. These include demographics, social need, health and education demands and outcomes, and evolving patterns and models of service provision.

The Hutton Review concluded that the current public sector pension system is not sustainable. And as the Committee is aware, a reduction will be applied to the Northern Ireland block allocation if legislation to reform devolved public service pension arrangements in Northern Ireland is not concluded by 1 April 2015. The overall projected cost is estimated in excess of £262m per year based on calculations made by the Government Actuary's Department to estimate the recurring annual cost of reduced public service pension liabilities if schemes are not reformed. Such a reduction would have a significant negative impact on the resources available for public services and the public sector employment that is associated with that - which accounts for around one half of NI DEL. So not unreasonable to assume that £130m p.a. of this reduction would have to be met by a reduction in salary costs.

While it is accepted that public sector pension reform will have impact in the longer term on the disposable incomes of those public sector employees affected, the immediate impact of not proceeding with reform would be the significant negative impact of the block grant reduction.

It is difficult to estimate what the cost of carrying out a separate review of pension reform for Northern Ireland including a macro-economic assessment and the timescale that might be required for that. What is known is that the Independent Review undertaken by Lord Hutton took approximately 9 months to complete (running from June 2010 to March 2011). Lord Hutton was paid £4,000 per month for a 9 month period of 3 days per week to conduct the review plus had a team of about a dozen people to support the review, some seconded from HMT, others from consultancies and legal firms. It involved a number of stages including (although not limited to) establishing the baseline position; looking at models of best practice in relation to pension provision; a modelling exercise of potential future pension structures carried out by the Pensions Policy Institute; and an expansive consultation process including calls for evidence. However, even with that, the Hutton Review did not include a macro-economic assessment of the impact of reform on the UK as a whole.

Clearly undertaking a separate Northern Ireland review would be a very complex and detailed piece of research. While this might not involve replicating all aspects of the Hutton Review, incorporating a macro-economic impact assessment would represent an additional element - therefore such a Northern Ireland review might be expected to involve, potentially, costs of a similar order of magnitude as those associated with the Hutton Review (possibly more), and the timescale required for that.

DFP does not have access to the overall cost of the Hutton Review. However, it is possible to get a broad sense of the cost of this based on the resource he had at his disposal as outlined above. For instance, a research team of 12 individuals working full time (assuming for illustration an average staff cost of £35,000 pa) could potentially cost £315,000. However, this does not reflect the skills and internal resource / external consultancy mix of this team which would influence the overall costs significantly. But it does indicate that the cost of Hutton could potentially be several hundred thousands of pounds.

It is very difficult to state with any degree of confidence what the cost of a local exercise might be. The macro-economic model development element alone could cost in excess of £100k potentially – other data collection costs and analysis could add significantly to this. I would stress again however that this is only conjecture at this stage.

It is not possible to determine at this stage how long such a Review for Northern Ireland might take, however, we do know that the Hutton Review took a period of 9 month and this is our best comparator at this stage.

Furthermore, given the need to procure specialist consultancy support, a lead in period of a number of months could also be expected while these resources were put in place. Officials from Strategic Policy Division are available to provide more detail on this at an Evidence Session if that the Committee requires more information on this matter.

At this stage therefore, it is the department's view that the overall impact of not proceeding with pension reform, in terms of the impact on the public finances and employment, would be negative and that it would not be appropriate to carry out a macro- economic review.

EXTENT OF LORD HUTTON'S WORK IN NORTHERN IRELAND

In his capacity as Chairperson of the Independent Public Service Pensions Commission (IPSPC) Lord Hutton visited Northern Ireland on 3 September 2010. He had previously met with the Secretary of State for Northern Ireland in August 2010 and discussed the Commission's work.

The purpose of the visit, which was co-ordinated by DFP, was to meet with key stakeholders of the various public service pension schemes and officials from Departments with responsibility for those schemes.

Lord Hutton held bilateral meetings and a round table event to understand specific issues and concerns in Northern Ireland in regards to Public Service pensions. The meetings involved Northern Ireland Trade Unions and Scheme and Employer representatives. A list of those invited is attached at **Annex B**. Comprehensive background information and briefing on all of the Northern Ireland Public Service Pension Schemes was provided to Lord Hutton in August 2010 in advance of the visit (copy attached at **Annex C**).

Following his visit to Northern Ireland and the publication of the IPSPC interim report Lord Hutton issued a request, on 1 November 2010, for help in understanding the landscape of membership of Northern Ireland's Public Sector Pension schemes. Responses were provided by all schemes and copies of the replies from the Northern Ireland Teachers Pension Scheme and the Northern Ireland Local Government Officers Pension Scheme are attached at Annex C by way of example. A letter from the Secretary and Chairperson of the Northern Ireland Local Government Officers Pension Scheme to Lord Hutton is also attached at **Annex D.**

The final IPSPC report was published in March 2011 and Lord Hutton returned to Northern Ireland in September 2011. He addressed a seminar in Belfast City Hall at which he further discussed the work carried out by his Commission and the recommendations made. This was a review specifically about pensions and what is fair to taxpayers and pensioners. The review did not do a separate macro analysis, as it was decided at the time that while it is true that no policy question can be decided in isolation, it is extremely difficult to show the macro impact of payments that will be made 50-100 years into the future.,

SCHEME VALUATION DIRECTIONS AND ASSEMBLY CONTROL

Clause 11 of the Public Service Pensions Bill provides that Scheme regulations for defined benefits schemes must provide for actuarial valuations to be made of:

(a) the scheme, and,

(b) any statutory pension scheme that is connected with it.

Valuations are to be carried out in accordance with directions given by the Department of Finance and Personnel. Directions given by the Department of Finance and Personnel may specify:

(a) how and when a valuation is to be carried out;

(b) the time in relation to which a valuation is to be carried out;

(c) the data, methodology and assumptions to be used in a valuation;

(d) the matters to be covered by a valuation;

(e) where a scheme and another statutory pension scheme are connected, whether the schemes are to be valued separately or together (and if together, how); and,

(f) the period within which any changes to the employer contribution rate under a scheme must take effect following a valuation.

Directions given by the Department of Finance and Personnel will be a technical document. They are not a regulation as such but are an administrative power. The Bill states that directions given by DFP and variations and revocations of such directions may only be made after the Department has consulted the Government Actuary.

Scheme regulations will set the employer cost cap in accordance with DFP Directions. DFP will also make Regulations requiring scheme costs to be within the margins of the cost cap and specify target costs where a scheme would otherwise go beyond the margins. These DFP regulations will be subject to negative to procedure.

The Bill does not set a statutory requirement for DFP to consult with Trade unions on the directions.

Scheme regulations for all defined benefit schemes will be subject to negative resolution in the Northern Ireland Assembly which for clarity purposes is a form of Assembly control over a statutory rule. A statutory rule going through this procedure will automatically become law unless the Assembly objects.

LOCAL GOVERNMENT PENSION SCHEME FUND

The Local Pension Scheme (Northern Ireland) Regulations require that fund is valued every 3 years. That valuation will show whether the fund is in surplus or deficit. If the fund is in deficit, the employer contribution set for the 3 years following the valuation will include an element of deficit recovery. The Local Pension Scheme (Northern Ireland) Regulations also require that the administering authority, the Northern Ireland Local Government Officers' Superannuation Committee, maintains a funding strategy for the fund. A valuation of the fund as at 31 March 2013 is currently being undertaken.

I trust this information is useful to the Committee.

Yours sincerely,

Judith Finlay

JUDITH FINLAY
Departmental Assembly Liaison Officer

ANNEX A

Examples of pension payable on retirement for NICS staff before and after introduction of proposed new scheme

TRANSITIONAL TERMS

- Remains in current arrangement until June 2016
- Age at 1 April 2012 – 48
- Current arrangement – classic
- Grade – AO
- Current Salary - £22,180
- Years of Service at 1 April 2012 – 20

Pension accrued to 1 April 2012	£5,545
Lump sum at 1 April 2012	£16,635
Projected Pension at age 60 under new scheme	£9,004
Projected Lump sum at age 60 under new scheme	£27,377
Projected Pension at age 60 under current arrangement (classic)	£9,126
Projected Lump sum at age 60 under current arrangement (classic)	£27,377
Projected Pension at State Pension Age (SPA) of 67 under new scheme	£12,386
Projected Lump Sum at SPA of 67 under new scheme	£33,199
Projected Pension if current arrangement (classic) continued to SPA of 67	£11,066
Projected Lump Sum if current arrangement (classic) continued to SPA of 67	£33,199

Note: The projected pension at age 60 under the new scheme has been reduced to reflect that it will be taken before the SPA and that the member has opted to take a lump sum equivalent to the lump sum that would have been payable under classic.

NON-TRANSITIONAL TERMS

- Age at 1 April 2012 – 40
- Current arrangement – classic
- Grade – AO
- Current Salary - £22,180
- Years of Service at 1 April 2012 - 20 years

Pension accrued to 1 April 2012	£5,545
Lump sum at 1 April 2012	£16,635
Projected Pension at age 60 under new scheme	£10,310
Projected Lump sum at age 60 under new scheme	£33,199
Projected Pension at age 60 under current arrangement (classic)	£11,066
Projected Lump sum at age 60 under current arrangement (classic)	£33,199
Projected Pension at State Pension Age (SPA) of 67 under new scheme	£14,240
Projected Lump Sum at SPA of 67 under new scheme	£37,429
Projected Pension if current arrangement (classic) continued to SPA of 67	£12,476
Projected Lump Sum if current arrangement (classic) continued to SPA of 67	£37,429

Note: The projected pension at age 60 under the proposed new scheme has been reduced to reflect that it will be taken before the SPA and that the member has opted to take a lump sum equivalent to the lump sum that would have been payable under classic.

TRANSITIONAL TERMS

- Remains in current arrangement until June 2016
- Age at 1 April 2012 – 48
- Current arrangement – premium
- Grade – EO2,
- Current Salary - £23,999
- Years of Service at 1 April 2012 - 9 years

Pension accrued to 1 April 2012	£3,600
Projected Pension at age 60 under new scheme	£8,415
Projected Pension at age 60 under current arrangement (premium)	£8,765
Projected Pension at State Pension Age (SPA) of 67 under new scheme	£12,600
Projected Pension if current arrangement (premium) continued to SPA of 67	£11,565

Note: The projected pension at age 60 under the proposed new scheme has been reduced to reflect that it will be taken before the SPA.

NON-TRANSITIONAL TERMS

- Age at 1 April 2012 – 40
- Current arrangement – premium
- Grade – EOII
- Current Salary - £23,199
- Years of Service at 1 April 2012 - 9 years

Pension accrued to 1 April 2012	£3,600
Projected Pension at age 60 under new scheme	£10,324
Projected Pension at age 60 under current arrangement (premium)	£11,566
Projected Pension at State Pension Age (SPA) of 67 under new scheme	£14,958
Projected Pension if current arrangement (classic) continued to SPA of 67	£14,365

Note: The projected pension at age 60 under the proposed new scheme has been reduced to reflect that it will be taken before the SPA.

TRANSITIONAL TERMS

- Remains in current arrangement until June 2016
- Age at 1 April 2012 – 48
- Current arrangement – classic
- Grade – Grade 3, SCS
- Current Salary - £99,100
- Years of Service at 1 April 2012 – 25 years

Pension accrued to 1 April 2012	£30,969
Lump sum at 1 April 2012	£92,906
Projected Pension at age 60 under new scheme	£45,946
Projected Lump sum at age 60 under new scheme	£140,900
Projected Pension at age 60 under current arrangement (classic)	£46,967
Projected Lump sum at age 60 under current arrangement (classic)	£140,900
Projected Pension at State Pension Age (SPA) of 67 under new scheme	£60,760
Projected Lump Sum at SPA of 67 under new scheme	£166,913
Projected Pension if current arrangement (classic) continued to SPA of 67	£55,638
Projected Lump Sum if current arrangement (classic) continued to SPA of 67	£166,913

Note: The projected pension at age 60 under the new scheme has been reduced to reflect that it will be taken before the SPA and that the member has opted to take a lump sum equivalent to the lump sum that would have been payable under classic.

NON-TRANSITIONAL TERMS

- Age at 1 April 2012 – 45
- Current arrangement – premium
- Grade - Grade 3, SCS
- Current Salary - £99,100
- Years of Service at 1 April 2012 - 25 years

Pension accrued to 1 April 2012	£30,969
Lump sum at 1 April 2012	£92,906
Projected Pension at age 60 under new scheme	£47,147
Projected Lump sum at age 60 under new scheme	£148,327
Projected Pension at age 60 under current arrangement (classic)	£49,442
Projected Lump sum at age 60 under current arrangement (classic)	£148,327
Projected Pension at State Pension Age (SPA) of 67 under new scheme	£63,185
Projected Lump Sum at SPA of 67 under new scheme	£167,231
Projected Pension if current arrangement (classic) continued to SPA of 67	£55,744
Projected Lump Sum if current arrangement (classic) continued to SPA of 67	167,231

Note: The projected pension at age 60 under the new scheme has been reduced to reflect that it will be taken before the SPA and that the member has opted to take a lump sum equivalent to the lump sum that would have been payable under classic.

ANNEX B

<u>The Pensions Commission issued invitations to attend the 10.00am meeting to the following:</u>

Sammy Wilson MP MLA – Department of Finance and Personnel

Catriona Ruane MLA – Department of Education

Edwin Poots MLA – Department of Environment

Michael McGimpsey MLA – Department of Health Social Services and Public Safety

David Ford MLA, - Department of Justice

Stephen Peover – DFP Permanent Secretary

Paul Sweeney – DE Permanent Secretary

Leo O'Reilly – DOE Permanent Secretary

Dr Andrew Mc Cormick – DHSSPS Permanent Secretary

Nick Perry - DOJ Permanent Secretary

Representatives from Trade Unions invited to the 11.30am – 1.30pm session

Bumper Graham – Assistant General Secretary
Northern Ireland Public Service Alliance

Fiona Stanley
Association of First Division Civil Servants (NI Section)

Patricia McKeown - Regional Secretary
UNISON NI

Frank Bunting – Northern Secretary, Irish National Teachers Organisation

Fern Turner – Regional Officer (NI), National Association of Head Teachers

Mark Langhammer – Director (NI), Association of Teachers and Lecturers

Avril Hall-Callaghan – General Secretary, Ulster Teachers' Union

Seamus Searson – Regional Organiser (NI), National Association of Schoolmasters / Union of Women Teachers

Garrett Martin, Royal College of Nursing

Mary Caddell, Royal College of Midwives

Tom Gillen, Deputy Assistant General Secretary. NIC ICTU

Brian Best , BMA

Claudette Christie, BDA

Albert Mills, UNITE

Michael Kiddle, UCATT

Alan Perry, GMB

The Secretary, Police Federation NI

The Secretary, The Superintendents' Association,

ACC Rural Region, PSNI Brooklyn

Finlay Spratt, Prison Officers Association

<u>Representatives from schemes and employers invited to the 2.30pm – 4.30pm session</u>

Derek Baker – Director, Corporate HR, DFP

John Hunter – Chairperson PCSPS(NI) Governance Group

Margaret Miskelly – Head of Civil Service Pensions
Department of Finance and Personnel

Mark Mawhinney -Teacher's Negotiating and Pensions Policy
Department of Education (Northern Ireland)

Rory O'Boyle – Head of Teachers Pensions
Department of Education (Northern Ireland)

Diane Taylor, DHSS&PS

Phil McCusker, DHSS&PS

Martin Bradley – Head of Health Service Pensions

Marie Cochrane - NILGOSC (policy), DOE

Stewart Cuddie, NIHE Head Office

Sam Hagan, N I Policing Board

Policy Officer, PSNI

NORTHERN IRELAND

OVERVIEW

The Northern Ireland Executive has devolved responsibility for five public service pension schemes. They are:

- Principal Civil Service Pension Scheme (Northern Ireland) [PCSPS(NI)]
- Local Government Pension Scheme (Northern Ireland) [LGPS(NI)]
- Northern Ireland Teachers Pension Scheme [NITPS]
- Health and Social Care Pension Scheme [HSCPS]
- Police Service of Northern Ireland Pension Scheme

Public Sector employment in Northern Ireland
Based upon latest estimates there are currently 766,000 people in employment in Northern Ireland. Based upon December 2009 (unadjusted) statistics, the public sector in Northern Ireland (including Reserved functions) employs 225,721 people; equivalent to 32.3% of all employee jobs.

PRINCIPAL CIVIL SERVICE PENSION SCHEME (NORTHERN IRELAND) [PCSPS(NI)]

The PCSPS(NI) is the pension scheme for Northern Ireland Civil Servants. Employees of related bodies which are listed at Schedule 1 to the Superannuation (Northern Ireland) Order 1972 are also eligible for membership. The PCSPS(NI) is an unfunded scheme administered by the Department of Finance and Personnel and provides final salary or career average arrangements for members depending on their date of entry to the scheme.

Depending on which arrangement the PCSPS(NI) member belongs to they pay contributions at either 1.5% or 3.5% of pensionable pay.
Membership accrual and contribution rate arrangements within the PCSPS(NI) are as follows:

- classic – a final salary arrangement with a 1.5% member contributions which was closed to new joiners from 1 October 2002. Benefit accrual is 1/80th final pensionable earnings for each year of reckonable service plus an automatic lump sum of 3/80th final pensionable earnings. Members may increase their lump sum up to the maximum 25% of the capital value of their total pension entitlement by commuting pension.

- premium – a final salary arrangement with a 3.5% member contribution and closed to new joiners from 30 July 2007. Benefit accrual is 1/60th final pensionable earnings for each year of reckonable service. There is no automatic lump sum but members may opt to commute pension for a lump sum of up to 25% of the capital value of their total pension entitlement.

- classic plus – a final salary arrangement which is a hybrid of classic and premium and has 3.5% member contribution rate for service from 1 October 2002. classic plus is closed to new joiners from 30 July 2007. Members may increase their lump sum up to the maximum 25% of the capital value of their total pension entitlement by commuting pension.

- nuvos – a career average arrangement with a 3.5% member contribution for new joiners from 30 July 2007. Benefits accrual is 2.3% of pensionable earnings per scheme year. There is no automatic lump sum but members may opt to commute pension for a lump sum of up to 25% of the capital value of their total pension entitlement.

Benefits are uprated annually in line with the percentage increase applied to additional state pensions.

Members of classic, classic plus and premium have a normal pension age of 60. The maximum service which may reckon for pension purposes is 45 years.

The normal pension age for nuvos is 65. There is no limit on reckonable service but the nuvos pension cannot exceed 75% of final pay.

PCSPS(NI) members who would qualify for a preserved benefits in the scheme can receive ill-health retirement pension early (two–tier system).

A PCSPS(NI) member can increase their pension entitlement by buying extra pension in the scheme.

The PCSPS(NI) provides that accrued pension rights are transferable to and from other schemes.

PCSPS(NI) employers pay a salary related superannuation charge of:

Salary Band	Annual full time equivalent pensionable salary 2010/11	Employers' ASLC Charge
	£ per annum	% of salary
1	Up to 22,599	18
2	22,600 to 45,899	20
3	45,900 to 98,999	23.5
4	99,000 and over	25

Prison Officers

The appropriate rate for Prison Officers appointed before 4 September 1989 who retain reserved rights will be 26% with effect from 1 April 2010.

Partnership Pension Account

The current ASLC rate for those members remains unchanged at 0.8%.

The PCSPS(NI) has approximately:

- 39,025 current members
- 7,000 deferred members
- 23,700 pensioner members

The PCSPS(NI) paid approximately £175 million in pension benefits and £48 million in lump sum payments during the 2009/10 financial year.
The rules of the PCSPS(NI) contain provisions for cost capping and the sharing of future increases in scheme costs between employers and employees.

LOCAL GOVERNMENT PENSION SCHEME (NORTHERN IRELAND) [LGPS(NI)]

The LGPS (NI) Scheme is the main scheme for employees in district councils and other admitted bodies in Northern Ireland. It is a funded scheme which is administered by the Northern Ireland Local Government Superannuation Committee. LGPS (NI) policy and Legislation is the responsibility of the Department of the Environment.

Benefit accrual is an annual pension based on 1/80th of final year's pensionable pay and an automatic tax-free lump sum of three times pension for each year of reckonable service built up in the Scheme up to 31 March 2009. Members receive an annual pension based on 1/60th of final year's pensionable pay for each year of reckonable service after 31 March 2009. There is no automatic lump sum entitlement for service after 31 March 2009 but members can commute pension to take a lump sum up to 25% of the overall capital value of pension benefits.

Members can retire on age grounds as soon as they attain normal pension age of 65. They can contribute to the scheme up until their 75th birthday. There is no maximum service limit. If a member works beyond their 65th birthday, their pension is actuarially increased in line with factors provided by the Government actuary.

An LGPS (NI) member may be retired early on medical grounds (and subject to having at least one year's membership) receive ill-health retirement pension (two–tier system).

Members can increase their pension entitlement by buying additional pension in the scheme.

The LGPS (NI) provides that accrued pension rights are transferable to and from other schemes.

LGPS (NI) scheme members pay a pensionable pay related employee contribution rate of:

Band	Pay Range	Contribution Rate
1	£0 - £12,600	5.50%
2	£12,601 - £14,700	5.80%
3	£14,701 - £18,900	5.90%
4	£18,901 - £31,500	6.50%
5	£31,501 - £42,000	6.80%
6	£42,001 - £78,700	7.20%
7	More than £78,700	7.50%

The LGPS(NI) employer contribution rate for 2010-2011 is set at 17%.
The LGPS(NI) scheme has approximately:

- 44,022 current members
- 19,232 deferred members
- 25,311 pensioner members

The LGPS(NI) paid approximately £99.5 million in pension benefits and almost £38 million in lump sum payments during the 2009/10 financial year. There are currently no cap and share arrangements in place within the rules of the LGPS(NI).

NORTHERN IRELAND TEACHERS PENSION SCHEME (NITPS)

The NITPS is an unfunded defined benefit pension scheme administered by the Department of Education.

For staff joining the scheme before 1 April 2007 benefit accrual is based on 1/80th of pensionable pay and an automatic tax-free lump sum of three times pension for each year of reckonable service. Staff joining on or after 1 April 2007 accrue pension based on 1/60th of pensionable pay for each year of reckonable service. There is no automatic lump sum entitlement for staff employed on or after 1 April 2007 but members may opt to commute pension for a lump sum of up to 25% of the capital value of their total pension entitlement.

Pension age for staff joining before 1 April 2007 is 60. Staff joining the scheme on or after this date have a normal pension age of 65.

NITPS members may retire early on medical grounds and receive early payment of pension.

Members can increase their pension entitlement by buying additional pension in the scheme.

The NITPS provides that accrued pension rights are transferable to and from another scheme.

NITPS members pay an employee contribution rate which is currently of 6.4% of salary. The Employer contribution rate is 13.6%.

The NITPS has approximately:

- 25,363 current members
- 13,025 deferred members
- 19,054 pensioner members

The NITPS paid over £254 million in pension benefits and £31 million in lump sums during the 2009/10 financial year.

The rules of the NITPS contain provisions for cost capping and the sharing of future increases in scheme costs between employers and employees.

HEALTH AND SOCIAL CARE PENSION SCHEME (HSCPS)

The HSC Pension Scheme is the pension scheme for Health and Social Care Staff in Northern Ireland. It is an unfunded scheme administered by the Department of Health, Social Services and Public Safety and provides benefits based on final salary for all members other than General Medical Practitioners and Dentists whose benefits are based on career average earnings.

There are two sections to the HSC Pension Scheme, the 1995 Section and the 2008 Section:-

Membership and accrual rate arrangements within the HSC Pension Scheme are as follows:

- 1995 Section (Retirement age 60) - Benefit accrual is 1/80th pensionable earnings for each year of reckonable service plus and automatic lump sum of 3/80th pensionable earnings. Members may increase their lump sum up to the maximum 25% of the capital value of their total pension entitlement by commuting pension.

- 2008 Section (Retirement age 65) - Benefit accrual is 1/60th pensionable earnings for each year of reckonable. There is no automatic lump sum but members may opt to commute pension for a lump sum of up to 25% of the capital value of their total pension entitlement.

- GPs and Dentists - a career average earnings arrangement. i.e. 1.4% x dynamised earnings for pension and 4.2% x dynamised earnings for lump sum. Members may increase their lump sum up to the maximum 25% of the capital value of their total pension entitlement by commuting pension.

Benefits are uprated annually in line with increases applied to additional state pensions.

Members of the 1995 section have a normal pension age of 60. The maximum service which may reckon for pension purposes is 45 years.

Members of the 2008 section have a normal pension age of 65. The maximum service which may reckon for pension purposes is 45 years.

HSCPS members who would qualify for a preserved benefits in the scheme can receive ill-health retirement pension early (two–tier system).

A HSCPS member can increase their pension entitlement by buying extra pension in the scheme.

The HSCPS provides that accrued pension rights are transferable to and from other schemes.

Member contribution rates range from 5% to 8.5% depending on the rate of pensionable pay.

The table below details the current member contribution rates.

Column 1 **Pay band**	**Column 2** **Contribution percentage rate**
Up to £20,709	5%
£20,710 to £68,392	6.5%
£68,393 to £107,846	7.5%
£107,847 to any higher amount	8.5%

The HSCPS has approximately:

- 50,000 current members
- 12,000 deferred members
- 23,330 pensioner members

The HSCPS paid approximately £195 million in pension benefits and £65 million in lump sum payments during the 2009/10 financial year.

The rules of the HSCPS contain provisions for cost capping and the sharing of future increases in scheme costs between employers and employees.

POLICE SERVICE OF NORTHERN IRELAND PENSION SCHEMES

The Police Service of Northern Ireland operates 2 pension schemes:

- Police Pension Scheme 1988 (closed scheme); and,
- New Police Pension Scheme (Northern Ireland) 2006.

Both schemes are unfunded schemes administered by the Northern Ireland Policing Board. Members of the Regular and Full Time Reserve forces are members of The Police Pension Scheme 1988, members of the Regular force who have joined since April 2006 are members of The New Police Pension Scheme (NI) 2006. Both schemes are final salary pension schemes.

Accrual and contribution rates

Police Pension Scheme 1988 (closed)
Members contribute 11% of pensionable pay. The accrual rate of benefit is 1/60th final pensionable salary for each year of reckonable service up to 20 years, and 2/60th final pensionable salary for each year of reckonable service after 20 years. The maximum accrued pension permitted is 40/60th of final pensionable salary. There is no automatic lump sum but members may opt to commute up to a maximum of ¼ of their gross pension into a tax free lump sum.

Normal pension age is 55, 57, 60 or 65 dependant on rank. Officers can avail of their maximum pension prior to pension age if they have attained the maximum 40/60th or a pension and reduced commutation from age 50 provided they have attained 30/60th.

New Police Pension Scheme (Northern Ireland) 2006

Members contribute 9.5% of pensionable pay. The accrual rate of benefit is 1/70th final pensionable salary for each year of reckonable service. The maximum accrued pension permitted is 35/70th of final pensionable salary. Members have an entitlement to an automatic tax free lump sum of 4 times the annual pension. Normal pension age is 55, 60 or 65 dependant on rank.In relation to both schemes the employer pays a salary related superannuation charge of 24.5%.

If officers cannot attain the maximum allowable pension in either scheme they can opt to pay additional contributions to increase service. The officer is required to pay the employee and employer contributions under this facility.
Benefits in both schemes were uprated annually in line with the Retail Price Index, changing to uprating in line with the Consumer Price Index in accordance with The Budget.

Members in both schemes are entitled to ill health retirement pensions early unless the officer was originally appointed without the entitlement to ill health benefits. The Police Pension Scheme 1988 (closed) operates a one-tier system whilst The New Police Pension Scheme (Northern Ireland) 2006 operates a two-tier system. Members who qualify for a preserved pension can receive ill-health retirement pensions early.

Preserved benefits are transferable to other schemes. The Police Pension Scheme 1988 (closed) only permits preserved benefits to be transferred in from another UK Police force if the officer has continual service. The New Police Pension Scheme (Northern Ireland) 2006 permits transfers in of policies and preserved benefits from private and public sector companies.
The Police Service of Northern Ireland appointed Equitable Life and Standard Life to operate an Additional Voluntary Contribution (AVC) and Stakeholder Schemes on behalf of The Police Service of Northern Ireland. The AVC schemes are scheduled to close to new members from September 2010 and existing members will not be allowed to change their rate of contributions.

Voluntary and Compulsory Severance Schemes

Since 2001 The Police Service of Northern Ireland have operated a voluntary severance scheme for Regular and Full Time Reserve officers, and from 2006 a voluntary severance scheme for Regular officers and a compulsory severance scheme for Full Time Reserve officers in accordance with recommendations under the Patton Report. Up to end 2009/2010 approximately 4,700 officers have left under the severance schemes. It is expected that a further 350 Regular officers will leave under the voluntary severance scheme by 31 March 2011. All remaining Full Time Reserve officers are required to leave under the compulsory severance scheme by 31 December 2011.

Membership

The Police Pension Scheme 1988 (closed scheme) at 31 March 2010 had approximately:

- 6,100 current members
- 1,100 deferred members
- 12,300 pensions in payment

The New Police Pension Scheme (Northern Ireland) 2006 at 31 March 2010 had approximately:

- 1,500 current members
- 9 deferred members
- 1 pension in payment

The Police Service of Northern Ireland paid approximately £145 million in pension benefits, £61 million in lump sum payments and £57 million in severance awards during the 2009/10 financial year.

Occupational Pension Policy in Northern Ireland

Occupational pension policy in Northern Ireland is a transferred matter. The NI Assembly could make pension legislation distinct from GB. However the complexities and difficulties involving funding, etc., would be considerable. In practice, public service pension schemes in Northern Ireland generally mirror GB schemes for legal, financial, historical and employment portability reasons.

The Department of Finance and Personnel has powers under the Superannuation (Northern Ireland) Order 1972 to make secondary legislation amending the provisions of the PCSPS(NI).

Under the provisions of the 1972 Order, the secondary legislation for the Health and Personal Social Services Northern Ireland Superannuation Scheme and Northern Ireland Teachers' Superannuation Scheme requires the approval of the Department of Finance and Personnel before it can be introduced.

Legislation to amend the Northern Ireland Local Government Pension Scheme does not require the approval of the Department of Finance and Personnel before its introduction.

Scheme reforms: 2006-2010

PCSPS(NI), LGPS(NI), NITPS AND HSCPS pension schemes have been the subject of reform over the past four years. In the main and in common with the UK programme of reforms, changes applied to new scheme members only, with existing pension scheme members retaining the majority of the pre-reform rights.

Nevertheless, the application of the reforms varied across each scheme, ranging from amendments made to the current scheme regulations through to completely new schemes being introduced for new members. The main areas covered by the reforms included higher normal retirement ages, higher contribution rates and the introduction of cost sharing arrangements, under which scheme members can expect to bear their share of certain cost increases.

Where in place, cap and share arrangements will mitigate the risk of taxpayers meeting future increases in scheme costs by ensuring that active members meet some or all of these c

ANNEX C

Table 1: Latest overall scheme Teachers Pensions NI numbers (2007/08)	Employer details				Members included					
Sectors included	Employers included	Sector's % of total employers	Total contributions	Sector's % of total contributions	Active	Deferred	Pensioners	Total members	Sector's % of total members	Active as % of sector total[1]
Local authorities	1192	92.9%	£120,858,926	74.3%	0	0	0	0	0.0%	#DIV/0!
FE institutions	16	1.2%	£15,993,839	9.8%	0	0	0	0	0.0%	#DIV/0!
HE institutions	3	0.2%	£1,110,816	0.7%	0	0	0	0	0.0%	#DIV/0!
Academies	0	0.0%	£0	0.0%	0	0	0	0	0.0%	#DIV/0!
City Technology Colleges	0	0.0%	£0	0.0%	0	0	0	0	0.0%	#DIV/0!
Other independent establishments	72	5.6%	£24,656,912	15.2%	0	0	0	0	0.0%	#DIV/0!
Totals	1,283		£162,620,493		25,849	11,977	17,719	55,545		47%

[1] Please note : The Active as % of sector total is unavailable because TPS(NI) were unable to provide data in relation to the numbers of actives, deferred and pensioner members that are contained within each sector. Nor were they able to retrieve information for 2004/05 in the same format for contributions.

Northern Ireland Local Government Pension Scheme - coverage and eligibility details

Table 1a: Overall scheme numbers in 2009/10	Employer details				Members included					
Sectors included	Employers included	Sectors % of total employers	Total contributions	Sector's % of total contributions	Active	Deferred	Pensioners	Total members	Sector's % of total members	Active as % of sector total
Local authorities	26	12.7%	£45,301,995	25.1%	9,371	3,807	5,634	18,812	21.2%	50%
Admitted bodies total	178	87.3%	£122,947,374	68.2%	34,651	15,428	19,677	69,756	78.8%	50%
Totals	204		£180,402,000		44,022	19,235	25,311	88,568		50%

Table 1b: Overall scheme numbers in 2007/08	Employer details				Members included					
Sectors included	Employers included	Sector's % of total employers	Total contributions	Sector's % of total contributions	Active	Deferred	Pensioners	Total members	Sector's % of total members	Active as % of sector total
Local authorities	26	12.7%	£34,713,242	24.9%	8,991	3,056	5,446	17,493	21.1%	51%
Admitted bodies total	178	87.3%	£96,023,705	69.0%	34,289	12,897	18,037	65,223	78.9%	53%
Totals	204		£139,210,000		43,280	15,953	23,483	82,716		52%

Table 2: Overall scheme numbers in 2005	Employer details				Members included					
Sectors included	Employers included	Sector's % of total employers	Total contributions	Sector's % of total contributions	Active	Deferred	Pensioners	Total members	Sector's % of total members	Active as % of sector total
Local authorities	26	12.3%	£15,888,523	23.3%	8,370	NK	NK	8,370	11.3%	100%
Admitted bodies total	185	87.7%	£48,418,532	71.0%	33,467	NK	NK	33,467	45.2%	100%
Totals	211		£68,235,000		41,837	10,843	21,315	73,995		57%

	Employer details				Members included					
Sector	Total employers included	Employers in scheme at least 1 year	Employers in scheme at least 5 years	Employers in scheme at least 10 years	Active	Deferred	Pensioners	Total members	Sector's % of total members	Active as % of sector total
Private sector organisations	2	1			10	0	1	11	0.0%	0.909090909
Public sector organisations	169	5	32	132	34421	14547	18460	67428	99.1%	0.510485258
Charities/Third sector organisations	7			7	220	187	193	600	0.9%	0.366666667
Other (please explain)	0	0	0	0	0	0	0	0	0.0%	0
Total	178	6	32	139	34651	14734**	18654**	68039		0.509281442

** There are deferred members and pensioners for admitted bodies who have ceased to exist in addition to the 178 bodies noted in cell B25. Therefore the totals on line 33 do not agree with the 'Admitted Bodies total' in the Overall Scheme numbers for 2009/10 at line 7.

2009/10 Figures - Table 1a	
Total Employer Contributions	£ 120,953,202.32
Total Employee Contributions	£ 47,296,166.71
Early Retirement Funding	£ 5,619,362.04
Special Contributions	£ 1,899,000.00
Employee AVC Contributions	£ 4,635,108.36
	£ 180,402,839.43
Per Accounts	£ 180,402,839.43
Difference	£ -

Northern Ireland Teachers' Superannuation Scheme - Additional Questions re: eligibility

Question	Answer
1) How does the scheme currently manage risk in relation to the liabilities accrued through members of admitted organisations (particularly in terms of pay and longevity)?	The Actuarial review determines the total (combined) contribution rate payable by members and employers. The member contribution rate in the NITSS is equal to that set in the Teachers' Pension Scheme (England and Wales). The number of members contributing from admitted organisations makes up less than 1% of scheme membership. So far, there has been no evidence to show that it is necessary to have a mechanism to allow for admitted organisations to have a higher contribution but the Department acknowledges that, going forward, differential contribution rates (by sector) may become appropriate.
2) What are the scheme's future plans for admitting additional organisations to the scheme?	The Department is currently considering proposals to admit Queens University Belfast limited access to the scheme to allow existing employees of Stranmillis College to remain in membership once the proposed merger with Queens is completed. The Department has no other plans for admitting additional organisations to the scheme.
3) How does the scheme deal with accrued liabilities for members of admitted organisations? Is there any variation between the treatment of active and deferred members?	The financing of the Scheme is based on the methodology known as SCAPE (‘Superannuation Contribution Adjusted for Past Experience’). Deferred members lose the link to salary and the right to in-service risk benefits.

4) How does the scheme deal with accrued liabilities for members of an admitted organisation if that organisation leaves the scheme?	These members are treated the same as any other deferred member.
5) Is the current sector breakdown in this spreadsheet correct? If not, please make any changes to the coverage spreadsheet deemed necessary and note them in the next box	The Teachers' Superannuation Scheme covers the majority of employers within the educational field. These include the Education and Library Boards, Voluntary and Maintained Schools, Further Education Colleges, Universities and a small number of other employers. A full list of employers currently within the scheme is included in the attached spreadsheet.
6) Please update our figures in the spreadsheet wherever necessary and note any changes in the next box	The figures stated in the attached spreadsheet is derived from data supplied to the Government Actuary's Department for the four year evaluation from 2004/05 to 2007/08.

Annex D

15 December 2010
Lord Hutton
Chair, Independent Public Services Pensions Committee
1 Horse Guards Road
London
SW1A 2HQ

Dear Lord Hutton

Call for evidence for final report of the Public Service Pension Commission

Thank you for your letter of 1 November 2010 inviting further evidence and views from the Northern Ireland Local Government Officers' Superannuation Committee to assist you in preparing the final report of the Independent Public Service Pensions Commission. The Local Government Pension Scheme (LGPS (NI)) administered by NILGOSC is separate from the Local Government Pension Schemes in England, Wales and Scotland. It is also different to the other Public Sector Pension Schemes in Northern Ireland. The making of the regulations governing the LGPS (NI) is a matter devolved to the Northern Ireland Assembly.

Background to NILGOSC

NILGOSC is a Non Departmental Public Body established on 1 April 1950 by the Local Government (Superannuation) Act 1950 to administer the local government pension scheme and manage the pension fund for the benefit of employees of local authorities and other admitted bodies in Northern Ireland. The LGPS (NI) Regulations are made by the Department of the Environment.

At 31 March 2010 there were 204 employing authorities contributing to the Scheme. These employing authorities were composed of 26 Councils, 5 Education Boards, 1 Library Authority, 1 Housing Executive, 78 associated bodies, 84 schools and 9 Further and Higher Education Colleges and Universities. There were 44,022 contributing members, 25,311 pensioners and 19,235 deferred members. The average pension paid is £3,984 a year.

At 31 March 2010 the Fund was valued at £3.6 billion which is sufficient to pay benefits for over 20 years. The Fund had income from investments and contributions for 2009/10 of £242.4 million which exceeded the expenditure on benefits and administration expenses of £158.8 million by £83.6 million. Each year this net income is available for investment so that the Fund continues to grow to meet the employers' pension liabilities in the future.
The Local Government Pension Scheme in Northern Ireland was amended in 2009 to make it more affordable, sustainable and fair to members, employers and local tax payers.

Members of NILGOSC now pay significant contributions to the Scheme. The amount varies between 5.5% of salary for the lowest paid – earning up to £12,600 a year – to 7.5% for staff on over £78,700 a year. The average employee contribution rate is approximately 6.4%.

Unlike the majority of the other public service pension schemes the Local Government Pension Scheme has always had a normal retirement age of 65. The former “Rule of 85” which allowed members who retired early from age 60 (voluntarily) or age 55 (with employers consent) to take their pension entitlements without actuarial reduction if the sum of their age and length of membership equalled 85 years or more, was removed from 1 October 2006. Some protections apply to members at 1 October 2006 who will be 60 before 1 April 2020. In the longer term the Scheme will be more affordable than the other public sector schemes which had a retirement age of 60 and granted full age 60 protection to all existing members at the date the normal retirement age in those schemes was increased to age 65.

The Committee wishes to impress upon you that the Local Government Pension Scheme is therefore totally different to the majority of other public sector pension schemes and it would be inappropriate to include it in the necessary remedies to solve the problems of the non-funded public sector schemes. NILGOSC is unique as it is the only local government pension scheme in Northern Ireland and can be reformed within its own parameters. The Fund is in deficit, estimated by the Scheme Actuary, Hymans Robertson, which is currently carrying out the triennial valuation at 31 March 2010, to be around 82%. However the Committee, following discussion with the Actuary, has agreed a funding strategy to return to 100% funding within 20 years and has set employer contribution rates for the majority of scheme employers, which includes a past service adjustment to recover the deficit over 20 years, for the next 3 years from 1 April 2011 as follows:

2011/12	18%
2012/13	19%
2013/14	20%

These rates have been set by adhering to the following key principles:

- Affordability – contribution levels are not set too high as to make the pension scheme unaffordable
- Sustainability – contribution levels are set to be sustainable over the long term
- Stability – contributions will not be unduly volatile from one valuation to the next.
- Prudence – appropriate allowances have been made for the risks that may arise.
- Transparency – the approach taken is easily communicated and verifiable.
- Durability – the approach adopted will stand the test of time.

The Government Actuary has calculated that the future service contribution rate for the current local government pension scheme is around 12-14% i.e.

approximately twice the average contribution rate paid by members which is 6.4% for the LGPS (NI).

So, in summary, the LGPS (NI) is a well-managed scheme with contributions from members and from a diverse range of employers. Its Funds are invested in business, property and the world stock markets. The Committee is pleased to see that you recommended it remains a funded scheme as, compared to the unfunded public service schemes, it is arguably a better model to reduce the liability on the public purse in the longer term.

Member Contribution Rate

In his spending review statement on 20 October 2010 the Chancellor, George Osborne, confirmed the Government accepted your recommendation to increase employee contributions, which will be phased in over 3 years from April 2012. The Government plans to raise £1.8 billion a year by 2014/15 which is equivalent to an average increase of 3% for all public sector pension scheme members. The Government also confirmed that it also accepted your recommendation that low earners would be protected to minimise opt outs. It is understood that your final report will outline exactly how this increase will be implemented.

Unfortunately you have not asked any question on how any increase, if appropriate, should be applied to the LGPS, and in particular the LGPS (NI). This is an area of considerable concern to this Committee.

Firstly it is unclear from both your interim report and the conflicting messages subsequently received from HM Treasury as to whether any increase to employee contribution rates applies to the LGPS.

From Table B1 of your interim report you list the members' contribution rates for the public sector pension schemes, which excluding the uniformed pension schemes are as follows:

Principal Civil Service Pension Scheme	0% - 3.5%
Judges	1.8% - 2.4%
National Health Service Pension Scheme	5% - 8.5%
Teachers Pension Scheme	6.4%
Local Government Pension Scheme	5.5% - 7.5%

As can be seen members of the LGPS are already paying considerably more than members of the 4 Principal Civil Service Pension Schemes and the Judges Scheme. Members earning over £18,900 also pay more contributions than members of the Teachers Scheme but pay similar contributions to members of the National Health Services Scheme. It is therefore necessary to address the unfairness between members' contribution rates within the public sector pension schemes before consideration is given to further increasing the members' contribution rates within the LGPS (NI).

In addition your interim report confirmed that just over 75% of active members of public sector pension schemes have pensionable earnings between

£15,000 and £40,000. From the table below you will see that in the LGPS (NI) 42.5% of members earn less than £15,000 and almost 97% earn less than £40,000 leaving just over 3% earning over £40,000. With an average full time equivalent pay of £20,368 (actual £16,795) the pay of local government employees in Northern Ireland is considerably lower than in the other public sector schemes. When you also take into account the already higher member contribution rates being paid by members and the 1% increase in employee national insurance contributions from April 2011 there is very little scope to further increase members' contribution rates without incurring a significant number of members opting out of the scheme to rely on state benefits for their future retirement. This will only result in transferring the cost from one public sector purse to another.

Active Members in the LGPS (NI) August 2010

Pensionable annual earnings	Male	Female	Total	Cum	%	Cum
0 - £11,999	1364	13304	14668	14668	33.2%	33.2%
£12,000 - £14,999	1123	2939	4062	18730	9.2%	42.5%
£15,000 - £17,999	4002	4054	8056	26786	18.3%	60.7%
£18,000 - £20,999	3054	1865	4919	31705	11.1%	71.9%
£21,000 - £23,999	1997	1827	3824	35529	8.7%	80.5%
£24,000 - £26,999	1266	1118	2384	37913	5.4%	85.9%
£27,000 - £29,999	850	801	1651	39564	3.7%	89.7%
£30,000 - £32,999	871	624	1495	41059	3.4%	93.1%
£33,000 - £37,399	610	502	1112	42171	2.5%	95.6%
£37,400 - £39,999	362	189	551	42722	1.2%	96.8%
£40,000 - £44,999	292	223	515	43237	1.2%	98.0%
£45,000 - £49,999	176	155	331	43568	0.8%	98.7%
£50,000 - £74,999	314	160	474	44042	1.1%	99.8%
£75,000 - £99,999	60	12	72	44114	0.2%	100.0%
£100,000 plus	7	1	8	44122	0.0%	100.0%
Total	16348	27774	44122			

The current total payroll for the LGPS (NI) is £708m. Members currently pay £44.2m in contributions. An increase of 3% would require a further £21.2m (equivalent to a 48% increase) to be recovered through the members' contribution rate. If the low paid are protected i.e. those earning under £18,900 the resulting increase to members' contributions to recover an additional £21.2m would require to be as follows:

Pay Band	Current Rate	Projected rate
up to £12,600	5.50%	5.50%
£12.601 - £14,700	5.80%	5.80%
£14,701 - £18,900	5.90%	5.90%
£18,901 - £31,500	6.50%	10.00%
£31,501 - £42,000	6.80%	14.00%
£42,001 - £78,700	7.20%	17.00%

over £78,701	7.50%	25.00%

While the higher paid employees would be able to incur some increase in their members' contribution rate it is obvious from the above table that increasing rates from 10% to 25% for those earning above £18,900 is unsustainable. In view of the very low pay experienced by the LGPS (NI) and the low number at 80 out of 44,122 earning over £75,000 there is a very strong case that members' contribution rates in the LGPS (NI) should not be increased.

Response to the 25 Questions

The Committee's response to the 25 questions you have posed in your call for further evidence is detailed below. The Committee would be pleased to provide you with any additional information you may require.

Scheme Design

Q1) What is an appropriate scheme design for public service pensions? Why?

The Committee supports the statement by the Chancellor in the Spending Review that "the Government will commit to continue with a form of defined benefit pension". It also welcomed your confirmation that public sector pensions are not gold plated but are modest in providing a not excessive level of retirement income.

Your interim report confirmed that the average pension paid to pensioner members is about £7,800 a year. About half of pensioners receive less than £5,600 a year and 90% of pensioners receive less than £17,000 a year.

The comparable figures for the LGPS (NI) are an average pension for the 25,415 pensioners at 30 September 2010 of £3,984 with 91% receiving an average pension of £2,966. Only 34 pensioners receive pensions over £40,000 per year. If 90% of members in the other public sector pension schemes are receiving less than £17,000, which you describe as a "modest level of retirement income", the local government pensioners in Northern Ireland are receiving a less than adequate level of retirement income. Therefore any new pension arrangement introduced for the LGPS (NI) requires to maintain, or increase, the level of retirement income for the lower paid while removing the unjustified disproportionate benefits paid to what you refer to in your interim report as "higher fliers". A replacement pension arrangement which is simple and easy to understand is recommended as it will be more likely to be appreciated by members while being less costly to administer.

While you have indicated that you are considering a number of alternative pension arrangements the only suitable pension arrangement which will maintain, and in some cases improve, the current modest level of retirement income for the lower paid member and remove the over generous level of payment to some higher paid members would be a Career Average Revalued

Earnings Scheme (CARE), provided it is realistically revalued each year. While the appropriate measure to revalue earnings would be in line with national average earnings, as a minimum earnings should be revalued in line with the Consumer Prices Index (CPI). A CARE scheme would be fairer to members as it provides a more equal benefit between short and long service and between low and high earners.

Of the various scheme options you are considering a CARE scheme would meet your requirements of a pension arrangement which is relatively simple to understand and communicate and as it is both affordable and sustainable it is fair to members, employers and tax payers.

Risk - sharing

Q2) Which risks associated with pension saving should the scheme members bear, which by the employer and which should be shared? Why?

The Department of the Environment is the body responsible in Northern Ireland for making the Local Government Pension Scheme Regulations. The Department has set up a Local Government Review Group made up of 4 employers and 4 employees' representatives to evaluate the implementation of the new look Local Government Pension Scheme introduced with effect from 1 April 2009 and to make recommendations on future policy for consideration by the Minister of the Environment.

One of its main responsibilities is the introduction of a cost sharing arrangement between employers and employees. Under the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations (Northern Ireland) 2009 the Department requires to issue a report on cost sharing by the end of January 2011 with a new mechanism scheduled to be in place by April 2011.

The Review Group is therefore looking at the costs suitable to be shared between employers and employees, similar to the arrangements already introduced in the LGPS in England and Wales so that for future actuarial valuations the employers' contribution rate will be capped and future increases shared.

Q3) What mechanisms could be used to help control costs in public service schemes? For example, is there merit in flexible normal pension ages linked to changes in longevity?

The decisions to index pensions in payment to the CPI instead of RPI and the public sector pay freeze have already reduced the future costs of the scheme. The mechanisms which will also help to control costs are as follows:

<u>Cost sharing mechanism</u>

When the Department introduces the agreed cost sharing mechanism for future actuarial valuations increases in costs will be shared between scheme members and employers. There is likely to be a cap on the employers' contribution rate so that increases above this cap will be met entirely by members through either increased contributions or reduced benefits.

<u>Linking the scheme's normal pension age to the state pension age</u>

The current normal retirement age in the LGPS (NI) is age 65 which is in line with the State Pension Age. To cope with increases in longevity the scheme's normal retirement age should be linked to the State Pension age. The NRA would then increase to age 66 from April 2020 and increase to age 67 from 2036 and 68 from 2046 or such earlier date if increases in longevity determine.

Other mechanisms which could be considered are lower accrual rates and salary or benefit caps but if these options were adopted they would reduce the adequacy of the pension provision. For example, according to the Pensions Policy Institute reducing the accrual rate in a final salary scheme from 1/60ths to 1/80ths would reduce the projected replacement rate from 64% to 52% for a median earner.

Given that earnings and ultimately pensions are much lower in the LGPS (NI) adopting this option would have a significant effect on the level of pension income and will have a detrimental impact on recruitment and retention between the public and private sectors. It is likely to lead to more members opting out of, or not joining the scheme, with a resulting increase in dependency on future state means tested benefits. For these reasons this option is not recommended.

Setting a cap on pensionable salary at £75,000 has a negligible impact on the affordability of the scheme because only 80 members out of 44,122 members in the LGPS (NI) would be affected by such a cap. Setting such a cap is therefore not recommended for the LGPS (NI).

What indexation factor should be used in a career average type scheme to ensure a reasonable balance of risk between scheme members and taxpayers?

The appropriate rate to index career average earnings is the increase in national average earnings, and in particular the increase in public sector average earnings. A suitable alternative would be the Retail Prices Index (RPI) as it would ensure that members' earnings maintain their purchasing power. However as the Government has already determined that from April 2011 public sector pensions in payment will in future be increased in line with the Consumer Price Index (CPI) this same indexation factor could be used as the least favourable option.

Q4) Where and how have risks associated with pensions been effectively shared in private sector companies?

The Committee has no experience of how risks are shared in the private sector although it appears that many private companies have transferred all the risk to scheme members by closing their final salary schemes and replacing them with a defined contribution scheme. There is therefore little to be learned from the private sector and it would be more appropriate for the private sector to learn from the public sector and return to providing adequate retirement pensions for its employees.

Q5) Which international examples of good practice in the area of risk sharing should the Commission consider when compiling the final report? Why?

The Committee has no knowledge of good practice international examples of sharing risk.

Q6) What should the split between member and employer contributions look like?

An appropriate split between member and employee contributions would be one third members / two thirds employer. The changes to the LGPS already introduced in 2009 such as the cost sharing mechanism together with the pay freeze, the indexation of pensions to CPI instead of RPI and the proposed raising of NRA to 66 have been estimated to significantly reduce the future service contribution rate for employers. The anticipated rise in government gilt yields used to value pension liabilities from their historically low base should return the split of employer and member contributions to the 2:1 recommended basis.

Q7) Should there be different treatment of different professions (for example, lower normal pension ages for some public service employees)?

There should only be different treatment e.g. lower retirement ages for the uniformed services such as the armed forces, police and firefighters. This should only be possible provided the members pay an appropriately increased contribution rate to fund the earlier retirement age.

Q8) Should there be different treatment for those at different income levels?

The Committee supports different treatment for those at different income levels so that lower paid employees pay a lower contribution rate and higher paid employees pay a higher contribution rate. The current 7 tier member contribution rates introduced to the new look LGPS (NI) from 1 April 2009 meets this objective and no further change is therefore necessary.

An alternative system which could be considered is to introduce a contribution rate based on a person's age. The younger a person is the lower the cost is to fund the scheme benefits. The older a person is and the closer to retirement age the more costly it is to provide the benefits earned. It is also more likely that younger employees will be just starting their career and will be on lower salaries than older employees and therefore a lower contribution rate of say 6% up to age 30 could apply which would increase to 7% at age 30, to 8% at age 40, to 9% at age 50 and to 10% for the over 60's. This system may result in less members opting out of the scheme as they would be paying the low rate when they are younger on a lower wage and not thinking about retirement and may be more willing to pay a higher contribution rate as they approach retirement age and want to provide an adequate level of income for their retirement.

Q9) What is the appropriate normal pension age for the different public service schemes? Should this vary across schemes and, if so, why?

Normal pension age should be age 65 and increased in line with state pension age. As explained in Question 7 the only justification for a lower retirement age is for the uniformed services such as the armed forces, police and firefighters.

Adequacy

Q10) How should the Commission think about measuring adequate levels of resources in retirement?

All of the public sector pension schemes have provided the Commission with details of its pensions in payment. The Commission therefore already has details of the average pension paid by each scheme and the lowest and highest pensions paid. The average pension can be compared to average earnings currently £24,232 in the public sector at September 2010 and to the average pay earned by the scheme members [£20,368 in the LGPS (NI)]. From this information the Commission will be able to determine which schemes already provide an adequate level of retirement income and those, like the LGPS (NI), that require to improve the level of income paid to pensioners

Q11) What should be considered an adequate level of resources in retirement?

The LGPS (NI) has currently over 25,500 pensions in payment. The average pension paid is £3,984 while 91% of pensioners receive an annual income of less than £3,000 at £2,966. The NILGOSC pensioners are receiving somewhere in the region of £57 to £77 per week which is equivalent to only 15% to 20% of the average pay in the Northern Ireland Local Government Pension Scheme. Even although members who contribute for 40 years to the scheme could retire on two thirds of their final pay the reality is completely different in that very few members achieve 40 years service with the average being just over 10 years.

Even when added to the basic state pension of £97.65 per week a total income of £155 - £174 per week will be received by the over whelming majority of NILGOSC pensioners. Although this exceeds the current pension credit level of £132.60 per week it is difficult to justify this amount as providing an adequate level of retirement as it equates to only 40% to 47% of the average NILGOSC pay.

It is clear that not only does the basic state pension require to be increased but there is little scope to reduce the amount of pension paid to 91% of NILGOSC pensioners. As a minimum pensioners should receive approximately 50% of their final pay from their local government pension which when added, to a hopefully increased basic state pension, would increase income in retirement to a level that pensioners would not require to rely on state benefits and would have an adequate level of income in retirement.

Q12) Should a full state pension and a full public service pension ensure people have adequate resources in retirement? Or should room be left for individuals to make their own arrangements?

As entitlement to receive a full state pension has reduced to 30 years there is now more chance of employees receiving the full state pension on retirement. However, very few members in the LGPS (NI) receive a full entitlement to their local government pension. Average scheme membership is just over 10 years and therefore members do not have the benefit of obtaining a full local government pension. There will therefore always be a requirement for a facility for members to make arrangements to pay for additional pension, either through the scheme e.g. via Additional Voluntary Contributions or Additional Regular Contributions, or by taking out additional pension arrangements outwith the scheme e.g. via a stakeholder pension, personal pension, or free standing AVC should they wish to do so.

Q13) How should this change where people work part careers in public service?

Part-time employees are currently treated exactly the same as a full-time employee in the LGPS (NI) and this should not be changed in any new scheme. A Career Average Revalued Earnings defined benefit scheme is better suited to part-time employees and they also require the opportunity to build up other pension rights in any other employment they have had or may have in the future.

Employee understanding and choice

Q14) How much do workers value and understand pensions? Is there any evidence this differs between groups (for example, by age, by income)?

Members are very familiar with final salary benefits and because benefits are based on the number of years the member has been a member of scheme and the level of salary at retirement members know how much they will receive from their pension as proportion of their final salary and are therefore more easily able to plan for their retirement. Any alternative scheme will be more difficult to explain and for members to understand.

However members do value their pension and better understand it when they get closer to retirement. Unfortunately the members who opt not to join or opt out of the scheme tend to be the younger lower paid employees whose main reason for not contributing to the scheme is that they feel they cannot afford to contribute at present because of the other demands on their finances but hope to be able to contribute when they are older. Approximately 60% of all employees eligible to join the scheme have done so and the best solution to ensure members and their dependents are adequately protected is to reintroduce compulsory membership of the scheme for all employees.

Q15) Which forms of scheme design will encourage employees to save for their retirement?

Employees are more interested in the contribution rate when they consider joining the scheme particularly when they are young and on a low pay. Older employees and higher earners are always more willing to join the scheme. The problem is that because they did not join when they were younger they will not have enough years left until retirement to build up an adequate level of retirement income. Many employees wrongly believe that it is not necessary to contribute to an occupational pension as the state will provide them with an adequate retirement income. It is therefore not the scheme design which is so important but more the contribution rate to be paid by members and this is another reason why any increases to the members' contribution rate for LGPS members should be considered very carefully.

Is there any evidence from pension scheme reforms influencing opt out rates in the private sector?

The committee has no knowledge of pension scheme reforms influencing opt out rates in the private sector.

Q16) What best practice exists in the private sector around communication of benefits with scheme members?

As far as the Committee is aware its communication with scheme members in the LGPS (NI) compares very favourably with both the private and public sector. This includes Members' Guides and a Certificate of Admission on joining the scheme, scheme guides on paying AVCs, Increasing Benefits, an Annual Benefit Statement showing the value of scheme benefits and state benefits, a Retirement Guide, an annual Members News for active members with specific versions for Deferred Members and Pensioners to explain any applicable scheme changes and the main items of interest from the Annual Report and Accounts. A copy of the full Annual Accounts is available on request or on the up to date and informative web site. Regular news items on regulation amendments and other areas of concern or interest are issued to members' home addresses throughout the year as necessary. The Committee also runs regular scheme benefit seminars, retirement seminars, redundancy and leaving the scheme seminars, as well as running individual pensions surgeries for members at their offices or local hotels.

Q17) Should any new scheme design offer members a degree of choice in the level of contributions paid and benefits received? For example, should members be able to receive a higher pension if they want to take the pension later? Why?

The current scheme design provides for members taking their benefits before age 65 to receive actuarially reduced benefits to pay for the additional cost of paying the benefits early. Similarly if the member delays retirement to beyond age 65 the benefits paid are actuarially increased to compensate members for delaying their payment.

As per the response to question 12, there will always be a requirement for a facility for members to make arrangements to pay for additional pension, either through the scheme e.g. via Additional Voluntary Contributions or Additional Regular Contributions, or by taking out additional pension arrangements outwith the scheme e.g. via a stakeholder pension, personal pension, or free standing AVC should they wish to do so. This is necessary because very few members will have the benefit of accruing 40 or more years in the local government scheme. However any new scheme should be as simple as possible, with as few choices as possible, in order to ensure maximum take up and to protect members.

Pensions and plurality of provision of public services

Q18) Whether and how public service pensions could be structured to support a more level playing field between the public and private sectors when tendering for contracts?

The Fair Deal for employees transferring from the public sector to the private sector was set out in the Cabinet Office Statement of Practice: Staff Transfers in the Public Sector which was published in 2000. It provided a framework to protect the pensions of staff transferring to the private sector due to outsourcing of services.

Under the framework the private contractor who wins the outsourced contract is required to provide for the transferred staff a pension arrangement which is broadly comparable to the employees' public sector scheme prior to the transfer.

The Local Government Pension Scheme (Administration) Regulations (Northern Ireland) 2009 allow a private contractor to become a "transferee admission body" when a service is transferred under a contract from an employing authority in the scheme to a private contractor. The regulations require both the transferring employing authority and the private contractor to become party to the admission agreement so that the funding of the pension liabilities of the transferred employees will be met by either the contractor or the former employing authority. This is necessary in a funded scheme like the LGPS (NI) so that all pension liabilities are met by the private contractor/former employing authority and not met by the other scheme employers.

In this respect, the LGPS (NI) is far more open than other public service pension schemes which generally do not permit staff transferred to private contractors to continue to participate in the scheme for the duration of the outsourced contract. The option of an admission agreement means that there is a much more level playing field in local authority outsourcings than in other public service outsourcings.

Our experience, with only 3 contractors contributing to the scheme is that they have all chosen to close the scheme to new entrants resulting in a higher starting employer contribution rate.

The effect of removing “Fair Deal” and moving to the position that applies in the case of private sector to private sector transfers would be that contract prices could be lowered and contractors would not be faced with potentially having different pension arrangements for different groups of staff. Additionally, it may be that the pool of potential bidders would widen as those that had previously been deterred from bidding due to the pension implications would now be prepared to bid for a contract. However there would be some significant downsides e.g.:

- industrial relations would suffer and it would be more difficult to “sell” the transfer to the affected staff;
- in-house bids would be at a disadvantage as contractors would be able to factor in lower pension costs into their bids whereas the in-house bidder would have to offer access to the LGPS (NI) with its resulting higher cost. This would create an uneven playing field;
- former local authority staff would be offered a poorer pension provision such as a defined contribution scheme or more likely only NEST when it is introduced which would have long term consequences for the staff involved and for the tax payer if the result was ultimately to be an increased reliance on State benefits.

If “Fair Deal” is to protect employees, no changes would be made as any weakening of the arrangements means that either the transferred employee suffers or the costs of funding the scheme are not being fully met by the private contractor which disadvantages inhouse bidders. If “Fair Deal” is changed to enable private contractors to reduce their pension liabilities the only option is to restrict membership to the local government pension scheme and set up a minimum pension arrangement which will under the total responsibility of the private contractor to run and fund.

Q19) Which non-public service employees should be eligible for membership of public service schemes?

As previously explained in the “Background to NILGOSC” on page 1 there are 204 employing authorities contributing to the scheme. They include the 26 councils, the 5 Education Boards, the Library Authority, the Translink companies of UlsterBus, CityBus, and Northern Ireland Railways, the Northern Ireland Housing Executive, 93 Schools, Colleges and Universities, 25 Housing Associations, and 50 other admitted public bodies. The range of body therefore includes Councils, educational establishments, public transport, social housing, charities and private contractors.

However not all employers are sponsored by central or local government and the Committee is experiencing significant difficulties with employers either leaving the scheme or closing the scheme to new members who are trying to avoid meeting their cessation debt liability. One court case is pending where the potential cessation debt is approximately £40m and a further employer which ceased contributing to the scheme on 31 March 2006 has still to pay its cessation debt of over £6m.

The scheme should remain as it is, open only to public sector employers, including those private contractor employers which run a public service on behalf of an employing authority, provided all the benefit liabilities are 100% guaranteed by either local or central government or an appropriate guarantor.

Administration costs

Q20) What evidence is there on administration costs (excluding fund management costs) of private sector pension schemes? How do these compare with those in the public service schemes?

The average private sector in-house costs are £47.00 per member and for private sector outsourced costs are £41.00 per member. This compares to the NILGOSC cost of administration of £30.88 per member. However to compare administration effectively requires the calculations to be on the same basis. A scheme with multiple employers (i.e. an LGPS Scheme) with a high proportion of active members compared to pensioner and deferred members would be much more expensive to administer than a 1 employer scheme (a typical private sector scheme) which may also have a higher proportion of pensioners and deferred members to active members would have a much lower administration cost. It is therefore very difficult to compare administration costs effectively between different schemes.

Q21) How do private sector schemes ensure that there is good quality and efficient scheme administration? Which measures can be applied to public service schemes?

The Committee has no experience of good quality and efficient scheme administration in the private sector. Its experience in dealing with the private sector for the transfer in and transfer out of pension arrangements has generally been poor resulting in low quality and inefficient administration when compared to the service provided by this Committee.

Q22) Is there scope for rationalising the number of local government pension funds? If so, how could this be achieved?

There is only one fund in Northern Ireland and therefore no further change is necessary.

Transition issues

Q23) How can the Commission ensure an effective transition to the new arrangements?

To ensure an effective transition there must be sufficient time allowed to implement the new scheme. The regulations will require to be accurately drafted and made, the computer software changes required programmed, tested and implemented, the scheme literature and explanatory guides drafted and printed, staff trained in the operation of the new scheme and having it explained to the contributing employers and communicated to the members, pensioners and deferred pensioners. The new scheme introduced in 2009 had 84 major program errors when introduced on 1 April 2009 which took 18 months to correct. Regulation amendments are still outstanding which are required to correct drafting errors and the Government Actuary has still not provided all the tables required to carry out non club transfers. As a result significant backlogs are being built up. A minimum of 2 years should therefore be allowed to ensure that all parties involved in the transition can work together to guarantee an effective implementation of any new scheme.

If a new scheme is introduced the transition basis to the new scheme should be similar to the transition basis used to transfer from the pre 2009 scheme to the post 2009 scheme.

Under the Transition Regulations members benefits to 31 March 2009 were protected. Membership from 1 April 2009 for all existing members and new members is calculated in accordance with the new accrual rate and members' final pay while membership to 31 March 2009 is calculated on the formal accrual rate but on the member's final pay on retiring or leaving the scheme. On retirement or leaving the scheme the pre 1 April 2009 accrued benefits and the post 31 March 2009 benefits are added together to calculate the total pension benefits to be paid.

A deferred pension and lump sum could therefore be calculated for all 44,022 members at the date of transition and either increased in line with the members' final pay or increased by some other appropriate factor and added to the new scheme benefits on retirement or leaving the scheme.

This arrangement would be the fairest and most suitable to protect members' accrued entitlement and will be easily understood by members.

Q24) What can the Commission learn about moving to a new scheme from best practice in the private sector and internationally?

The Committee has no experience of how, internationally the private sector moved to a new scheme.

Q25) How have accrued rights been protected or transferred during changes in schemes in the private sector?

The Committee has no experience of how the private sector has protected accrued rights of members transferring to a new scheme

The Committee trusts you will be able to recommend an alternative scheme model, such as a CARE defined benefit scheme, that will not only provide a fair sharing of risk between the scheme member, the employer and the tax payer but will ensure that an adequate pension is payable to scheme members on retirement.

Yours sincerely

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Secretary

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