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The Leading Public Service Union

Brian Campfield General Secretary

Consultation on Proposals from
Public Service Pension Reform
Civil Service Pensions
Department of Finance & Personnel
Waterside House
75 Duke Street
LONDONDERRY
BT47 6FP

8 April 2013

Dear Sir/Madam

NORTHERN IRELAND PUBLIC SERVICE PENSIONS REFORM

I refer to the DFP consultation document of 21 January 2013 in respect of the above.

I am attaching a copy of the NIPSA response to the consultation document, a hard copy will follow by post.

NIPSA's position is set out in the response. NIPSA requires specific and detailed responses to all of the numerous issues raised in the response. NIPSA will also be vigorously pursuing these matters with the NI Assembly DFP Committee and in the negotiations between NICICTU and DFP/Sponsoring Departments.

Yours sincerely

BUMPER GRAHAM
Assistant General Secretary

Bg08041a

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NORTHERN IRELAND PUBLIC SERVICE

PENSIONS REFORM

Consultation on Proposals to Reform Public

Service Pensions from April 2015

(DFP Publication 21 January 2013)

Response of the Northern Ireland Public Service

Alliance (NIPSA)

April 2013

INTRODUCTION

1. NIPSA is Northern Ireland's largest Public Service Trade Union with over 46,500 members.

2. Of those 46,500 members circa 45,000 are affected by the proposals to be contained in the Northern Ireland Public Service Pension Bill. The main Schemes in which NIPSA has membership are the PCSPS (NI), HSC Superannuation Scheme and the LGPS/NILGOSC Scheme, NIPSA also has an interest in other related Schemes.

3. NIPSA does not accept the DFP position in respect of the "engagement" and/or "consultation" process with the trade unions. Pension provision is a fundamental feature of terms and conditions and is legally deemed to be deferred pay this therefore requires full and open negotiations with the trade unions that represent members covered by the proposed Bill.

4. Even if the "consultation" point was to be accepted for the purpose of the current DFP public consultation, as per the 21/1/13 document NIPSA would remind DFP and the Minister as to the judgement of Lord Woolf. Specifically to how Woolf, Master of the Rolls in R v North & East Devon Health Authority, et parte Coughlan (2001) QB 213 ruled as to the meaning and purpose of consultation.

5. A further failing of the process is that the NI Bill is to be predicated on the Westminster Bill, yet that Bill has not completed it's passage with the Ping Pong stage set for the 23 April 2013.

6. As will be illustrated in the comments that follow NIPSA is wholly opposed to the proposed content of the NI Bill. In addition, the Bill needs to be considered in a much wider context with regard to both Pubic Service Pensions and proposed changes to the State Pension.

7. The change in indexation from RPI to CPI adversely impacts on the value of pubic service pensions by circa 15%. In addition for the unfunded schemes (all those within the ambit of the Bill except LGPS/NILGOSC) the additional employee contributions are to average out at 3.2% by April 2014. These represent yet further attacks on pubic sector pensions.

8. The Westminster DWP whitepaper and subsequent draft bill of January 2013, "The Single-Tier Pension: A Simple Foundation for Saving, has major implications for public service pensions. In particular two aspects;

   (i) the arrangements for increasing the State Pension Age; and

   (ii) the ending of contracting-out.

9. The comments that follow are based on the structure of the DFP consultation paper of 21/1/13.

CONSULTATION DOCUMENT

10. **Purpose**: NIPSA does not accept that it is the role of the NI Executive and in particular the NI Assembly to just replicate in full the Westminster Bill. Public Service Pensions are a devolved matter and there is a need to give full and proper assessment to the issues raised in this response and by the NIC ICTU Trade Union Side both in it's engagement with the Assembly DFP Committee and in the meetings with DFP/Sponsoring Departments Officials.

11. **Background: Why are Reforms Needed?**: in 2005 public service unions entered in to negotiations with employers on a scheme-by-scheme basis and agreed certain outcomes for the future of public service pension schemes. In many cases the change either had still to be introduced and/or agreement reached on measures such as "cap and collar". The current Westminster Government reneged on the outcome of those negotiations as soon as it was elected in 2010. NIPSA whilst unhappy with aspects of the 2005 changes believes that they provided the basis for fair and sustainable public service pension reform.

12. It is NIPSA's view that the totality of the changes (see paragraphs 7 and 8) are not only an attack on public servants but will also seriously damage scheme sustainability. The implications being likely further additional contribution increases, further increases to normal retirement age and yet more diminution of scheme benefits. This will result in greater dependence

upon welfare benefits by retired public servants and exacerbate pensioner poverty.

13. Reference is made to the work of the "Independent Public Service Pensions Commission (IPSPC), otherwise known as the Hutton Report. NIPSA disputes the "independence of the IPSPC and would also point out that the Westminster Government interceded on the work of the Commission via the unilateral decision to change indexation to CPI from RPI. The Government also determined at interim report stage to apply the average 3.2% additional contributions, again without any negotiation or consultation.

14. Attached as an appendix to this response are a copy of;

(i) NIPSA Commentary and Assessment of the IPSPC interim report; and

(ii) the NIPSA submission to the second call for evidence by the IPSPC.

15. **Managing Pension Costs:** Reference is made to the potential losses to the NI block funding. There is no proper basis or assessment of how the Finance Minister arrived at the quoted £262m figure.

16. This section at least brings some honesty to the basis for the proposed changes. It identifies that by circa 2060 the GDP costs of pubic service pensions will fall from 1.5% to 0.9%. This is clearly linked to the proposals for the changes to the state pension (see paragraph 8) with its aim being by 2060 to reduce GDP expenditure on state pensions from 8.5% to 8.1%. (Also attached as an appendix is the NIPSA response to the DWP White Paper).

17. Reference is made to DFP's own "actuarial analysis" if this is the document provided to the NIC ICTU Trade Union Side then NIPSA disputes the accuracy of the figures. The work done by GAD was predicated on the NI HSC Scheme extrapolated across the rest of the NI Public Service Schemes on a 7% figure. The HSC costing is disputed as it applied a baseline cost of 26% vis-à-vis the published cost figure of 21%. No account was taken of scheme variables across the other schemes such as membership uptake pension values, age profile, impact of auto-enrolment to list just a few.

18. The unions have pressed for and to date been denied (with the exception of NILGOSC) full scheme triennial actuarial assessments. Costings that can be relied upon can only be so when those assessments are made available.

19. The costs to the NI Block and the cost for social security have not been properly assessed. In particular the wider macro economic impact of increasing the normal retirement age with the resultant reduction in labour market opportunities for the unemployed, school/university leavers and those seeking to return to the labour market has not been researched.

20. There are clear adverse economic considerations for Northern Ireland that have not been factored in as well as the costs to the social security budget (see also paragraph 12).

21. In addition issues such as the "grey pound" spend have not been assessed.

22. **<u>The Bill in Westminster</u>:** As per paragraph 5, the Bill has yet to be completed. In the stages to date there have been a number of changes and it remains to be seen as to what the final form of the Bill will be. Given the timeline it is not acceptable to NIPSA that negotiations on the NI Bill should be shoehorned or truncated in order to meet unrealistic timeframes imposed by the Government at Westminster.

23. **<u>Core Provisions</u>:** As per paragraph 11 the post 2005 outcome addressed these issues and it must therefore be concluded that the intent of the Government is to again attack pubic servants and make them pay for the wider economic mismanagement of the UK.

24. **<u>CARE</u>:** NIPSA does not accept that any case has been made to remove the final salary link, it is accepted that some NIPSA members are already covered by a CARE Scheme i.e. NUVOS PCSPS (NI) members. There are options/solutions that can deal with what are deemed to be excesses in terms of those who enjoy pensions for example that produce annual income into six figures. Such examples should be dealt with by a fairer general taxation regime.

25. **<u>Linking NRA to SPA</u>:** See comments elsewhere in this response as to the need to assess the macro economic impact in Northern Ireland. NIPSA

believes without prejudice that at the very least there is value in establishing a Northern Ireland Review Group, similar to that established for the NHS Scheme to examine the increased NRA for various occupational groups across the Schemes. Another option that should be examined is the flexible decade of retirement, this would allow for people to leave early without actuarial deductions on the basis that going forward others will wish to stay beyond the NRA.

26. **Review Arrangements for NRA:** See comments in the response to the DWP White Paper on Single Tier pension.

27. **Final Salary Link for Accrued Service:** This is not giving anything, these are acquired rights related to pension as deferred pay. It is also the case that to do otherwise would be contrary to the convention on Human Rights as it is deemed that pensions are property and to have any erosion of the acquired entitlement would constitute theft of personal possessions.

28. **Cap/Collar:** NIPSA does not accept the cost basis of the HMT/GAD model scheme, nor the two papers of November 12 on cap/collar and triennial review mechanics. The cost envelope was worked backwards to suit what Government determined would be the maximum amount it would contribute to the schemes. The impact of breaching the collar will only result in further damage to schemes by increased opt outs as the only two solutions are either reduced benefits and/or further additional employee contributions. An additional issue relates to the correlation between increased NRA and ill-

health retirements, these costs should not be included as they relate directly to the Governments decision to both increase NRA and to further link it to increases in SPA.

The cost sharing aspect was one of the post 2005 reforms that discussions had only commenced on within the various schemes.

29. **Protections:** The protections if required as a consequence of the NI Executive/Assembly forcing changes should run for 10 years plus the taper from the implementation date of the revised schemes. De facto they are not 10 year protections given they ran from 1/4/12 yet it is planned that the implementation date is 1/4/15, thus really only 7 year protections (with LCPS/NILGOSC having a proposed 1/4/2014 date).

30. **Governance:** NIPSA supports the governance arrangements for NILGOSC in respect of scheme oversight/administration. There needs also to be proper negotiating bodies established to deal with scheme regulations, cap/collar, etc. The DOE LGPS/NILGOSC Review Group could form the basis for such scheme specific bodies.

31. **Twenty Five Year Guarantee:** There is no reference to this in the document yet it is a fundamental tenant of the Government's position, albeit wiped out as a consequence of the Single State Pension proposals.

32. **<u>General NI Position</u>:** As per the comments at paragraph 10 it is NIPSA's view that the NI Executive and Assembly should fully exercise it's devolved authority on public service pensions. There is no justification to slavishly follow the Westminster Bill, especially when predicated upon false assumptions as to the NI Block impact (see paragraph 17). There is also a total contradiction between the position taken on Corporation Tax and that on public service pensions and indeed other issues that adversely impact on working people vis-à-vis the corporate fat cats.

33. As clearly pointed out pensions are both a negotiable matter and deferred pay therefore the NI Executive had no right to come to a unilateral decision on 8/8/12 without any negotiation or consultation with trade unions and scheme members.

34. The timeline is wholly unacceptable (see paragraph 5). At 5 April the position for the LGPS England/Wales is still not clear thus making it impractical for NILGOSC changes from 2014. The 2015 date for other schemes is also not viable, given the timeline for the Bill and the need for scheme-by-scheme negotiations on the regulations.

35. No reference has been made to the November 12 HMT Paper on Fair Deal. NIPSA does not wish to see the Westminster approach being taken, it is NIPSA's position that full Fair Deal provisions need to be on the face of the Bill.

36. **EQIA Screening:** NIPSA fully rejects the decision to screen out a full EQIA. It is NIPSA's view that this is a pre-determined decision to (i) help expedite passage of the Bill and (ii) to deliberately ignore clear equality issues that arise.

37. **Part 1:** NIPSA contends that the proposals do represent a new policy rather than a change to existing policy. The scale of the changes are so draconian and fundamental to render the new schemes as being totally incomparable with the current schemes.

38. **Implementation Factors:** As per comments on the consultation document NIPSA totally rejects the financial analysis of the costings.

39. **Stakeholders Affected:** This is flawed as clearly the proposals impact upon trade unions in the representation of their members rights and entitlements with regard to pensions.

40. **Available Evidence Section 75 Category:** This is a very flawed, incomplete and gross over simplification of the totality of the issues and the inter-relationships between Section 75 categories.

41. **Racial Groups:** There is no evidence of any research into the uptake/opt-out of scheme membership by different racial groups. Pensions are a complex issue and the various proposed changes add greatly to such complexity. It is

possible that Racial Groups are more likely to have difficulties understanding and dealing with the complexities around pensions.

42. **Age:** It is clear that the proposals have age implications which need to be fully assessed. All schemes have full age profile data to state age profile is not available for NILGOSC is a clear distortion of the facts. If not then it is a demonstration that DFP did not go looking for the data.

43. **Marital Status:** As with age in respect of the data. In fact all schemes require nomination forms to be completed as well as dependants data to be held.

44. **Men/Women Generally:** Again all schemes have full data sets.

45. **Dependants:** See paragraph 43.

46. This lack of application clearly demonstrates a totally flawed process and endorses the points made re a re-determined outcome to the screening process.

47. **Needs, Experiences and Priorities:** Given the total lack of research and data gathering/analysis it is not surprising such N/A conclusions are drawn. A proper assessment would produce differing results.

48. **Part 2 Screening Questions:** Given the comments on paragraphs 36-47 above NIPSA rejects the conclusions in respect of the following Section 75 groups in particular; Age, Men/Women and Dependents.

49 **Part 3 Screening Decision:** To rely on the basis that all that is happening is a transposition of the Westminster Bill to Northern Ireland is not acceptable and not a defence against a full EQIA.

50. The FBU have provided evidence with regard to adverse impact on women fire-fighters and the LGPS England/Wales EIA identified equality impact issues.

51. The decision of the NI Executive is not binding as the ultimate authority rests with the NI Assembly in respect of the passage of legislation.

52. The screening is totally flawed due to the massive evidence/data gaps in spite of the readily available existence of such data.

53. NIPSA will lodge a complaint to the Equality Commission should a full EQIA not be completed.

CONCLUSIONS

54. NIPSA without prejudice to it's opposition to the totality of public sector pension scheme reforms and the interface with the proposed revision from

April 2016 of the state pension provisions believes that the decisions of the NI Executive, DFP Minister and DFP Officials are wholly flawed.

55. The comments in this response clearly identify such failings. NIPSA calls on the NI Executive to scrap the proposals in their entirety.

56. In addition NIPSA calls on the NI Executive to reopen negotiations to include an examination of the impact of the RPI to CPI indexation change, additional employee contributions and the interface with the state pension proposals.

INDEPENDENT PUBLIC SERVICE PENSIONS COMMISSION

INTERIM REPORT – 7 OCTOBER 2010

NIPSA COMMENTARY AND ASSESSMENT

Note
- *The references in this Commentary and Assessment relate to the structure of the Interim Report.*
- *Issues that arise in either the Foreword and/or Executive Summary are covered within the commentary on the substantive chapter of the Report.*

Chapter 1 – The Pensions Landscape

Para

1.7	The Report acknowledges that employee contribution rates have increased "somewhat in recent years" and is dismissive of such increases. The recent changes to Public Service schemes have resulted in real level increases in employee contributions of 56% -v- a 33% increase in scheme costs.
1.9	Public Sector schemes historically led the way in pension scheme design, now Hutton bends to the trend set by the private sector to disimprove the provision of decent pension schemes.
1.10	The development of differences within Sectors e.g. three Civil Service schemes and the divergence of schemes are not the fault of scheme members past or current but a reflection of tinkering and changes brought about by various Governments.
1.11	Given the number of public service pension scheme members there should be greater recognition of the impact on state social security payments, should either changes or withdrawal of scheme members place a greater demand upon the benefit system.
1.14 (Box 1.B)	Not only is the NHS scheme returning a positive excess i.e. total contributions for 2009/10 being in excess of all benefit payments by some £2bn, so is the NILGOSC scheme which for 2009/10 had a surplus of circa £41.5m on contributions over benefit payments and expenses.
1.20	The Report recognises that currently there are twice as many female active members within the schemes and that male earnings and

hence pensions are higher than female benefits, yet nowhere in the Report does it raise the question of equality proofing.

1.24 Whilst Hutton in his press release and Foreword nailed the myth of Public Service Pension Schemes not being Gold-Plated the Table 1.B confirms this by detailing the value of the average mean pension value for each of the main schemes, including LGPS (England) £4,052, NHS (England/Wales) £7,234 and Civil Service (UK) £6,199. The overall average is £6,497 which is influenced by higher mean averages for Teachers (England/Wales) of £9,806 and the Armed Forces (UK) £7,722.

1.25 Data shows over 50% of pensioners in receipt of pensions of less than £6,000 pa but 1:10 males and 1:25 females receiving pensions in excess of £20,000 pa, whilst this accounts for less than 5% of pensioners, pensions in excess of £20,000 account for 25% of costs.

1.26 The gender equality issue is brought into stark relief with the production of the data showing male media pensions just over £8,000 pa and media female pensions at just under £4,000 pa.

1.27 The imbalance of public service pensions is again highlighted by the data at this section of the report, approximately 50% LGPS pensions receive less than £3,000 pa but yet 59% of police pensioners receive over £15,000 pa. Despite these differences the Report seeks to treat all Public Service Pension Schemes as one for the purposes of Phase 2 recommendations.

1.30 The vast differences of pension values within schemes is highlighted here with 1% of pensioners in receipt of pensions worth at least £37,000 per annum $^2/_3$ of which are within the NHS scheme mainly paid to long-serving Doctors. This also distorts the mean value of the NHS pension at £7,234 pa.

1.36 This highlights not only the (----------------) value of private sector pensions but the scurrilous fact that private sector employers do not contribute towards employee pensions in the main. Of 19 million private sector employees only 6.6 million are in any employer scheme, equating to approximately 35%, compared to 85% of public servants who are in a scheme.

1.44 Confirms the inherent problems of defined contribution schemes in having the member/employee carry all the risk, yet Hutton does not totally rule out some potential role for a defined contribution mechanism going forward.

Chapter 2 – Recent Reforms to Public Sector Pensions

Para

2.4/2.5/2.6 + Table 2.A	This provides a feint synopsis of the various changes that came about following the Public Services Forum discussions on the need to examine the structure of Public Service Pensions. Whilst earlier in the Report (1.1) he comments that Public Service Pensions have not seen much change since the 19th century. Clearly, he cannot be right on both counts and the changes over recent years have been significant.
2.7	'Cap and Share' or cost sharing as referred to in the review of 2005 have not yet been introduced. Discussions are continuing on the introduction of this mechanism. Despite this Hutton intends to introduce yet more reform before the agreed reforms have been imbedded.
2.14	The new Government pre-empted Hutton with the announcement in the June 2010 budget that CPI movements rather than RPI would be used for indexing going forward. This makes a significant change to the cost of schemes and more importantly attacks the value of pensions. Based on historic rates of RPI and CPI a pensioner today retiring on a £5,000 final-salary could expect an income of £9,737 in 20 years if it is uprated in line with RPI. However, if it is uprated in line with CPI it will only be worth £8,497 – 13% less. Over that 20 year period, the pensioner will miss out on £10,367 of income. The longer the pensioner lives – the worse the impact will be. This is therefore likely to mean as each year passes a greater likelihood if not inevitability that the state will have to top-up the pension with social security payments.
2.15	Confirms the average impact of this change on scheme costs and with other scheme changes post the 2005 Public Service Forum outcome results in a 25% reduction in the totality of the pension package.

Chapter 3 – The Framework of Principles

This chapter sets out in broader detail the four principles as referred to in the cover circular i.e.

- affordable and sustainable;
- adequate and fair;
- support productivity; and
- transparent and simple.

Chapters 4-7 (inc) cover each of the four principles in detail.

Chapter 4 – Affordable and Sustainable

This chapter deals with long-term estimates of the cost of pensions and in doing so examines complex assessments of the likely cost against a number of economic measurements. In addition the report recognises in a limited manner the fundamental difference between unfunded schemes and funded schemes such as the Local Government Pension Scheme.

Para

4.21/4.22 4.23/4.24 Considerable comment is made on the Report and by those who seek to dilute Public Service Pensions of the costs as a proportion of Gross Domestic Product (GDP). Over the period 2009/10 (1.7% GDP) 2019/2020 – 2029/2030 (1.9% GDP) falling back to 1.7% by 2049/50. Given that there are 12 million active/deferred/pensioner members of public service pensions this is not a high level of GDP expenditure.

It also fails to take into account the extra cost that could fall upon GDP expenditure from state pensions should more public service pensioners have to depend upon pension guarantee payments and/or total opt-outs by public servants from pension schemes. Over the same projected period GDP expenditure for state pensions rages from 5.3% to 6.5%.

Chapter 5 – Adequate and Fair

Para

5.2-5.7 Seeks to deal with what is an adequate level of income for those in retirement. T here are many measures for this and the Report (-------) in the proposals put forward by Lord Turner Pensions Commission. This is based on a percentage of final gross income as detailed in table 5A.

In NIPSA's submission (para 2.9) the case was made that the minimum total pension income should be the European Decency Threshold. This would link to some degree with Turners aims.

This would lift all pensioners out of the poverty trap and also remove dependency upon the Pension Guarantee Credit. Currently the State Pension and Guarantee Credit is made up as follows:

	State Pension	Guarantee Credit	Difference
Single Person	£4,907 pa	£6,779 pa	£1,812 pa
Married Couple	£7,941 pa	£10,345 pa	£2,407 pa

As can be seen from the data in the Report vary many public service pensioners are in receipt of occupational pensions that only just lift them above the pension credit level.

5.12 The Report acknowledges that many women will not reach the Turner levels of adequacy. This confirms the need as identifiable in the comment above on para 1.20 of the Report for full equality proofing of Hutton's proposals.

5.19/5.20 These paras demonstrate the lack of fairness between the Public Service schemes in terms of the average value of pension payments as a percentage of salary.

4.65/4.66 Each scheme has to complete triennial detailed actuarial assessments in order to assess the current funding or national funding levels and projected funding levels to meet liabilities going forward. These reviews are known as the Actuarial Valuation and for many of the schemes these are due to be published in November 2010. The Phase II Report will consider these, along with a longer term assessment of the move for indexation from RPI to CPI.

4.76 The Report comments at 4.76 – 4.95 (inc) on the English LGPS, recognising the differences between a fully funded i.e. invested scheme as opposed to the majority of Public Service schemes which operate on a pay-as-you-go basis i.e. pension costs come each year from a mix of employee contributions and HMT top-up payments. In Northern Ireland the NILGOSC Scheme is an invested scheme and broadly in line with the LGPS as to structure and regulations.

4.79 The LGPS (England) is cash positive and will be liable to remain so until sometime in the period 2016-2025 i.e. the income from employer/employee contributions each year exceeds the value of the pension payments. The NILGOSC scheme is also cash positive.

4.93 The Report concludes that there should be no change to the status/arrangements for the LGPS.

4.95 Taking what is said at 4.93 this para states that the LGPS should 'in line with the unfunded schemes need to consider long-term structural reform of benefits and employee contribution rates".

It is unclear from these statements if Hutton expects whatever comes out from Phase II to apply to funded schemes such as the LGPS.

5.31 (Box 5.C) The Report uses the projective term of 'low flyers' vis-a-vis 'high flyers' to distinguish between lower/moderately paid and high earners. The example given nevertheless does demonstrate the very real value differences in the percentage rate of pension pay expressed as a percentage over average career salary.

The signal is very clear that the Phase II report will address this disparity, either via introduction of a career average based scheme in capping the value of what is deemed to be pensionable pay.

5.35 This comments on the recent reforms in some schemes to introduce tiered contribution levels as a means in some degree to address the disparity issue detailed at Box 5.C. whilst tiered contribution levels are deemed to have made some change for better equity they have an cannot address the inequalities.

Chapter 6 – Supporting Productivity

This chapter is most concerning in that Hutton seeks to undermine 'Fair Deal' the agreement on transferring functions from the public sector to the private sector and in doing to having to ensure that the Private Sector transferee employer has in place a broadly comparable pension scheme to the public sector scheme from which the employee is being compulsory transferred from. This is covered in detail in the Report a Box 6.C.

Not only is this an attack on public service pensions but it is a very clear attempt to assist the Government in its wider anti-public service ethos and to assist with its plans for privatisation, contracting out and externalisation.

Chapter 7 – Transparent and Simple

This Chapter correctly comments on the complexities of scheme rules/regulations and how difficult it is for most people, be they scheme members or the public, to understand scheme funding, entitlements etc. It fails however to consider the general lack of real scheme member participation in the control of the various public sector pension schemes.

Chapter 8 – Reform: Short-Term Options for Reform

Para

Box 8.A The Report recognises the need for proper protection of scheme members accrued rights i.e. those that they have built-up to the point of any change.

Hutton recommends to Government that they should consider as an immediate step increasing member contribution rates. This is despite the fact member contributions have seen real level increase of 56% in recent years (see para 1.7) and that with Cost-Sharing/Cap and Share further increases are looming over the short-term.

It is significant that Hutton calls for the Armed Forces to be excluded from this. The Armed Forces do not contribute currently but yet have a scheme that is more generous than most as demonstrated in table 5.C with a 32% on average payment of salary, compared to 17% in the Civil Service and NHS schemes.

Hutton does however acknowledge the need to protect the low paid but more from the perspective of the likely adverse impact on scheme membership due to the likelihood of increased op-outs from scheme membership.

8.1 The Report acknowledges that pensions are long-term matters and that the Government cannot expect quick short-term gain, this is over and above what they achieved with the indexation move from RPI to CPI.

8.18

Chapter 9 – Long-Term Structural Reform

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Annexes

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NORTHERN • IRELAND • PUBLIC • SERVICE • ALLIANCE

SUBMISSION TO THE SECOND CALL FOR EVIDENCE (1 NOVEMBER 2010) OF THE INDEPENDENT PUBLIC SERVICE PENSIONS COMMISSION

15 December 2010

1. INTRODUCTION

1.1 NIPSA is Northern Ireland's largest trade union representing 46,000 members employed in the Northern Ireland Civil Service, Non Departmental Public Bodies, Public Services, Local Government and the Community/Voluntary Sector.

1.2 With regard to the Public Service Pension Scheme coverage of the Commission, NIPSA has membership as follows:-

- Principal Civil Service Pension Scheme Northern Ireland (PCSPSNI) circa 21,000 members
- Health and Personal Social Services Northern Ireland Pension Scheme (HPSS) circa 9,000 members
- Northern Ireland Local Government Officers Superannuation Scheme (NILGOSC) circa 15,000 members.

1.3 In addition to the 45,000 active members of the above schemes NIPSA has retired members in all of the schemes, as well as former members holding deferred member rights in the schemes.

1.4 With regard to the specific Northern Ireland schemes these are primarily based upon the principle of parity with the relevant Great Britain scheme e.g. NILGOSC and the Local Government Pension Scheme. The provision of parity is based on specific legislation and/or contractual entitlements.

1.5 NIPSA was part of the trade union delegation that met with Lord Hutton on his Belfast visit and NIPSA officials have raised issues relating to the work of the Commission in other forums e.g. NAPF Local Authority Forum on the 12 November. On these occasions Lord Hutton has been specific that his work does not extend per-se to Northern Ireland and that any decision to action recommendations is one for the Northern Ireland Executive.

1.6 NIPSA acknowledges the very precise point being made by Lord Hutton but would point out that the schemes are in the main by-analogy versions of GB schemes provided for in legislation and/or contracts of employment and therefore the Commission's recommendations are liable to follow through to Northern Ireland.

1.7 Likewise the impact of decisions such as the move from RPI to CPI for indexing, the pension tax changes and the public sector pay freezes all have impacted on the pension provision for active/deferred members and pensioner members of public service pension schemes within Northern Ireland.

1.8 NIPSA made a detailed submission to the first call for evidence and has provided a detailed briefing on the Phase I Report of the Commission; this is available from the NIPSA website at www.nipsa.org.uk/Campaigns/Public-Service-Defence-Campaign/PublicServices-Pensions-Independent-Commission-Interim-Report-NIPSA-Briefing'

2 OVERVIEW

2.1 NIPSA was disappointed with the overall thrust and recommendations contained in the Commission's Interim Report. Whilst NIPSA welcomed the commitment to retaining defined benefit pension schemes and the dismissal of the myth that public service pension schemes are 'gold-plated', we are concerned that it paves the way for further adverse changes to public sector pension provision.

2.2 The Interim Report correctly acknowledges the very considerable disimprovements over the past decade in private sector pension provision but it does not go far enough to put the emphasis on the need for these to be improved. It is in this area that Government is exposed, on the one hand to major state intervention to bolster wholly inadequate levels of occupational pension and on the other hand it shores up the massive greed and tax exploitation by the top 1% of Directors/Senior Managers in respect of their pension provisions.

2.3 The Interim Report at Chapter 5 covers the issues of adequacy and fairness. NIPSA considers this to be a key issue, including the question of equality; it is therefore more than disappointing that there is neither any evidence nor call for full equality proofing of either the Interim Report or the Commission's final recommendations.

2.4 As with the point made at 2.2 above on state subvention i.e. via payment of pension credit the Interim Report at paras 5.2-5.7 recognises, to a point, this issue but fails to fully address the matter. NIPSA does not believe that the Report's recommendations and the actions of the Government, especially over indexation will do anything to improve the inadequate levels of pension provision.

2.5 NIPSA is very concerned with the Interim Report's comments and recommendations in respect *of 'Fair Deal'* and totally rejects the content of Chapter 6.

2.6 It is noted by NIPSA that the Government has confirmed its commitment to auto-enrolment, albeit it has been delayed to 2012 and will be introduced on a longer phased basis. NIPSA would question the value of this against the very likely high level of public sector pension scheme membership withdrawals due to the acceptance by the Government of the Interim Report recommendation to increase employee contributions.

2.7 The impact of the Interim Report's recommendations on employee contribution increases allied to the severely damaging indexation changes at a time when public servants' pay and job security is under severe attack, will result in very significant withdrawals from the pension schemes. This will not only damage the schemes and also place greater demand on state subvention with payment of pension credit going forward but will also do considerable damage to any prospect of improving the standard of living and adequacy of pensions for public sector pensioners.

2.8 NIPSA would wish to reiterate what was said in our original submission and in particular to point out that we do not accept the need for changes to public sector pension schemes due to the Government's obsession with what they claim is the unacceptable deficit of both the public finances and the funding of public service pension schemes.

2.9 NIPSA does not accept the basis of these claims nor the assault on both public services and public servants. NIPSA fully endorses para 2.11 of our first phase submission i.e.

"The "fiscal challenges ahead" are not as a consequence of public service staffing numbers, pay or <u>pension costs</u> but as a direct result of the fiscal and economic crisis created by the banking and financial institutions which Government was at least complicit in and then bailed out. It is unacceptable to NIPSA for Government to attack and sacrifice public service pensions to part pay for this economic mismanagement".

3 FUNDED SCHEMES V PAY AS YOU GO SCHEMES

3.1 As detailed at 1.2 above NIPSA has circa 15,000 members in the Northern Ireland Local Government Offices Superannuation Scheme (NILGOSC), the NI version of the LGPS and hence a funded scheme.

3.2 The remaining NIPSA membership are in pay-as-you-go schemes, mirroring the Principal Civil Service Pension Scheme Northern Ireland (PCSPSNI) or the Health and Personal Social Services Northern Ireland Pension Scheme (HPSS)

3.3 NIPSA has considered the comments of the NILGOSC Committee and the Trade Union Side of the National Joint Council (NJC) for Local Government Employees; in respect of both assessment of the Commissions Interim Report and also the respective submissions to this second call for evidence. NIPSA would broadly endorse the points made by both with regard to the very different position of the funded schemes viz-a-viz the Pay-As-You-Go schemes.

3.4 NIPSA would remind the Commission of the points made in the Annex to our original submission, on this issue.

3.5 NIPSA welcomed the assessment in the Interim Report at paras 4.76 – 4.95 (inc) of the differences between the LGPS and the Pay-As-You-Go Schemes. In addition NIPSA fully supported the view as expressed at 4.93 that there should be no change to the status/arrangements for the LGPS.

3.6 It is therefore more than disappointing that despite the clear differences the LGPS remains within the scope of the Commission. In this regard NIPSA would endorse the points made by both the NJC Trade Union Side and NILGOSC that the LGPS should have been excluded or at the very least subject to a wholly separate assessment.

4 COMMISSIONS CALL FOR EVIDENCE FOR FINAL REPORT – 25 QUESTIONS

4.1 In the comments below NIPSA seeks to address the specific questions as set out in the Commission's call for evidence for the final report, as per the letter of 1 November 2010.

4.2 The points made below supplement the views already articulated by NIPSA in the original submission, the detailed assessment briefing of the Interim Report (see 1.8 above) and in the points raised by NIPSA Representatives directly to Lord Hutton (see 1.5 above).

4.3 Scheme Design (Q1)

4.3.1 NIPSA welcomed the Interim Report recommendation to retain Defined Benefit Schemes as the basis for public sector pension provision.

4.3.2 NIPSA is opposed to any move away from DB, even as a top-up part of a hybrid scheme. If there is considered to be a need to deal with very high earners then there should be an open debate between the employers and the unions on a suitable capping level.

4.3.3 The various options will do nothing to address the more serious issue of the low value of public service pensions for the vast majority of scheme members be they current, deferred or pensioner members.

4.3.4 Any move to hybrid or more complex arrangements will add to scheme administration costs, something the report wishes to see reduced rather than increased. Furthermore, any added complexity will reduce transparency and make it all the more difficult for scheme members to understand and value.

4.3.5 NIPSA does not rule out assessment of a career average scheme but would have to question the robustness of such existing schemes in light of the very serious detrimental impact the RPI to CPI indexation change has had on the value of career average pensions such as NUVOS

4.4 Risk-Sharing (Qs 2-9)

4.4.1 NIPSA rejects the statement in the Commission's letter of 1 November that "in final salary schemes employers bear most risks (and ultimately in the case of public service schemes, taxpayers)". The move from RPI to CPI, associated with very considerable contribution increases with more to come and other benefit changes such as the virtual elimination in some schemes of pension enhancement for redundancy all make the risk sharing an issue for employees as well as others.

4.4.2 The Public Service Pension Reforms of circa 5 years ago included across the piste the principle of cost-sharing. Detailed negotiations are ongoing within the LGPS, including the NILGOSC Scheme in Northern Ireland, and other public sector schemes on the methodology, assessment, timing and degree of cost sharing. To not permit the out-workings of these discussions is unacceptable as they are part of the fundamental negotiated reforms to public service pension schemes.

4.4.3 The change to the pensionable age for retirement is again an issue addressed by schemes which has yet in the main to be out-worked from the last agreed reforms. There has been no assessment made of the wider economic impact of making people work longer to either draw the state pension and/or the occupational pension. This adversely impacts on the labour market with reduced opportunities for the unemployed, education leavers or returnees to the Labour market. It also could well have an adverse impact on the health of workers and thus adverse implications for the Health Service.

4.4.4 Q2 – as per 4.4.1 – 4.4.3 above Scheme members already bear an increasing degree of risk. There can be no justification for any additional burdens when all of this is taken into account.

4.4.5 Q3 – The move to CPI indexation, introduced without any consultation, has already eroded pension values. NIPSA would press for either a return to RPI or for negotiations with the unions to see if there are more viable forms of indexation. Setting ever increasing pension ages needs to be considered in a much wider context, including assessment of issues such as labour market impact, health and social care implications. There should be serious consideration given to providing for a flexible approach to the retirement age within a 5 to 10 year period so that individuals can choose what is best for them. The actuarial impact is likely to be neutral, especially when linked to the forthcoming changes in the default age.

On indexation for career average the point made directly above is valid, see also comments at 4.3.5.

4.4.6 Q4 – The private sector position is fairly irrelevant, given the massive withdrawal and closure of DB schemes. In the main all risk is now on employees.

4.4.7 Q5 – The interim report covered this point and the question is nugatory given the very limited time available for production of the final report.

4.4.8 Q6 – The real split is unclear and moving and is at this point difficult to accurately determine in view of recent changes and forthcoming issues such as:-

- Roll out cost sharing;
- Increased employee contributions;
- Full assessment of the RPI to CPI indexation changes;
- Schemes triennial review publication;
- Consultation on the appropriate discount rate;
- Changes to retirement age; and
- Potential changes to benefit structure

In addition all of these changes, especially those falling directly on employees will also impact on scheme membership and the consequential cost impact of this. A fair system would at the very most look at on average a 2/3 employer 1/3 employee contribution ratio, but with potential on the employee side to be variable depending upon salary levels.

4.4.9 Q7 – If the approach taken as proposed at 4.4.5 was applied i.e the flexible decade of Retirement this could mitigate against the need for differential treatment. There are liable to be justifications for lower retirement ages in certain occupations such as firefighters.

4.4.10 Q8 – Schemes should provide a common benefit structure and via salary contribution banding those who are deemed to benefit more will contribute more. NIPSA accepts that there is a case for consideration with regard to a salary pension ceiling, however considerable research is necessary to determine what level that should be at.

4.4.11 Q9 – This is linked to the response at 4.4.5 and 4.4.7 above. There is also the issue of a fair transitional arrangement to any increase in scheme pension ages, as most people will have planned their arrangements especially their own economic position based on current expected retirement dates.

ADEQUACY

4.5.1 The Interim Report makes reference to the Turner Report and it's recommendations on adequate income in retirement. For the very vast majority of pensioners be they in receipt of public service pensions, private sector pensions or solely dependent upon the state pension the fact is that the Turner proposals are vastly removed from the reality of low pensioner income.

4.5.2 In NIPSA's original submission (para 2.9.) the case was made for pensions to be based on the European Decency Threshold.

4.5.3 Qs 10/11 – The points above these questions.

4.5.4 Q12 – Public Service Pensions in conjunction with the payment of the contribution based state pension are critical to ensuring fair and adequate pension provision. Whilst there should be some scope to enhance and/or make up for lost service NIPSA would support not just auto enrolment but mandatory membership of the relevant public service pension scheme.

4.5.5 Q13 – Ideally pensions should be portable but due to the lack of adequate private sector pension provision it is unlikely that in the majority of cases transferring public service pensions would represent sound decision making and future good pension provision.

4.5.6 The real issue in response to Q13 is to level up the basis of private sector pension provision.

Employee Understanding and Choice

4.6.1 Q14 – Members have broad awareness of pension benefits in terms of the structure of the respective scheme. Pensions are certainly valued as deferred pay. There is scope to improve the degree and level of understanding of both the schemes and the benefits of pension provision.

4.6.2 Q15 – Scheme design needs to be understandable and the best way of achieving this is single benefit structures such as the existing final salary arrangements. In addition the contribution formula not only needs to be fair but also to be easily understood and applied.

4.6.3 Q16 – NIPSA has no evidence of good private sector communication practice. Whilst there can always be improvements in delivering information, broadly speaking the public sector pension schemes have good communication delivery mechanisms.

4.6.4 Q17 – As with the point made at 4.5.4 there should be some scope to improve pension provision via mechanisms such as AVCs. The use of the flexible decade of retirement linked to a ceiling of 40 years service for pensionable pay purposes would be fair.

PENSIONS AND PLURALITY OF PROVISION OF PUBLIC SERVICES

4.7.1 NIPSA condemns the comments and recommendations in the interim report on Fair Deal.

4.7.2 Q18 – The pro externalisation theme for public services based on the unfair and wholly inadequate pension provision by private sector employers is totally rejected by NIPSA.

4.7.3 Q19 – NIPSA supports the provisions within the LGPS Schemes on admittance of third parties who deliver public services, if there is to be externalisation of public services then all public service pension schemes should apply the same entry provision as the LGPS.

ADMINISTRATION COSTS

4.8.1 Administration costs rise with both complexity of schemes and continuous changes to scheme regulations. Many schemes are just beginning to move to a settled administrative platform post the changes instituted over the past 5 years.

4.8.2 Q20 – 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 (ie 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 but the evidence suggests that the public sector provides very good value for money in pension administration.

4.8.3 Q21 – NIPSA has no experience of good quality and efficient scheme administration in the private sector. NIPSA 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 Public Sector pension scheme administrators.

4.8.4 Q22 – This is not applicable to Northern Ireland as there only is one fund.

TRANSITION ISSUES

4.9.1 Many of the issues covered above such as communications, understanding, pensionable age all require detailed assessment and proper planning as opposed to short-term, ill-thought out politically acceptable responses to public sector pension provision.

4.9.2 Q23 – Firstly the Commission will have to ensure that there are detailed negotiations on any proposed changes, which requires full engagement with the relevant public service unions.

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 diferred pensioners.

4.9.3 Q24 – As with the comments at 4.6.3, 4.7.2 and 4.8.3 NIPSA's experience is that the private sector has nothing to offer, indeed the experience is that when public sector pension administration has been contracted out it has been disasterous.

4.9.4 Q25 – All the evidence points to abject failure and in some cases abuse if not fraud in changes to private sector pension schemes. It was because of experiences such as these that the PPF had to be introduced as well as employers defaulting for business failure reasons.

5. CONCLUSIONS

5.1 The pay and pension arrangements of the public services must be such as to attract the right calibre of recruit. In doing so a fair total remuneration package must provide for reasonable overall terms and conditions and at the same time be fair to the taxpayer.

5.2 The current economic difficulties have not been caused by public servants yet it is public servants who are being targeted. In particular public service pensions have unfairly came under the spotlight. This in the main is due to private sector organisations ill-informed assessment of those pension schemes or Daily Mail type stories that concentrate on the pension arrangements of a few highly paid people in the public service rather than the vast majority of low to moderately paid public servants.

5.3 The changes introduced by the Government since June not only undermine the work of the Commission but represent a very serious attack on public service pension provision, in particular the move to CPI.

5.4 The evidence is also available to demonstrate that there continues to be major equality issues with regard to the value of public service pensions. Any further attempt to create cost reductions from public service pensions is liable therefore to have greater impact on women thus exacerbating the inequalities. NIPSA demands that all proposals are subject to full equality impact assessment.

5.5 Pensions are not only part of the total employment package they are in fact deferred pay and as such recognised by the courts as protected 'possessions'.

5.6 The numerous changes to the various public service pension schemes, especially those that rose on foot of the Public Services Forum agreement of 2005 have resulted in very significant additional contribution costs falling on the employee.

5.7 Many aspects of the changes still have to be assessed. The 2010 triennial reviews have just become available and need to be examined in detail. In addition provisions for additional changes such as capping and cost sharing will be taken forward post the 2010 triennial reviews.

5.8 In the United Kingdom one third of pensioners rely solely on the state for income during their retirement years. Many more have to claim top-up state support as the combined value of the state pension and occupational pension is still below the inadequately low level the state considers as being necessary.

5.9 Occupational Pensions therefore either supplement or take pensioners out of state support (other than the earned contribution basis state pension) and considerably reduce the cost of the taxpayer. The continued attacks on public service pensions will significantly change this picture. In fact, for many of the lowest paid public servants it would make more sense to opt-out of the pension schemes as over their working life and retirement they would be financially better off. This is especially so given the CPI move and Public Sector Pay freezes.

5.10 Public Sector Pension Schemes have and are addressing the impact of the demographic changes impacting upon pension costs. The basis of that reform is built upon sustainability and affordability. Further attacks on public service pension schemes will disincentivise scheme membership, re-enforce pension poverty, add costs going forward directly onto the taxpayer via means tested benefits and increase proportionally scheme costs.

5.11 The real pension problem in the UK is the private sectors retreat from providing fair and reasonable occupational pensions. Over two thirds of private sector employees have no occupational pension. The picture is of course dramatically different for senior executives and the Boardroom who have unjustifiable excessive 'rhodium plated' pensions, many in excess of £1m per annum. The retreat from occupational pensions is at a cost to the taxpayer having to provide means-tested top-up payments, to pensioners.

5.12 NIPSA calls on the Commission to ignore the continual attacks on public sector pensions, which come from right-wing pressure groups voiced through the media controlled by them and wholly opposed to public services or by those employers who have abandoned occupational pension schemes. Public Service Pensions are already sustainable, transparent, affordable, plus they are subject to ongoing reform.

DWP WHITEPAPER: The Single-tier Pension: A Simple foundation for saving (Jan 2013)

Para No	Executive Summary
2.	NIPSA is not only opposed to the increase in State Pension Age (SPA) but in the linking of SPA to Normal Retirement Age (NRA) as prescribed for in the Public Service Pensions Bill.
4.	The proposals of the draft Pensions Bill further adversely impact on the sustainability of occupational pension schemes and in particular Defined Benefit (DB) schemes, especially public sector pension schemes. The duel impact of the Pensions Bill and the Public Service Pensions Bill will raise genuine issues of sustainability for many of the schemes.
	The termination of contracting out will also spell the death knell for many of the remaining private sector DB schemes. This will result in increased numbers of workers leaving occupational pension schemes or at best a movement to Defined Contribution/Money Purchase schemes which historically have failed to deliver decent pensions and/or resulted in either rip-off schemes or provide /lavish returns for investment managers/annuity providers and very poor value for the employee.
5.	The Turner Report made very strong recommendations as to the proportionate income percentage needed for pension value vis-à-vis pay levels. The Pensions Bill totally fails to move forward in line with the Turner recommendations on this aspect (see para 32 of Appendix 1 the NIPSA response to the Green Paper).

6. The support to people saving for retirement is highly swayed in favour of the most wealthy in society: 60 per cent of the gross tax relief – more than £22 billion a year (going) to higher rate tax payers.

7. Whilst auto-enrolment is to be welcomed the current arrangements and associated NEST provisions are very limited.

11. NIPSA was one of the organisations that submitted comments on the Green Paper (see Appendix 1). NIPSA considers that the Pensions Bill and other related initiatives such as; Public Service Pensions Bill, Welfare Reform and other aspects of the Government's Austerity Programme do nothing to improve the position of current pensioners and those who will retire (albeit delayed retirement due to increases in SPA and NRA) in forthcoming years and decades.

19. The proposals can only but undermine DB schemes (see 4 above). It is wholly unacceptable for the Government to promote the position that employers can offset additional NI contributions by "**reducing future pension benefits or by increasing employee contribution costs**".

29. The real position of the Government is made somewhat transparent by confirming that the aim of the proposals are to reduce public expenditure by bringing projected GDP expenditure down from 8.5% to 8.1% by 2060.

31. There are clear concerns as to the future of the current triple-lock approach to uprating.

Para No **Section 1 – The Context for Reform**

3. This ignores the implications of the on-going Welfare Reforms which will result in further embedding pensioner poverty.

4. NIPSA fully accepts that the current system is overly complex and off-putting resulting in low take-up of pension credit and wholly inadequate. NIPSA wishes to see a fair, simple system that eradicates pensioner poverty, these proposals fail on all counts.

5. See comments in respect of paras 5 and 31 Executive Summary. The proposed introductory flat rate pension of £144 is 13% below the current pensioner poverty rate of £165. The 18% value of mean full-time earnings is indecent and will ensure that the UK remains at the bottom of the EU and the OECD league tables for state pension values. No comfort can be taken to the references to bus passes, TV licences etc, especially as caveated by "under current plans, the Government will continue."

6. See comments on para 6 of Executive Summary. Tax relief for the top 1% of those earning more than £150,000 is more than £8bn and for all higher rate taxpayers £20bn plus. These reliefs should be ended and directed to providing additional resources to eradicate pensioner poverty. Real action is needed to restore confidence in occupational pensions not least in DC Schemes for which UK assets fell by 1/3 between September 07 and February 09.

8. It is wholly erroneous to state "that many current pensioners have access to relatively generous DB schemes." For Public Service DB Schemes over half of pensioners receive less than £5,600 pa and in the LGPS women's pension is circa £2,800. When you consider the state underpin very many of these pensioners are by and large substituting their occupational pension for pension credit entitlement.

9. See 5 above re the position of the UK in respect of other developed countries relative pension position.

10. The race away from DB schemes by private sector employers can only be exacerbated by the end of contracting-out. Between 2004 and 2007

there was a 25% fall in private sector workers in DB Schemes. Since 1967 when there were 8 million pension scheme members in the private sector we have witnessed a race to the bottom and these proposals will enhance the pace of decline.

14. NIPSA would question how the 1/3 figure has been arrived at and would suggest it will be higher and added to post 2017 when contracting-out goes with the burden mainly passed to employees (see comments para 19 Executive Summary).

15. See comments on para 7 of Executive Summary.

16. The Government has totally failed to reinvigorate workplace pensions, other than for the most wealthy. The public knows only too well what "risk-sharing" means – massive unchecked bonuses for investment bankers and their fellow travellers in the pensions industry whilst pension pots fall massively in value and the public purse accepts the total cost of the casino risk takers.

22. As the single flat rate proposals apply for those who qualify post 2017 the current inadequate flawed system will pertain for decades to come in a dual system and hence more administratively complex system. Government is therefore continuing to embed pensioner poverty and doing next to nothing to get to the 1/3 pensioners who whilst entitled are not currently claiming pension credit to avail of it.

27. The equalisation provisions are of course perverse in that women's age of SPA entitlement is extended and that for years to come the system continues to perpetuate inequality.

Section 2 – The Single-Tier Pension

33. The move to a contribution record based on 35 years represents a 16.66% increase in requirement, from the current 30 years. It would be more appropriate to move in line with the SPA increase ie from 30 – 31 in 2020 and 32 from 2026.

40. The level of means-tested pension credit support still leaves millions of UK pensioners in pension poverty.

41. The five year period will still result in a cliff edge impact.

Section 3 Managing the end of contracting out

59. NIPSA strongly objects to the potential erosion of schemes and taking certain powers away from Trustees to give to employers.

61. There can be no guarantee that the impact will not undermine DB schemes. This linked to para 59 is liable to result in higher levels of employee opt-out and hence damage scheme sustainability.

69-71. The proposed changes on top of the attacks by the government on public service pension schemes calls into question not only the purported "25 year guarantee" but also the government's position in the negotiations, as clearly removing the contracting-out provision was a well advanced policy consideration.

The government needs to be absolute at an early stage as to what it means by "Public Service employers will therefore not be able to pass the cost of increased NI contributions onto their employees . . . . et seq." Does this mean **all costs** including the additional employee NI contributions?

Section 4 The Transition to the single-tier pension

103. The costs control and the aim by 2060 to reduce GDP outlay (see para 29 Executive Summary) will therefore retain the relative levels of pensioner poverty. In addition by 2060 the impact of the employer flight away from occupational pensions of the past 20 years and the likely high levels of employee op-out will place more pensioners into being dependent upon the state pension as their sole basis for income.

109. DWP should establish immediately a robust online pension estimate calculator covering the current scheme, transitional arrangements and steady state flat rate pension scenarios.

Section 5 – Sustainability and assumptions

110. This para again confirms that what underpins the government's approach is cost cutting albeit in the medium to longer term.

113. Given that this government has proven to be wholly incapable of short-term economic forecasting no confidence can be taken from these longer term forecasts.

117. Historical approaches have resulted in the devaluation of the state pension vis-à-vis earnings growth, this is confirmed at para 119.

121. The triple lock assumption is of little value, it needs to be guaranteed via being established on the face of the bill.

122. This would go a little way to improving the value of state pensions and is a nod albeit a limited one in the direction of the Turner Report.

Section 6 – Longer-Term sustainability: State Pension Age

127. Little or no work has been carried at as to the impact on youth/graduate unemployment, women returners to the labour market as a consequence of increasing the SPA and the NRA link to it for public sector schemes. It is also likely to fuel the casualization, part-time and under utilisation of workers. Likewise the impact of the "grey pound" has not been assessed.

130. Again there has been little assessment of the labour market implications as a consequence of the removal of the default age.

134. This needs to be properly assessed taking account of the comments above on paras 127 and 130.

141-155. NIPSA as recorded in this response and in numerous other consultations strongly opposes increases in SPA and the NRA linkage. Government should provide for a more flexible approach to retirement providing people with choice, many will opt to remain in work or take flexible retirement whilst others would opt to go at existing NRAs. Such provisions should therefore retain 65 or at worst 66 as SPA and for existing NRA there should be no actuarial reductions enforced.

161. As with para 127 above there is a need to fully assess the labour market implications.

DWP Whitepaper

APPENDIX 1

DWP GREEN PAPER

A STATE PENSION FOR THE 21ST CENTURY

NIPSA RESPONSE

June 2011

Introduction

1. NIPSA is concerned with the fragmented approach being taken by the Government to the issue of pensions, both in respect of the State Pension and or occupational pensions especially with regard to public service pensions.

2. Since the election of the Government in 2010 there have been numerous reviews and changes to pension provision, these include:-

   - Indexation move from RPI to CPI
   - Hutton Public Service Pensions Commission
   - Increased subscriptions for public service pension scheme employees
   - Early access to Pension Savings
   - Taxation changes
   - Changes to State Pension Age (SPA)
   - Review of the Discount rate
   - McFall Commission 'Workplace Retirement Income Commission

   and now the Green Paper – "A State Pension for the 21st Century".

3. In addition to the numerous interventions by the UK Government there has also been the European Green Paper – 'Towards Adequate, Sustainable and Safe European Pension Systems.'

4. It is clear that the UK Government's approach to the wider pension debate be that as an employer or as the provider of Social Security Benefits is to further penalise ordinary workers be they in employment or in receipt of pensions. The Government is fixated with it's deficit reduction plans and via pension reform seeks to again place the burden on working people (including the retired).

5. The Government totally fails to address the fact that in the UK 2.5m pensioners live below the official poverty line, defined as 60% median population income (based on 2007/08 figures). None of this Government's actions or its predecessor have addressed pensioner poverty in fact in 2009/10 pension poverty rose by 300,000 or by 822 people per day.

6. Approximately 61% of pensioner couples have an income of less than £15,000, whilst 45% of all single pensioners have an annual income of less than £10,000.

7. From the Minister's Foreward it is clear that the Government's objective is to place greater responsibilities on individuals providing for their retirement income. The consultation document is littered with references to the outworkings of any chance having to be 'cost neutral'.

8. At no point is there a recognition that the UK is bottom of the European League is respect of the value of the State Pension (basic and second) as a proportion of average working pay. The UK percentage is 30.6% compared to for example:- Ireland 32.5%, France 51.2% or the Netherlands at 81.9%. The UK is some 29.4% behind the EU average of 60%.

9. NIPSA believes that there is an obligation on the State to ensure that no-one lives in poverty and that the State must provide a pension that meets this requirement. This pension should be supplemented via decent occupational pensions that should be of a defined benefit (DB) nature with mandatory employer/employee contributions based around a fair ratio of contributions.

10. Whilst the above comments and in particular those that follow relate to the current debate on pension provision NIPSA does not believe that the Government's approach will lift pensioners out of poverty nor meet the Turner Commission recommendations on income replacement.

Executive Summary

11. With regard to the four guiding principles NIPSA has a number of concerns:-

- Personal responsibility – the failure to include the employers role is unacceptable
- Fairness – the right to a basic pension income that meets the poverty threshold should not be based on contributions. There is clear scope for payment over and above the poverty threshold that is based upon NI contributions.

- Affordability and sustainability – NIPSA does not accept that the approach for provision of state pensions should be cost neutral. As referred to at para 8 the UK is at the bottom of the European league with regards to the value of pensions as a proportion of average working pay. To lift pensioners out of poverty and to meet the Turner report on adequacy there is a clear requirement to increase the proportion of public expenditure on state pensions.

12. It is foolish to bank on auto-enrolment, it is likely that many people will opt-out and that the administration costs in pension schemes will rise considerably.

13. NIPSA would not dispute the difficulties created via means testing and that for many pensioners they feel stigmatized in applying for pension credit. The process also does little to address the inherent inequalities in pension provision, both state and occupational pensions. The options for a revised system as proposed in the Green Paper do little to provide for decency in retirement and seek to put more of the burden on individuals as opposed to the state and employers.

14. The Government has failed to address, in fact it has aided and abetted the retreat from decent and fair occupational pensions by employers. At the same time it has done very little to address the outlandish actions at Boardroom level in creaming off unjustifiable pension funds for the elite.

15. Regardless of the outcome of the current examination of pensions, stability must be brought back so that people, especially those within 10/15 years of the SPA know what their entitlements will be, including those in occupational schemes in order that they can make a considered plan for their retirement.

Chapter 1 – The Current Pension System

16. It is clear to the bulk of commentators that the existing system is failing working people and that the value of the state pension including pension credit and the state second pension does not provide an adequate or decent standard of living for pensioners.

17. Whilst the demographic trends have improved rapidly over recent decades they are beginning to slow, in addition no work has been carried out to assess the impact on life expectancy by the increase in SPA. This is especially so for manual employees and for those living in areas such as Northern Ireland,

Glasgow and the North East of England who have much higher mortality rates.

18. NIPSA is concerned that the recent NAPF research for YouGov identified that 34% of respondents indicated that they are relying on the state pension only. In addition 17% are dependent upon property investment at a time when a very high percentage of home owners are in negative equity.

19. The nature of British Society is also borne out by the NAPF survey with 8% banking on a lottery win and 9% on inheritance windfall to fund their retirement. As per para 9 there is a need to ensure that the state pension is supplemented by decent occupational pensions.

20. The current structure of the state pension is not only complex it also discourages participation in occupational pension schemes, especially for the low paid the bulk of whom are women and hence the endemic inequalities in UK pension provision. The variable withdrawal rates on income/savings of up to £184pa are a clear disincentive for the lower paid to participate in occupational pension schemes.

21. The current and proposed safety nets fall well below what is necessary to take pensioners out of poverty.

22. Whilst NIPSA does not accept the cost neutral policy of the Green Paper it is clear from para 53 that there is currently circa £2.9 billion that should be paid out to pensioners and that this provides some albeit limited finances to improve upon the inadequate pension rates currently paid.

23. It is clear to all that the answer to question 1 is a definitive 'no'. The current system is failing millions of pensioners and increasing the level of pensioner poverty.

Chapter 2 – Options for State Pension Reform

24. The Government seeks to cover itself with credit in respect of the comments at para 62 with regard to the "triple guarantee" whilst conveniently ignoring the impact of the indexation impact in moving from RPI to CPI.

25. At paras 75-81 the case against option 1 is compelling. Option 1 does little to provide for real improvements and takes too long to work through, thus enshrining inequalities for decades to come.

26. The dependency on the second state pension only encourages further retreat by private sector employers from provision of occupational pensions.

27. There is also a falsification of the maximum qualifying years "49/50 from 16 to 65/66" only a very small minority of the working population meet this, in fact for many who progress through the education system it will be age 24/25 before they contemplate entering the labour market. For many other young people they are deprived from building up pension entitlement due to mass youth unemployment.

28. In respect of Option 2, NIPSA does not accept that a value of £140 pa is adequate and totally rejects the cost neutral stance.

29. NIPSA is very concerned that with the changes to public service pensions, including considerable increased employee contributions, and the already announced stealth tax on pension funds via a reduction in the contracted out rebate from 5.3% to 4.8% this will exacerbate the withdrawal rates from occupational pension schemes.

30. To go further under option 2 with the abolition of the contracting out rebate will result in yet more employers closing DB schemes and employees leaving on mass. The Government should be seeking to support workplace pension schemes rather than adding extra costs unto them.

31. The Hutton Commission addressed this issue and whilst NIPSA mainly opposed the Commission's recommendations it by and large did get it right in it's comments on the contracting-out rebate.

32. NIPSA believes that there should be a single-tier pension set at a level that meets peoples needs and that via occupational pensions the combination should provide for pensioner income that is at least at the levels recommended by Turner:-

Benchmark replacement rates set out by Lord Turner's Pensions Commission

Gross income	Benchmark gross replacement rate (%)
Less than £9,500	80
£9,500 - £17,499	70
£17,500 - £24,999	67
£25,000 - £49,999	60
£50,000 and above	50

Source: Pensions Commission

33. There is an acknowledged need for the state to provide an equivalent occupational scheme for the self employed and for employers with a small workforce. This should be a funded scheme similar to the LGPS with arrangements to ensure that employers, self-employed and employees are represented on the equivalent of a Board of Trustees.

Chapter 3 – Means-Tested Safety Net For Pensioners

34. If the Government was to adopt the approach as set out by NIPSA in this response there should be no need for any safety net.

35. It is clear that as the Green Paper suggests itself e.g para 53 that the current means tested system fails.

36. The floor for pension provision should be a guarantee to all pensioners of a minimal entitlement that is at a level above the poverty line (£178 pw as per the National Pensioners Convention for 2011). The pension should increase each year via RPI. The state pension should be topped up via an occupational pension with no offsetting. The tax system should deal with income rather than offsetting via Social Security, otherwise the system is not only complex but adds to opt-outs.

Chapter 4 – State Pension Age

37. NIPSA commented on the Consultation Paper (9/8/10) on moving the SPA to age 66 and would refer to that submission.

38. It is clear from the debate in the House of Commons of 20 June that many MPs are concerned as to the impact on moving the SPA to age 66 especially

with such little notice. As per para 15 above there needs to be proper notice of such changes and transitional arrangements to ensure that people can properly plan for their retirement.

39. Changing the SPA also has wider labour market implications, especially in respect of reducing opportunities for education leavers and returnees to the labour market to find employment.

40. Increasing the SPA is also likely to adversely impact on those in manual employment, se para 17 above.

41. NIPSA broadly would endorse para 146 as this would help address the points raised above at paras 17 and 40.

Conclusions

42. NIPSA does not believe that the Green Paper will make any significant improvements to pension provision nor to adequate levels of income in retirement.

43. Some of the direction of travel eg reduction/abolition of the Contracting-Out Rebate will only further damage availability and membership of DB occupational pension schemes.

44. It is wholly unrealistic for the Government to adopt a cost neutral approach if the UK is to move from being bottom of the European league in pension provision and more importantly to see positive movement in the eradication of pensioner poverty.

45. NIPSA reiterates it call for the state to provide a flat rate state pension set at a level above the current poverty line of £178pw to be supplemented via occupational pensions (see paras 32/33 above).

46. Occupational Pensions should be DB and as such should provide for portability that does not reduce the value/acquired rights of employees on transfer from one employer scheme to another.

47. NIPSA calls on the Government to reverse its punitive decision to switch indexation from RPI to CPI, both for state pension provision and for all public sector occupational schemes.