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Mr Shane McAteer
Clerk
Committee for Finance and Personnel
Room 419
Parliament Buildings
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Our Ref: CFP263/11-15

30 September 2013

Dear Shane,

My letter of 23 September contained the Department's response to the Committee's urgent request concerning written submissions received by the Committee on the clauses of the Public Service Pension Bill.

It advised that Strategic Policy Division within the Department was considering the discussion paper by the Nevin Economic Research Unit on "*Increasing the Retirement Age of Public Sector Workers: Effect on the Wider Labour Market*". This paper had been supplied as part of the NIC-ICTU written submission in response to the Committee's earlier invitation to TUS to provide relevant evidence on macro-economic impacts of public service pension reform.

I have now attached the DFP response on this paper and would be grateful if this could be circulated to the Committee.

Yours sincerely,

Judith Finlay

JUDITH FINLAY
Departmental Assembly Liaison Officer

Nevin Economic Research Institute (NERI) paper– 'Increasing the Retirement Age for Public Sector Workers: Effects on the Wider Labour Market'

Department of Finance and Personnel Response -

The Department would highlight that the NERI paper considers only some labour market impacts of pension reform and does not consider all of the wider macro economic implications. There is, for example, no consideration in the paper as to what the impact would be of not reforming pensions and the potential cost that this carries, estimated in financial terms to be in excess of £300m per annum. These impacts cannot be set aside and would also have an impact on the labour market that is not considered in the paper.

It is also notable that this is a discussion paper the body of which presents arguments from both sides of the economic debate. The three possible unanticipated consequences that are highlighted in the papers introduction and conclusion are the downsides of the discussion. The paper does not say or suggest that these possible outcomes are any more or less likely than the other possible outcomes it considers. The three possible unanticipated consequences highlighted are:

- Labour market displacement in the short term if labour markets to not adjust immediately;
- That this adjustment may be delayed because the public sector has unique characteristics; and
- Increasing retirement ages may lead to increases in disability entitlements.

On the first point the paper recognises that increasing the retirement age of public sector workers is essentially an increase in labour supply. It recognises that such an increase does not necessarily translate into an increase in unemployment. It states that most economists are of the opinion that the labour market would adjust to meet this new supply and that in the long term the effects may be broadly positive. It references research that demonstrated that reducing the labour supply through early retirement had no impact on reducing youth unemployment. The downside that it highlights is the potential for labour market displacement because of frictional difficulties in the short run. The Department would accept that a short term impact on the labour market may occur but point out again that this needs to be set against the cost of not taking any action and the expectation that the market will adjust in time to deliver long term benefits.

On the second point, the report makes reference to the number of public sector jobs being fixed. This is not necessarily true if in the absence of pension reform pension costs become much higher. This would most likely result in a squeeze in public sector jobs. The report refers to how the private sector may not be able to absorb the over-supply of public sector workers such as teachers, nurses etc, if public sector posts become less readily available as a result of pension reform. The reform agenda aims to protect front line services.

Finally, regarding the third point, the report recognises that productivity can be dependent on many things including length of service, type of work and personal factors. It then highlights only the personal factor element focusing on a potential problem of higher levels of disability. This however is only one potential factor of many that could affect levels of productivity. For example, by increasing the retirement age, persons working longer will have the relevant experience and skills sets which could in fact result in them being more productive than a younger person who is less experienced.

In conclusion, the Department accepts that pension reform could result in short term labour market impacts but supports what this paper recognises is the view of most economists that the labour market will adjust over time and that there is the potential for long term benefits to emerge.