Assembly Section

Craigantlet Buildings
Stormont
BT4 3SX
Tel No: 02890 163376
Fax No: 02890 523600
email: Norman.Irwin@dfpni.gov.uk

Department of
Finance and Personnel
www.dfpni.gov.uk

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

Our Ref –CFP90/11-15

21 March 2012

Dear Shane,

Please find attached update on the issues which arose at the Evidence Session on 7th March in relation to the Superannuation Bill.

Yours sincerely,

Norman

NORMAN IRWIN

Response to the DFP Committee – Superannuation Bill

The Committee requested additional information on 3 issues following the pre-introductory briefing from the officials on 7 March 2012. These are listed below:

1. **An analysis of the pros and cons of breaking from parity including costs of departing from the provisions which apply under the Superannuation Act 2010, in terms of having administration systems and structures in place as well as the cost of providing more favourable compensation benefits.**

An analysis of the pros and cons of breaking parity are set out in the table overleaf.

If an IT system were required for the Northern Ireland Civil Service, the normal procurement processes would be engaged. However any business case is likely to fail as the current Service Level Agreement with Cabinet Office is extremely good value as the procurement and maintenance of the system is shared across the various civil service pension administrators based on their membership. Added to this, there would be additional legal and administrative costs as all aspects from initial policy development, consultation, drafting and making legislation together with the development of communication and guidance to employers and employees would be required.

It should be noted that before embarking on this course of action a full impact analysis would be required to determine a future service delivery model, as such a departure in terms of the Compensation Scheme may well impact on other aspects of pension provision. It would also be prudent to know whether or not such a departure was going to be enacted in terms of pension provision in Northern Ireland, given the direction which officials have received from the Executive in terms of the reform of the public service pension schemes in Northern Ireland following those in Great Britain.

Analysis of Pros & Cons of Breaking Parity with Great Britain

Pros	**Cons**
Local autonomy in decisions making in the administration of the scheme.	Variance across the civil service and perhaps across the public service which may attract criticism from HM Treasury.
The ability to have more/less favourable benefits for civil servants in Northern Ireland as compared with GB counterparts	The consequence to the public purse of providing more favourable terms to Northern Ireland civil servants - more details in the next section In example for **100** staff difference is in the region of **£5m.**
Possible increase in: Civil Service Pensions staffing, legislative expertise with input from legislative draftsmen (only valid if increase in Civil Service posts for administration and legal work was deemed an advantage).	Loss of draft scheme amendments and subsequent draft employer and employee communications, guidance, systems and procedures together with expertise and precedence from GB colleagues. Technical expertise would also be lost, for example, calculators and other online resources which are currently shared with GB Cabinet Office.
No delay in awaiting draft scheme amendments from GB Cabinet Office.	Loss of expertise from GB, Northern Ireland would no longer have precedents to follow from the wider Home Civil Service and would be required to draft all legislative changes and potentially would require our own Pension Ombudsman
Local Consultation with Trades Unions	Loss of the benefits of a central negotiating forum with trades unions and therefore consistency of approach across the public sector.

2. Comparative examples of the estimated compensation benefits under the current scheme compared with the new scheme, including for the various categories of employee.

The National Audit Office has recently published a report on Managing Early Departures in Central Government. www.nao.org.uk. This report looked at the period December 2010 to December 2011 and under the revised Compensation Scheme in this period the costs are around 45 per cent lower than they would have been under the previous scheme.

For estimated costs in Northern Ireland the Department has provided by way of example the differences to the public purse between the current scheme and the proposed scheme. These are purely indicative and as a number of variables apply they should not be transposed to any other person of similar circumstances, as minor differences can make a substantive difference to the quantum of awards. The Committee will note that the new scheme does favour the lower paid staff.

If these examples are extrapolated to say **100 people leaving** who would have left under a voluntary early severance (which typically had compulsory terms applying) the costs would be at least **£12 million** compared to **£7 million** under the new scheme and this would increase further as an additional compensation payment from normal retirement age would also be payable. This is a cost which would continue to be borne by Northern Ireland, mainly from DEL expenditure by the respective employing department.

The tables overleaf provide some illustrative examples.

2A. Summary of comparative figures for current and proposed compensation arrangements

Classic, classic plus and premium

	Current arrangements	**Proposed arrangements**
	Flexible Early Severance	**Voluntary Exit/Voluntary Redundancy**
Member aged 35 with 15 years reckonable service and final pensionable earnings of £20,000	Lump sum compensation= **£17,307**	Lump sum compensation= **£28,750**
Member aged 45 with 25 years reckonable service and pensionable earnings of £40,000	Lump sum compensation= **£73,076**	Lump sum compensation= **£70,000**

	Current arrangements	**Proposed arrangements**
	Flexible Early Retirement	**Voluntary Exit/Voluntary Redundancy**
Member aged 55 with 15 years reckonable service and final pensionable earnings of £20,000	**A:** Annual compensation payment to pension age =**£4,950** **B:** Lump sum compensation =**£5,299** **Total payable = £30,048**	Lump sum compensation= **£28750**
Member aged 55 with 30 years reckonable service and final pensionable earnings of £40,000	**A:** Annual compensation payment to pension age =**£17,400** **B:** Lump sum compensation =**£13,995** **Total payable = 100,995**	Lump sum compensation= **£70,000**

	Compulsory Early Severance	**Compulsory Exit**
Member aged 35 with 15 years reckonable service and final pensionable earnings of £20,000	Lump sum compensation **=£33,333**	Lump sum compensation **=£23000**
Member aged 45 with 25 years reckonable service and pensionable earnings of £40,000	Lump sum compensation = **£120,000**	Lump sum compensation = **£40,000**

	Current arrangements	Proposed arrangements
	Compulsory Early Retirement	**Compulsory Exit**
Member aged 55 with 15 years reckonable service and final pensionable earnings of £20,000	**A:** Annual compensation payment to pension age =**£4,950** **B:** Lump sum compensation =**£15,299** **Total payable = £40,049**	Lump sum compensation = **£23000**
Member aged 55 with 30 years reckonable service and final pensionable earnings of £40,000	**A:** Annual compensation payment to pension age =**£17,400** **B:** Lump sum compensation =**£33995** **Total payable = £120,995**	Lump sum compensation =**£40,000**

It should be noted that the members above who are over age 50 will also receive a further additional compensation payment from pension age which is equivalent to the enhanced element of the member's benefits.

This is not costed above as the benefits payable will depend on the longevity of the member.

For comparison purposes if a Department had a voluntary redundancy exercise which included 100 members of staff aged approximately age 55 and with 30 years the cost under the current scheme the cost would be over £12 million. However, under the proposed revised scheme the scheme cost would be £7 million with a saving of approximately £5 million.

Nuvos

Nuvos was introduced in July 2007 and is not yet covered under the rules of the Civil Service Compensation Scheme (Northern Ireland). Under interim arrangements members of nuvos who leave on voluntary or compulsory redundancy are entitled receive an ex gratia payment 1 month pay for each year of service. This is the equivalent to the proposed terms.

2B. Detailed calculations of comparative figures provided in previous table (2A)

	Current arrangements	Proposed arrangements
	Flexible Early Severance	**Voluntary Exit/Voluntary Redundancy**
Member aged 35 with 15 years reckonable service and final pensionable earnings of £20,000	**A:**2 weeks final pensionable earnings for each year of reckonable service during the first 5 years of qualifying service = **£38,46** **B:** 3 weeks final pensionable earnings for each year of reckonable service during the next 5 years of qualifying service = **£5,769** **C:** 4 weeks final pensionable earnings for each year of reckonable service after the first 10 years of qualifying service = **£7,692** **A+B+C = £17,307**	1 month pay for each year of service up to a maximum of 21 months. Lower Pay protection applies – salary deemed to be £23,000. **=£28,750**
Member aged 45 with 25 years reckonable service and pensionable earnings of £40,000	**A:**2 weeks final pensionable earnings for each year of reckonable service during the first 5 years of qualifying service = **£7692** **B:** 3 weeks final pensionable earnings for each year of reckonable service during the next 5 years of qualifying service = **£11,538** **C:** 4 weeks final pensionable earnings for each year of reckonable service after the first 10 years of qualifying service = **£46,154** **D:** 2 weeks final pensionable earnings for each year of reckonable service after age 40 = **£7,692** **A+B+C+D = £73,076**	1 month pay for each year of service up to a maximum of 21 months = **£70,000**

	Current arrangements	**Proposed arrangements**
	Flexible Early Retirement	**Voluntary Exit/Voluntary Redundancy**
Member aged 55 with 15 years reckonable service and final pensionable earnings of £20,000	Annual compensation payment (ACP)equivalent to enhanced pension until pension age and from pension age an annual compensation payment reduced to the amount of enhancement **A:** ACP to pension age =**£4950** **B:** Lump sum compensation =**£5,298** **Total cost = £30,048**	1 month pay for each year of service up to a maximum of 21 months. Lower Pay protection applies – salary deemed to be £23,000. = **£28750**
Member aged 55 with 30 years reckonable service and final pensionable earnings of £40,000	Annual compensation payment (ACP)equivalent to enhanced pension until pension age and from pension age an annual compensation payment reduced to the amount of enhancement **A:** ACP to pension age =**£17,400** **B:** Lump sum compensation =**£33,995** **Total cost = £120,995**	1 month pay for each year of service up to a maximum of 21 months = **£70,00**

	Current arrangements	Proposed arrangements
	Compulsory Early Severance	**Compulsory Exit**
Member aged 35 with 15 years reckonable service and final pensionable earnings of £20,000	**A:** 1 month final pensionable earnings for each year of reckonable service = **£25,000** **B:**1 month final pensionable earnings for each year of reckonable service after age 30 = **£8,333** **A+B=£33,333**	1 month pay for each year of service up to a maximum of 12 months. Lower Pay protection applies – salary deemed to be £23,000. **=£23,000**
Member aged 45 with 25 years reckonable service and pensionable earnings of £40,000	**A:** 1 month final pensionable earnings for each year of reckonable service = **£83333** **B:**1 month final pensionable earnings for each year of reckonable service after age 30 = **£50000** **C:** 1 month final pensionable earnings for each year of reckonable service after age 35 = **£33,333** **A+B+C=£167,0000 (limited to maximum of 3 years final pensionable earnings = £120,000**	1 month pay for each year of service up to a maximum of 12 months = **£40,000**

	Current arrangements	**Proposed arrangements**
	Compulsory Early Retirement	**Compulsory Exit**
Member aged 55 with 15 years reckonable service and final pensionable earnings of £20,000	Annual compensation payment (ACP)equivalent to enhanced pension until pension age and from pension age an annual compensation payment reduced to the amount of enhancement **A:** ACP to pension age =**£4,950** **C:** Lump sum compensation =**£15,299** **Total =40,049**	1 month pay for each year of service up to a maximum of 12 months. Lower Pay protection applies – salary deemed to be £23,000. = **£23,000**
Member aged 55 with 30 years reckonable service and final pensionable earnings of £40,000	Annual compensation payment (ACP)equivalent to enhanced pension until pension age and from pension age an annual compensation payment reduced to the amount of enhancement **A:** ACP to pension age =**£17,400** **C:** Lump sum compensation =**£33,995** **Total =120,995**	1 month pay for each year of service up to a maximum of 12 months =**£40,000**

3. Department's view as to whether provision could be added to the Superannuation Bill to amend the Superannuation (Northern Ireland) Order 1972 to require scheme amendments to be subject to Assembly procedure, which is the usual practice for subordinate legislation.

Yes. In terms of the legal process, provision could be added to the Superannuation Bill to amend the Superannuation (Northern Ireland) Order 1972 to require scheme amendments to be subject to Assembly procedure, for subordinate legislation in respect of the Principal Civil Service Pension Scheme (Northern Ireland).