Northern Ireland Assembly

Committee for Social Development

OFFICIAL REPORT (Hansard)

Responses to the Draft Pensions Bill: Departmental Briefing on EQIA Consultation

6 March 2014

NORTHERN IRELAND ASSEMBLY

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Members present for all or part of the proceedings:
Mr Alex Maskey (Chairperson)
Mr Mickey Brady (Deputy Chairperson)
Mr Jim Allister
Ms Paula Bradley
Mr Gregory Campbell
Mr Trevor Clarke
Mr Stewart Dickson
Mr Fra McCann
Mr Sammy Wilson

Witnesses:

Mr Gerry McCann	Department for Social Development
Ms Anne McCleary	Department for Social Development
Ms Gillian McMaster	Department for Social Development

The Chairperson: I welcome Anne McCleary, Gerry McCann and Gillian McMaster. There are a number of issues, but I would prefer that you made your presentation in advance. We have had a number of issues around pensions and pensions Bills, and we are losing track of a number of the matters that have been around for a while. It would be helpful if you could set this in the wider context of pensions. For me, there is a Pensions Bill for this and different aspects, so I would like it put in context, if possible.

Mr Gerry McCann (Department for Social Development): Anne will make an opening statement that will set the context.

The Chairperson: I hand over to you, Anne.

Ms Anne McCleary (Department for Social Development): Thank you for the opportunity to brief you on the proposed Pensions Bill and the associated equality impact assessment (EQIA). To my right is Gerry McCann and to my left is Gillian McMaster. They are the gurus on this. Unfortunately, Gillian has a problem with her throat, so she is here in spirit. I do not know whether she is physically capable of speech, but she is here to give us support and to assist us and you as much as possible.

You may recall that we provided a briefing on the corresponding Westminster Bill on 27 June 2013. However, we are conscious that there have been a number of changes in the Committee since then, so it might be helpful if we outlined the main provisions. The Westminster Bill is expected to receive Royal Assent by the end of March. Subject to ministerial and Executive approval, we anticipate that the Assembly Bill will be introduced shortly afterwards. It is expected that the Northern Ireland Bill will contain the following provisions: a new single-tier state pension will come in on 6 April 2016; the end of contracting out; payment of an extra additional state pension to those who have paid what is called a voluntary class 3A national insurance contribution; an acceleration of the timetable for the planned increase in the state pension age from 66 to 67; a new bereavement support payment; and a few private pension reforms. I will take each of those in turn.

As I said, the Bill proposes to introduce a new single-tier pension for all new pensions from April 2016. That will replace the current basic state pension and the state second pension known as S2P. It will provide for, first, a single component contributory pension scheme for people reaching pension age on or after 6 April 2016 paid above the rate of the current state pension credit; secondly, transitional arrangements dealing with people who reach pension age on or after 6 April 2016 and who have qualifying years accrued under the current system; and thirdly, the ending of contracting out for salary-related occupational pension schemes, including a power for sponsoring employers to amend their scheme rules to adjust members' future pension accruals or pension contributions to take account of the loss of the employers-related national insurance contributions.
However, people reaching state pension age before the introduction of the single-tier scheme will receive their state pension in line with the current rules. So, there is a very clear dividing line. The Westminster Bill introduces a new voluntary national insurance contribution, that is, the class 3A, to allow people who reach pension age before April 2016 to boost their retirement income by gaining extra state second pension. The Assembly Bill will provide for extra state second pension to be payable in those circumstances.

The fourth element of the changes is that the Bill will bring forward the increase in state pension age to 67 between 2026 and 2028. That is eight years earlier than was previously planned. Fifthly, the Bill will introduce a new bereavement support payment, which provides for a lump sum, followed by monthly instalments for a year. Indicative values are in the region of £4,300, that is, a £2,500 lump sum and £150 in monthly instalments. That would be for recipients without dependent children, and for those where there are dependants, it would be £9,800, that is, a £5,000 lump sum and £400 in monthly instalments.

Finally, the Bill also includes a range of measures relating to private pensions. Examples of those include the provision for the automatic transfer of small pension pots, that is, when a person changes employer; reducing the number of dormant pension pots, which makes it easier for people to keep track of their pension savings and enables them to plan better for their retirement and secure a better income in retirement; and the power to prohibit the offering of incentives to transfer defined benefit scheme rights to be commenced only if the extant voluntary code fails to bring an end to the practice. Another example is the ending of the ability for money purchase schemes to refund employee contributions if they leave the scheme within two years. That is short service refunds.

We will now turn to the EQIA. We provided the Committee with a summary of the impacts. We received three responses, and we have copied those to the Committee, together with a summary of their main points. We also discussed the responses with the groups. Our analysis suggests that the introduction of a new state pension is likely to have a greater impact on younger workers who will not be able to build entitlement to large amounts of additional state pension in the way that current pensioners were able to.

Secondly, we are aware that introducing a new state pension in April 2016, while state pension ages for women and men are still unequal, will result in an apparent difference in the treatment of some men and some women. We estimated that an implementation date of 6 April 2016 would mean that 19,055 women born between 6 April 1951 and 5 April 1953 would not receive a single-tier pension, although a man born on the same day would. Those women have an earlier pension age than that man born on the same day. So, there are advantages there.

The Women's Support Network suggested that women who fall into that cohort should have the option to be treated the same as a man with the same date of birth. However, as I said, those women would have reached state pension age before the new system was introduced, and they will have the same rights and entitlements as everyone else who reaches state pension age prior to 6 April 2016.

Since the 1970s, it has been possible for pension schemes to contract out of the additional pension part of the state pension system on the condition that the scheme provides benefits that are broadly similar to the future state benefits that the individual is giving up. Where employees are contracted out, employees and their employers, in effect, pay lower national insurance contributions because they receive a rebate on their contributions. The introduction of single tier means that there will no longer be a state second pension to contract out of.

From April 2016, employers and employees will cease to receive the contracted-out rebate, and they will have to pay increased national insurance contributions at a rate of 3·4% and 1·4% respectively. Although that will simplify the state pension system, as everyone will pay the same rate of national insurance, it will have a greater impact on public servants who make up about 89% of the membership of contracted-out schemes. Around 90% of those who start to pay higher national insurance contributions from implementation, and who reach the state pension age over the first two decades of single tier, are likely to see an increase in their state pension. That should offset the increased national insurance contributions they will pay over the rest of their working life and any potential adjustments to their occupational pension.

I move now to the class 3A voluntary national insurance contributions. National insurance contributions are an excepted matter. Therefore, the relevant conditions will be introduced by the Westminster Bill. Payment of class 3A contributions would allow people who reach, or are due to reach, state pension age before 6 April 2016 to boost their retirement income by gaining extra additional state pension. Class 3A contributions will be introduced in October 2015 and are primarily aimed at groups such as women, the self-employed and low earners who tend to have a low additional state pension outcome. The Assembly Bill will make provision for the payment of extra additional state pension to those who have paid class 3A contributions.

The Northern Ireland Public Service Alliance (NIPSA) and the Women's Support Network were concerned by the proposal to accelerate the timetable for increasing state pension age to 67. The Pensions Act (Northern Ireland) 2008 provided for state pension age to increase to 67 by 2036, but, since projections used to set the original timetable were published, average life expectancy at state pension age in 2027 will have increased by at least a year and a half for men and women across the UK. Given the ongoing increases in life expectancy beyond 2026, the intention is to phase in the increase to 67 between April 2026 and April 2028. The affected group would see its state pension age increase by between one month and one year, depending on their date of birth. In Northern Ireland, we estimate that that will be around 234,340 people. No one affected by the bringing forward of the increase to 66 will be affected, and people born between 6 April 1969 and 5 April 1977 already have a state pension age of 67.

The Women's Support Network expressed the view that future reviews of state pension age should consider variations in healthy life expectancy and socio-economic status. The Department is looking at those issues and intends to publish a report on the impact of socio-economic background in relation to retirement pension in the near future.

I come now to the proposed introduction of the new bereavement support payment to replace the existing bereavement benefits. The new benefit has been designed to support people with the additional costs associated with bereavement rather than everyday living costs. That is in recognition that spousal bereavement can have a significant financial impact, which is particularly acute in the months immediately following bereavement. The new benefit restructures bereavement support and will consist of a lump sum with instalments over 12 months. The bereavement support payment will be disregarded from other benefit calculations, such as universal credit.

There will be no direct losers as a result of the introduction of this new benefit as all those in receipt of current bereavement benefits will continue to receive them under the current rules. Although the proposed bereavement support payment recognises the additional needs of those with dependants by increasing payments to that group, in future, bereaved parents with younger children would receive notionally less than under the current system. Those who gain under the proposals are younger working-aged claimants who will receive more as they do not qualify for the current bereavement allowance.

Finally, the Bill includes a number of provisions relating to private pensions, many of which are technical. Provisions such as the automatic transfer of pension benefits when an employee changes jobs and the prohibition of the offering of incentives to encourage people to transfer pension benefits out of a salary-related scheme are expected, overall, to be beneficial. Those measures were broadly welcomed by NIPSA.

In conclusion, I think that there is a general acceptance that the current pension system is too complex, and single-tier pensions are a significant step in the right direction, offering a simpler, more transparent pension system. However, it is inevitable that any comprehensive reform, particularly in the current fiscal situation, will involve trade-offs. It is generally accepted, too, that the long-term cost of pensions and benefits must be sustainable and that action is needed to make sure that there is not an unfair burden on future generations.

That concludes the presentation. As ever, we are happy to take questions.

The Chairperson: Thank you, Anne. Before I bring in questions from the members, let me say that there are two elements to this. On the one hand, we are told that there are adverse impacts on some people; on the other, the EQIA says that there are some adverse impacts but nothing needs to be done to address them. Have I got that right? Another thing is that the Bill provides for the regulator to look at the sustainability of a business. Clearly, if a business does not exist or grow, that is a problem. Where are the criteria, guidance or protection for people against those businesses that might decide to continue always to benchmark their growth against employees' pension entitlement? Is there any protection there, or what are the criteria for that?

Mr G McCann: First, let me take your last point about the role of the Pensions Regulator. All we are doing is saying to the Pensions Regulator, "As part of the overall things that you have to do, when you are bringing forward guidance or looking at those issues, you also have to look at the effect that they may have on the overall businesses". It is not meant to be for each firm exactly. It is just that that should be part of the overall rules that they would have to be governed by.

The Chairperson: Will any particular business be able to go back to the regulator and say, "My growth is not — "

Mr G McCann: At the moment, the way the Pensions Regulator works is that, if there are issues with any one business, they will talk to them. If they have issues and explain what they are, the Pensions Regulator will do their best to make sure that they come up with something that will help out everybody. I am not sure that that is any different from the way that the system works at the moment. It is just that this has now been put up front. The main reason for that is that the amount of money that is invested in the private pensions sector is absolutely huge. At one time, I saw a figure that showed that something like over half the firms in the country were owned by funds. That figure is probably not up to date, but it is something of that order. Really, what we are saying is that, as part of the overall things that the Pensions Regulator has to do, they must look at the effects of anything that they are doing on overall business.

The Chairperson: Can you understand that there may be scepticism about that? We might say that, if it is already being done or provided for, why do we need a particular provision in the Bill? I would like to know what it is going to add up to ultimately. I may be wrong, but I am sceptical about it.

Mr G McCann: Again, I think that the provision is more intended to send out a signal to business that, for any firm that operates a scheme, we understand that burdens are involved, and we are conscious that we cannot just have a law for pensions that would be at the cost of firms going bust here, there and everywhere.

The Chairperson: Thank you. Before I bring in other members, let me ask about the adverse impact, the EQIA and any mitigating measures.

Mr G McCann: Regarding the EQIA, we met some of the groups and discussed those issues with them. In the EQIA, we set out where there were issues and what has been done to try to offset them. We have been asked to, for example, look at the issue of a man and woman who were born during that gap period. Because the age for men and women is not yet equal, it means that women will be under the old scheme, whereas a man born on the same day will be under the new scheme. We were asked to allow any woman born on that day to opt to be treated the same as a man. We looked at that. However, in Northern Ireland, we do not have any control over national insurance contributions. So, if a woman opted to be treated the same as a man, she would have be able to carry on paying national insurance contributions. We could not do that. The other thing is that, to comply with European law, if we allow any woman to opt to be treated the same as a man, we would have to allow a man to opt to be treated the same as a woman. If we did not do so, we think that we would fall foul of European law.

The Chairperson: Can it not be gender-neutralised so that people are equal no matter whether they are a man or a woman?

Mr G McCann: The only way to do that would be to either bring the state pension age down for everybody — sorry, no, there are two ways of doing it, and I do not think that you will like either based on what we talked about before when I have been before the Committee. One would be to bring forward the change to age 65 to 6 April 2016, which I do not think would be popular. The other would be to put off single tier until October 2018. Again, I do not think that that would be popular because a fairly large number of people will gain, and, if we hold off in Northern Ireland from doing that, I do not think that it would be popular. We have looked at every issue that has been raised with us and have done our best to see whether there is any way to get round the issues, but there are some major obstacles.

Mr Brady: Thanks for the presentation. It is bit like déjà vu all over again. We have been talking about this for quite a while. It always seems to me that, if cuts are to be imposed, the excuse is that the current system is too complex and needs simplified. It gives you the opportunity to cut benefits, which is basically what it is about, if they are being honest. It seems a bit contradictory because the summary of the main impacts states:

> *"In terms of the numbers affected, the single-tier pension has no adverse differential impacts on the grounds of gender."*

It then goes to say that 19,055 women will be affected.

The other thing is that, under a single-tier pension, a spouse or civil partner cannot claim from their spouse or civil partner's contributions. Surely that will affect a lot of people because, at the moment, a woman who never worked and gets to pensionable age may be entitled under her spouse's contributions. That will ultimately remove a number of people. What might happen to them? It may be for various reasons that they have not been able to work. The home responsibilities scheme was introduced in 1978 for women who worked, stopped work to have families and then went back to work. That has worked to a certain degree, but women who did not have families and who never worked for whatever reason — maybe because their husband or partner did not want them to — will lose out as well.

Ms McCleary: I think that they will. Fewer fall into that category than would have been the case previously because of the types of reforms that have already come in. You referred to those. Gerry, you looked at that.

Mr G McCann: I will come back to your first point about it being a way to save money. We will not save any money in the early years. It only starts to turn when we get to about 2040. By the time we get to 2060, the amount spent on pensions will be 8·4% of GDP as opposed to 9% under the current system. So, any savings will be for the future and not for the moment. It is not that we are saving money in the short term. I know that you know this, but I will say it for the benefit of some other members: every week, we pay out about £37 million on state pensions in Northern Ireland.

Mr Brady: With respect, that is because people have paid national insurance contributions over a period of years.

Mr G McCann: Some will have done, but now more and more people are also taking advantage of the credit that they receive for caring for children etc. I only mention these figures to show the amount of money that is involved in this. By any standards, the amount of money is absolutely huge.

Your second point is about category B pensions, as they are known. From 2016, category B pensions are being withdrawn. I will go back in time slightly to explain why they existed. They existed because, at the start of the system back in 1948, very few women worked. Therefore, the only way for a woman to get a pension was based on what her husband got paid.

Mr Brady: I understand that.

Mr G McCann: Over time, those figures have changed quite dramatically, and more and more women are now becoming eligible to a full category A pension. Also, a fairly large number of those married women will have been looking after their children during their life and, therefore, will have earned home responsibilities protection (HRP), which was then transferred into credits. So, the numbers that are coming through tend to be married women whose husbands had been fairly well off and who had just opted not to work at all.

Mr Brady: But, I mean that —

Mr G McCann: I am just setting the context of the EQIA looking at this to show where we are coming from in trying to work this out. However, there are certain rules in place that we are applying to cover some of these people, and, if you want, I can do a quick run-through of those.

Mr Brady: The point is that, when you talk about fewer, that could mean 20,000 instead of 30,000. Those figures are not really known. The point that I am trying to make is that there will be individuals who are affected. This could be argued as positive discrimination in some ways, because you are equalising the pension age, which no one would necessarily disagree with, but, already, women in particular have lost out, some by up to two and three years. Back in the 1990s, when unemployment benefit changed to jobseeker's allowance, you got unemployment benefit for 312 days but then jobseeker's allowance for only six months. You were not paying any less in your national insurance contributions, but you were getting six months' less benefit. Those are all predicated on the fact that people, at the end of that, may not be entitled to any benefit whatsoever, because, if your partner was working 24 hours a week or more, you were not entitled to income-support-based benefits. It is all moving towards that. A single-tier pension scheme will effectively disenfranchise a number of women, particularly from claiming on their spouse or civil partner's contributions. In my view, that has not been addressed. A lot of people will get a surprise when that happens, because it has not really been put out there. It has been kind of hidden. You talk about this being a simpler system, but it does not seem to be that much simpler. We have been told that universal credit is simpler. One million people are supposed to be on that, but, at this stage, there are only 3,600. All these complex systems are not working.

Mr G McCann: Where this one is simpler is that we are getting rid of the S2P, which, as you well know, is a very complex benefit because it is not in obvious bands etc. The whole point of this is that any member of the public should know that, if they have worked all their life, they will come out with a pension of a certain amount. That helps them to plan, whereas S2P —

Mr Brady: The difficulty is this: what sort of a pension do you come out with?

Mr G McCann: At the moment, if you have worked and have the full number of years, you will come out with a rate that will be higher than the state pension credit rate, which is currently about £145 a week.

Mr Brady: Yes, but £145 is the predicted amount. Five years ago, the Government were saying that you needed £175 as a reasonable amount of benefit, so we are already £30 below that with the predicted £145. So, essentially, the differential will only increase between what people receive and what is considered a living pension. We already have the meanest pension scheme in the developed world, to put it into context. The differential will always increase, and nothing has been done to address that. It is not your fault; it is not your policy. You are simply administering it.

Mr G McCann: This goes back to the point that was made by the Chair about how these things all interlink. We have also brought in things whereby now everybody in work should be being put into a scheme, and, over time, that will build up. Our aim is ultimately that everybody, once they hit pension age, will not have to get by on only their state pension but will have extra pension coming in from their work. So, I think that these things all interlink.

As for the short-term losers who you are concerned about here — those people who had expected more out of the system — we are building into this scheme a number of issues to make sure that people who have earned rights already will not lose out on them. There are a number of safeguards, and I can go into detail on those if you want. For example, a woman who hits pension age before 2016 and has not earned any pension in her own right, even if her husband gets pension after 2016, she will still be eligible to be paid a category B pension — well, she will be paid one at that rate. It is not that all those women will have lost out; there are transitional protections.

Mr Brady: Thanks, but I remain unconvinced, I have to say.

The Chairperson: You can still explore it at some point today or beyond today.

Mr Allister: Thanks. Could you cast some light on the overlap between the fact that some aspects of this pertain to excepted matters, such as the national insurance contributions, and some to transferred matters? Can you distinguish where the line is drawn?

Mr G McCann: The main excepted matter is national insurance contributions.

Mr Allister: The setting of them?

Mr G McCann: Anything to do with national insurance contributions and for money coming in and going out of the fund etc. The national insurance fund for Northern Ireland at one time fell under the control of our Department. That is now not the case because it is an excepted matter.

Mr Allister: When did it become an excepted matter?

Mr G McCann: In 1999. There is a provision under schedule 2(10) to the Northern Ireland Act 1998. That is why, if you are setting up a new national insurance contribution, for example, that has to be done in an Act over at Westminster. The national insurance contribution is set up there. As Anne mentioned, they are setting up a new class, 3A, which will allow people who hit pension age before 2016 to buy extra pension rights. What we do, under our Act, is to say that anybody who has paid these contributions can get the extra benefit, because the law for the payment of the various benefits falls to us and to the Assembly.

Mr Allister: What is the logic of the national insurance being excepted but the pension administration not being?

Mr G McCann: I am not sure that I can answer that, because this was part of the Northern Ireland Act 1998. I do not think that I can offer any view as to why they did it.

Mr Allister: When you come to administer state pension, which is a transferred matter, you obviously have access to check what someone's contribution record is.

Mr G McCann: Yes.

Mr Allister: Can you tell when they made their contributions etc?

Mr G McCann: As far as I know now, although I could check with operational colleagues to give you the exact way that it is done, I think that they get a figure through a computer system that tells them what the person's national insurance record has earned for them.

Mr Allister: Is the computer system on national insurance shared with you?

Mr G McCann: Here, all the various pensions are paid out using the system from Britain; so, it is all paid from the GB computer system.

Mr Allister: So, you just feed in information.

Mr G McCann: We do not have our own separate computer system here.

Mr Allister: So, just to come back to the point about class 3A contributions, there will be a window from October to April when you can pay in, and that is governed by the Westminster Bill that is about to get Royal Assent, so anyone in Northern Ireland is not dependent upon your Bill going through the Assembly in order to make those contributions. Is that right?

Mr G McCann: They are, in a way.

Mr Allister: What is that way?

Mr G McCann: That part of the Act in Britain will not be brought into force if the Assembly says that it is not happy with the provisions. Even though the Act is passed, it has to be brought into force by an order.

Mr Allister: By an order made by the Department for Work and Pensions.

Mr G McCann: By the Secretary of State for Work and Pensions.

Mr Allister: And that is conditional on —

Mr G McCann: I am just saying that I do not think that they will make any provision for a person to pay class 3A in Northern Ireland if they could not get anything back for doing so.

Mr Allister: We all know that sometimes the pace of legislation in the Assembly is less than one might expect. If that legislation is not through by October — it might be optimistic — will anyone in Northern Ireland be able to make a class 3A contribution?

Mr G McCann: No, they will not, until such time as that is part. The Act in GB makes two separate amendments. One alters the Social Security Contributions and Benefits Act in Britain; the other alters the Social Security Contributions and Benefits Act here.

Mr Allister: So, we could arrive at quite a disturbing situation where, in Northern Ireland, potential contributors of class 3A who want to make the contribution in respect of an excepted matter cannot in fact make the contribution because the Bill has not gone through the Assembly.

Mr G McCann: Yes. What has to be achieved is a balance between the powers of Parliament at Westminster for an excepted matter and taking full account of what falls to the Assembly. That is why you have the split between the two Acts.

Mr Allister: I can understand that transfer will be dependent on Westminster doing something on an excepted matter. What I am struggling to understand is how, once something that is in the domain of an excepted matter is done by Westminster, it becomes dependent on the Assembly doing something.

Mr G McCann: Look at it the other way. All the benefits that are based on contributions depend on which national insurance contribution you have paid, whether it is class 1, class 2, class 3 or whatever. All those rules fall to Parliament, so this is just really carrying on the existing system that has been in place.

Mr Allister: Yes, but you could have people in Northern Ireland eager and willing to make a class 3 contribution and the door is shut to them.

Mr G McCann: I assume that Assembly Members, when looking at the timescales that we have to meet for these things, will take those matters into account.

A Member: The optimist.

Mr Allister: I hope that you are right.

Mr G McCann: That is all that we can say on it. We assume that it will be factored in.

Mr Allister: Can I ask you about one other thing — the bereavement support payment? You have set out for us how it is £2,500 and £150 a month, capped at a year etc. Remind us how that compares with the present arrangements.

Mr G McCann: I will have to find some figures for you here.

Mr Wilson: Is it £2,000?

Ms McCleary: Yes, currently, the bereavement payment is a one-off tax-free payment of £2,000 after the spouse or civil partner has died. Then there is —

Mr G McCann: You can also get a bereavement allowance. That is payable to a person over the age of 45 who does not have any children. The standard rate for that is £108·30.

Mr Allister: What about the widowed parent's allowance?

Mr G McCann: The widowed parent's allowance will depend on the children in the family and your age when you start getting it.

Mr Allister: How long do you get it for?

Mr G McCann: It can be until the child has left school, which could be —

Mr Allister: That is the point I am coming to. Is that affected by the proposals?

Mr G McCann: No. Anybody who is under the existing system —

Mr Allister: Those under the existing system are not affected, I understand that; but, for the future, does it disappear?

Mr G McCann: It does.

Mr Allister: You come to us and talk about notional losses, but that in fact is a very substantial loss for someone who finds themselves in that position. Instead of having a weekly benefit until their children leave full-time education, they will have their benefit capped at 52 weeks — end of story.

Mr G McCann: Yes. Though, without, as it were, dancing on the head of a pin, why we say that it is, in theory, a loss is because, at the point of this taking effect, there will not be anybody out there who will be able to claim for it.

Mr Allister: Yes, because you changed the rules, so that they cannot apply. I am comparing the widow of today with the widow of tomorrow, and the widow of tomorrow will be at a distinct disadvantage.

Mr G McCann: However, I should make the point that, for this one, there is absolutely no money being saved here. It is just that the money is being used in a different way.

Mr Wilson: It is more upfront.

Mr G McCann: It has been moved so that it can be front-loaded. It also fits into the wider agenda, which is to seek to get people back into work. The idea that we should have people on benefit all their life is not really where we want to be. The aim of the new bereavement support is to provide help during the first year. There will be other benefits available. If you do not have any money, are not working, cannot get a job etc, there are other benefits that will fill in. However, the money that you get because you have been bereaved shall last for only one year.

Mr Allister: It is the parental allowance that really is the big loss.

Mr G McCann: It is a big notional loss in the sense that it is what a person might have expected to get had their spouse died at some point in the future. I say again that there is not any money being saved here. It is just that the money is being redistributed.

Ms McCleary: It is also important to note that, under the new scheme, it will not be restricted by age. Under the old scheme, you had to be, I think, 45. Whereas, under the new scheme, there is no age restriction.

The Chairperson: A number of members want to come back in again, but I will take members in the order in which they indicated.

Mr Campbell: It is quite a confusing system to try to get your head around, so can you help me to get some clarity on this?

Ms McCleary: We will try.

Mr Campbell: Beyond 2016, at the current estimate, the single-tier state pension will be about £145. Is that right? To analyse this, is it possible to get a weekly sum that equates to the future pension that current pensioners will get from their current basic pension plus any average second pension that they are entitled to, so that we can see what we are comparing? We are not comparing apples with oranges here. How much gross income does a pensioner currently get, and what will an equivalent pensioner get under the single-tier state pension in three years' time?

Mr G McCann: I shall give you a figure, but I will have to check to make sure that what I am saying to you is right. With that caveat, I think that the average is £125 a week at the moment.

Mr Campbell: What does that comprise?

Mr G McCann: The basic state pension is £110. The other bit is made up of the extra pension that they have earned from SERPS, S2P or whatever. The average is, I think, £125, but I have to check that out to make sure that what I am telling you is right.

Mr Campbell: I will come to the point about the window, which, I think, is the important point for many people. Going back to Mr Brady's point, that would mean that, post- 2016, based on the figures that we currently have, pensioners would expect to be £20 a week or thereabouts better off than their present-day counterparts. Is that right?

Mr G McCann: Yes, on average. I think that it is fair to say that that is the case on average.

Mr Campbell: Yes, obviously, everybody will have different contributions. So, in that sense, it would not be a saving to the state. It would actually be an additional expenditure.

Mr G McCann: As I said in answer to Mr Brady, it is not until we get to the year 2040 that we start to realise some savings.

Mr Campbell: OK.

I want to come on to the issue of the window period and the requirement to have 35 qualifying years. Presumably, females who have taken time out for family reasons or whatever might find themselves in an invidious position. If they have sufficient years, they will be able to avail themselves of that additional pension sum, compared to current counterparts, but they do not have much time to establish whether they have sufficient years and, if they do, what they can do about it.

Ms McCleary: It is worth noting there that a woman who currently has 30 years will be in the same position as she would be under the new scheme. That is just because of the way that it works; the percentages.

Mr Campbell: You mean —

Mr G McCann: What Anne means is that, if, at the moment, you have worked for the full 30 years, you would be entitled to a full pension of £110 a week. OK?

Mr Campbell: Yes.

Mr G McCann: With 30 years, under the new scheme, you would be entitled to a pension of £123 a week.

Mr Campbell: Yes, but —

Mr G McCann: So, those women will be better off, even if they do not have the full five years more.

Mr Campbell: Yes, but the point that I am making, and why I asked the first question, is that should someone be short of the qualifying years by an amount that they may be able to raise because they see some longer-term benefit in doing so with greater life expectancy etc, the additional potential pension that they would get under the new scheme is greater than the pension they would get were they to pay up to get the 35 qualifying years now. That is because of the £25 extra.

Mr G McCann: Yes. Each year under the new scheme shall be worth more to you than each year under the existing scheme. If that is what you are asking, the answer is yes.

Mr Campbell: Yes, that is. That is all the more reason for those women to be made aware of the financial benefit to them if they were able to. Many of them may not be, but those who were able to make up those financial contributions do not have long to do it. Presumably, the cost will rise.

Mr G McCann: Sorry, there are two separate issues here. The first is that you can pay voluntary contributions to buy added years for what we call the basic state pension. The other one that we referred to for the class 3As will buy you extra state second pension.

Mr Campbell: Right.

Mr G McCann: It is not buying you added years of the ordinary pension. It buys you added years, as it were, of your state second pension.

Mr Campbell: Yes. But I will try to explain a bit more what I am getting at. If we were to have a female who has been raising a family or who had been in circumstances that now left them short of the 35 qualifying years, and they are due to retire in or around 2016, and they discover that it would be significantly beneficial to them to pay up their 35 years of national insurance contributions because, at the point of their retirement, they will qualify for the higher single-tier state pension — right?

Mr G McCann: Yes.

Mr Campbell: At what point will they know or be informed that it would be significantly beneficial for them to do that but they have only two years to do it?

Mr G McCann: Well, again, two years would probably only be for the class 3As for the state second pension. As part of the changeover, from the old to the new system, we will look at what each person has paid in and work out what they would have been able to get under the existing system and what they would get under the new one. So, each person will know what they are entitled to, and that will be what is called their foundation amount. Special rules are going to be applied to allow people, once they know their foundation amount, to have added flexibility for the time over which they can buy the added years. I am talking about the added years for the ordinary pension, as opposed to the class 3A rules that we spoke about earlier. There will be special rules to allow people to buy extra years.

Mr Campbell: But what is being done to alert those people?

Mr G McCann: As we move ahead on all this, again, part of our problem is that we are not able to go out and advertise it from the rooftops until we know that the Assembly is happy with it. So, there is a balance to be struck between advising people on what they should do for the future and knowing that the Assembly is happy with it. I think of the Welfare Reform Bill, for example. There was a plan to issue some leaflets, and the Committee, probably quite rightly, felt, "Hold on; we have not agreed this yet". I am just saying that we have to balance matters that are for the Assembly and what we, as a Department, wish to do in advising people.

Mr Campbell: At what point do people cease to be eligible to pay national insurance contributions?

Mr G McCann: At what point do they cease to be eligible?

Mr Campbell: At what age?

Mr G McCann: Your state pension age is the cut-off point of the years that you have to pay national insurance contributions. However, you can pay voluntary contributions; those are called class 3. There are various rules. You can pay some of those even after pensionable age if it would allow you to buy a year or to make up one final year, but there are quite complicated rules.

Mr Campbell: One further question is on the issue of EQIA. There are various groups that there will be an impact on and some that there will not. There is mention of religious belief, political opinion, persons with a disability and persons with dependents, and we have referred to one or two of them. I understand that, and it is good to know. Are there any practical steps that the Assembly can take to address the negatively impacted groups? Can anything be done, or is that just a simple factual statement of what will happen once this is passed?

Mr G McCann: What is inside the EQIA is a statement of fact. It is what we have done under section 75. We have to assess all the various impacts. We have also set out there what measures have been looked at to see how we could mitigate this. As I said earlier, because of what we have got in on this, we have looked at some other issues as well and spoken to the groups about those. However, as I also said earlier, even though we have looked at the situation for the group of women born on the same day as the men, for example, there are very real things there that would stop us from doing anything different.

Mr Wilson: I will ask a question following on from Gregory's. You have said that, once the legislation has gone through here — I take it that the legislation has to get through the Assembly and that it is not just a question of the Committee saying that it is content — you will be able to inform people of its impact on them and tell them that they can buy themselves extra contributions if they want to, and that some flexibility will be shown. Is that national flexibility? If we were later with our legislation than the Government at Westminster had expected, will the time period be squeezed because we are later, or have there been indications that we will be given an extension of that time?

Mr G McCann: To go back to your first point and to Mr Campbell's question, there will be some things that people shall end up knowing about in advance of the Assembly putting this through. For example, if anybody here asked what their future pension rights will be, a computer system in Britain will give them a statement. However, on the note that they get, there will be a statement that the law has not yet been passed in NI. So, all they are telling people is what they might be entitled to. We added in something to make sure that people know that the Assembly has not yet passed this and that, therefore, they cannot rely on that totally.

Mr Wilson: Will the period that they have to rectify the situation by making additional contributions, if they so wish to, be fixed nationally? People may well know that they will have a shortfall but not be able to do anything about it.

Mr G McCann: It is for the buying of extra contributions for the basic pension, which we will call it for want of a better term. Once we work out what their amount would be under the new and the old systems, people will have a period of years during which they can buy extra contributions if they wish.

Mr Wilson: So, that should not be affected by any delay in legislation here.

Mr G McCann: It will be more of an issue for the class 3As, which Mr Allister mentioned, and in respect of the fact that we have to have the system up and running for 2016.

Mr Wilson: I have one other point to make. You have to have 35 qualifying years to qualify for the full amount, and the minimum period is 10 qualifying years. What happens when someone falls short of having 10 qualifying years?

Mr G McCann: A person who does not have 10 qualifying years will not be entitled to any. The reason for that was to ensure that people who were getting the pension had a strong link with the company for which they worked. However, state pension credit is also available, which means that someone who has no money, or has a small amount of savings, would still be able to claim state pension credit, which will be paid at the same rate.

Mr Wilson: So, if a person paid eight years' contributions, he or she has not paid them in vain and will still get some return.

Mr G McCann: They will not get it from the single-tier pension system, but there is a safety net in place as regards pension credit.

Mr Wilson: I want to ask about private pensions, especially since everyone is going to be forced to take a pension. I want you to explain paragraph 11 in the briefing paper that you gave us entitled 'Draft Pensions Bill - Outline of main provisions". Paragraph 11says that:

> *"The Bill also adds a new objective for the Pensions Regulator stating that it should 'minimise any adverse impact on the sustainable growth of an employer' when exercising its functions in relation to scheme funding."*

If I were paying into such a pension, I might have some concerns about what that means. What does it mean in practice? I know you said that it does not mean that every employer will make a special plea, but let us imagine that the CBI says that this is having a very big impact on its members and wants the Pensions Regulator to step in and reduce that impact. In practice, what could the Pensions Regulator do, and how would that impact on me as an employee who has made contributions to that scheme? Would it be watered down? For example, could I be in a position where I had made contributions on the basis that I would get something from it only for it to be watered down as a result of the representations going to the regulator?

Mr G McCann: That is not the intention of the provision. There is always a balancing act between having schemes in place, in which all the rights of members are safeguarded, and not putting extra burdens on employers. For example, the schemes that we enjoy are linked to what we earn in our defined salary and we know exactly what we are going to get. Such schemes come at very high cost to the employers that sponsor them; so, we aim to have a system where the rights of the member who pays into a scheme are safeguarded and where we do not place an extra burden on employers. We are looking for that balance.

Mr Wilson: What would that mean in practice?

Mr G McCann: The Pensions Regulator could be checking that everything in a scheme is hunky-dory and finds that when looking ahead to future years things will be fine although the scheme balance this year is perhaps slightly lower. This means that he would not have to intervene. He looks at the overall picture. If he were to insist on money being paid in now, that could cause grief to the employer. However, if the regulator is satisfied that things will balance out over the longer term and there is no need for us to be overly worried about it, things will be fine. This is an example of where the Pensions Regulator might take an easy touch on something as opposed to being heavy-handed. The role of the Pensions Regulator will still be to make sure that all the various rights of members are safeguarded. It is just about factoring in that, when he is carrying out all his functions, this is one extra function he has to carry out. He has to think about the impact of what we are doing. It is not meant to take away from any rights under the scheme or take away any safeguards.

Mr Wilson: Say we hit another recession and employers' organisations decide that making pension contributions for members is causing a huge burden. Could the regulator give them a holiday from putting in contributions, not knowing what the cumulative effect of that might be. In the meantime, firms could go bust, and if they have not made contributions, because the regulator gave them the right not to do so, then I, the employee, having made my contributions to the scheme, would find that my rights have been diluted.

Mr G McCann: There are rules in place to say by what date, under law, they have to be paid in. It is a statutory duty. The employer has to pay by a certain date after he has got them in.

Mr Wilson: In practice, what does it mean when it says that it has to be sustainable and that the regulator has to bear that in mind?

Mr G McCann: Say, for example, in the case you mentioned, the contributions were due in by the eighteenth day of the month and are two days late. Strictly speaking, that person has fallen foul of the law, and the Pensions Regulator could issue a contribution notice and force them to comply. He could also impose a fine on the employer for having failed to meet the deadline. However, the Pensions Regulator could also look at the whole thing and say, "Fair enough; it is paid now and you are only two days late" —

Mr Wilson: Surely —

Mr G McCann: This is an example of where he does not need to carry out all his functions to make sure all are safeguarded. I am just saying that, in doing so, he has to bear in mind that employers have issues.

Mr Wilson: It is a kind of micromanagement. It is that the regulator can look at the big picture and decide not to make macro-changes that will impact on the sustainable growth of the employer.

Mr G McCann: Under law, some of the Pensions Regulator's powers are quite strong, and he could opt to exercise them to the very last letter. For example, he could go into schemes every year, check them out, make them jump through hoops over and over again and, if they failed to provide contributions, he could issue a penalty notice. He could do all those kinds of things. He could also opt to bear in mind all the issues that firms are facing, which is probably what is coming through in this. We do not want to stop firms that are operating good schemes from doing so just by being overly heavy-handed. I stress again that there is no intention that this would allow firms to go down the route of not worrying about members' contributions. That is not what this is about. It is more about having that up there along with all the other things that the Pensions Regulator does. He has to bear in mind all the issues faced by employers.

Mr Wilson: How do you see that power operating later on if we have a fairly lenient Pensions Regulator or if we have one who is being leaned on because of economic circumstances? I can think of situations that could arise, especially if we have a prolonged recession, as we do at the moment. A very strong case could be made, if the provision existed, to do something to rescue firms. However, that in turn would have an impact on the people who have been happily paying their pension contributions. Under the new legislation, everyone will be required to be in an employer's pension scheme, so everybody could be affected by this.

Mr G McCann: Under automatic enrolment, it is not that they will be in an employer's pension scheme that their employer will have to pay into; most employers will probably opt for the National Employment Savings Trust (NEST), which is operated by the state. Therefore, it will not be the case that all those people will be joining small schemes.

Those of us who are old enough will remember the Maxwell affair in which scheme funds were used to prop up the Maxwell empire. Since then, I do not think that anything of that nature would be allowed to happen under the current rules. The intention is that it will not allow for the scenario you are referring to. If we thought that that was going to happen, the Department would seek to intervene.

Mr Wilson: The Department makes regulations to ensure that schemes meet the quality requirement. What criteria will be set out to ensure that schemes meet the quality requirement?

Mr G McCann: For a scheme to be automatically enrolled, it has to meet certain standards. As this is starting to work in practice, employers in some schemes are saying that they cannot meet these standards but that the amount of money they have as a safeguard is ample and that there are no risks. If there is an alternative form of pension scheme that we think would safeguard it, the Department can allow other ways to satisfy the rules, so long as they meet certain criteria. It is to add extra flexibility for schemes that are pretty good at the moment but are not able to meet the letter of the law of automatic enrolment.

Mr Brady: A question was asked about getting information to people, and you mentioned the leaflets on welfare rights. I want to make the point that the Committee asked for those leaflets not to be sent out because quite a few that were sent out caused confusion. However, maybe the lesson has been learned.

Widowed parent's allowance is payable as long as child benefit is payable to the surviving parent. The whole lump sum issue came about because of a legal issue, because survivor's benefit was not payable to men; it was payable to women only. A case was taken to the European Court a number of years ago by a man, who actually won his case. Under the old system, women would have been paid the high rate for six months, which meant that they got used to living on that, and then, bang, it went down. That was the basis for that. Therefore, the surviving parent will get the widowed parent's allowance if the child stays at school until they reach the age of 19 or 20 and as long as child benefit is payable. That would be the controlling benefit. Can you clarify that?

Mr G McCann: For the existing law, it could be paid until the child reaches the age of 19 because of the school leaving dates. That is the cut-off point. I do not have the figures to hand, but the number of people who are still getting it once the child is 19 are small. However, Gillian may be able to turn up those figures.

Mr Brady: There is also the cut-off age of the surviving spouse or partner. Under the new system, if they are under a certain age, they will still get some benefit. It applied to women only at that time, and if they were too young — obviously you cannot legislate for when your partner will die — they received nothing if they did not have dependent children.

Mr G McCann: There are two big advantages with the new system. The first is that, for the first time, people under 45 will be able to get the allowance, which is a big change. The second is that the amount you got by way of bereavement allowance was linked to the number of years of the dead spouse's or civil partner's working life. For example, for someone who stayed on at school and who may have gone on to university and worked for only a couple of years, the number of qualifying years in their working life would have been small. Therefore, the amount that the widow received would have been quite small. Under the new contribution conditions, people will receive the allowance so long as the person worked for one year.

Mr Brady: If you have no dependent children, that will last for only one year. Presumably, if you do not have any other source of income, you will go on to income-based benefits.

Mr G McCann: The income-based benefit is payable at the same time. The new allowance will not be taken into account. As well as getting bereavement support, if you are out of work, you would claim universal credit, as it may be by that stage.

Mr Brady: If bereavement benefit is above income-based benefit, you would not get any income-based support.

Mr G McCann: You will. The bereavement support payment will not be taken into account for universal credit.

Mr Brady: That is what I wanted to clarify. It will be ignored for that year.

Mr G McCann: Again, that brings me back to the point I made earlier that the new rules will not save money; it is just that the money will be taken and used in a different way.

Mr Brady: So, if the person goes back to work within that year, that will not be added to their income and taxed overall in the way that, say, a pension is if somebody is —

Mr G McCann: I am sorry; do you mean taxable income? I cannot answer you on tax. HM Revenue and Customs (HMRC) is still looking at the tax issue.

Mr Brady: Obviously, it would not affect benefits. However, if the person went back to work within two or three months of the bereavement, would the bereavement benefit be added to their wages and would they be taxed on the overall amount?

Mr G McCann: As I say, I understand that HMRC is still looking at the tax status.

Mr Brady: That is interesting.

Mr G McCann: Tax is an excepted matter, and in the same way as with national insurance contributions, we do not have any control.

Mr Brady: I understand that.

Mr G McCann: I understand that HMRC is still looking at it.

Mr Brady: People need that information in order to make their decision.

Mr G McCann: Again, that is a matter for HMRC to make up its mind on. We cannot influence that. We can only wait for HMRC's decision.

Mr Brady: I understand that. Thanks.

Mr Allister: I just want clarity on one point. To go back to the class 3As and those who might have an interest in making contributions, can you clarify how they will be alerted to the advisability of making such contributions?

Mr G McCann: I do not think that they would be alerted to the advisability of making them. I think that it would be a choice. I am sorry; do you mean that we would say that we think it is a good idea?

Mr Allister: Will class 3As be given any illustration to say, "Here is how you stand as things are. If you contribute further, pro rata, this is how it could affect you"?

Mr G McCann: This scheme will be open to everybody who is of pension age before 2016.

Mr Allister: Men and women?

Mr G McCann: Yes. It will also be open to people who are over pension age, as it were, to purchase to add on extra S2P.

Mr Allister: How would they know whether it was in their interests to do that?

Mr G McCann: At the moment, someone who is over pension age should know exactly what they are getting. Those under pensionable age can ask for a statement on their future entitlement.

Mr Allister: Is the onus on them to investigate, explore and find out if it is in their interests?

Mr G McCann: I would have to go back and clarify whether there will be any proposal to look for people with a deficient record.

Mr Allister: Do you not think that there would need to be?

Mr G McCann: I should say that this is not about a deficient record as such; it is to allow people to buy extra state second pension.

Mr Allister: I know that.

Mr G McCann: What I mean is that nobody has a deficient record, as such. I am just coming back to clarify that for you in the case of somebody who has a deficient record.

Mr Allister: I am concerned about the availability of the option of class 3A contributions so that people might be able to benefit or better themselves with regard to the second string to their pension. How will they know that? How will they know how they could benefit and better themselves and by how much if you do not tell them?

Mr G McCann: Rather than actually telling you something that I am not certain about, I think it would be better for me to go back and check. We shall write to you on that point.

The Chairperson: OK. Thank you for that. Gerry, can I just return you to paragraph 11 for a wee second? Sammy raised the issue, and I raised it in my opening remarks, about the Pensions Regulator and trying to get that balance.

I understand that this is not designed to allow for a lobby that says that industry or business in general that is in difficulty can reduce the pension burden of employers or give people a holiday from paying contributions, which might mean that if a company went into administration, there would be all sorts of problems because pensions had not been paid up by the employer. This is the kind of protection we are looking for. Gerry, I think you said earlier that there might be a light touch given, and that contributions could be made if it goes beyond a couple of days. Would there be any question of somebody being given a year in which they would not make contributions, or could they reduce their contribution, which would impact on employees' expectations? Do you know what I mean? Where can we see the parameters of that in the Bill?

Mr G McCann: It will not appear in the Bill, but, when we get into the Committee Stage, we will be able to go into it in great detail. We can come back to this issue for you. I must admit that it is not one of the issues that I thought you would be focusing on today, but we can come back to you on it in detail.

You seem to be worried about what would happen if the employer has not paid over contributions and then the business goes bust. The safeguards would depend on the scheme. Is that what you are asking me? Are you asking me to reassure you that there are safeguards in place?

The Chairperson: You know what it is like: in recent weeks, companies have gone into administration, virtually overnight. There was then a scramble to try to work out what people's rights and entitlements were. Over 24 hours, you could discover that the company has not been paying your contributions. That can have all sorts of serious impacts.

Mr G McCann: Under a defined contribution scheme, there is provision for contributions to be paid from the national insurance fund if an employer goes bust and there is a gap in the contributions paid over. That is a safety mechanism. In a defined benefits scheme, we have things such as the pensions protection fund in place. It is there, should a scheme end up being underfunded and the employer goes bust. That will provide safeguards to ensure that people are paid a pension. So, there are safeguards, if your concern is that you might get into a situation where contributions were not paid. However, as I said to Mr Wilson, there are rules in place as to the dates by which you have to pay contributions etc. Those are set in law.

The Chairperson: That is very helpful; I appreciate that. I have a final point. You said that 19,000 women were born between 6 April 1951 and 5 April 1953. Is there any figure attached to that? In other words, if the Executive wished to mitigate that, are there pounds, shillings and pence attached?

Mr G McCann: Not that I can give you at the moment. The problem is one that I mentioned earlier. We think that if we were to offer this option to a woman, we would also have to offer it to a man to allow him to opt to take his pension earlier. That is where the money would get crazy, even if we were able to do it under the existing computer systems.

Quite a large number of those women will be far better off under the existing system simply because of their state pension age. If we take the average figure of about £125 a week, which we used earlier for Mr Campbell, we would see that, over their lifetime, they will get a pension of about £26,000, based on the fact that they were able to go earlier — their pension age was earlier. Not all women will lose out; some will gain quite a lot. In fact, we get pressure from men who complain that a woman is still able to get her pension earlier.

The Chairperson: Thank you for that, Gerry. There are no more questions. Gerry, Anne and Gillian, thank you very much. Gillian, I know that you were here in body; I am not sure that you were here in spirit, as you said earlier. Thank you for trying to address these complex issues. Obviously, we will return to them.