PROPOSED NORTHERN IRELAND PENSIONS BILL
BRIEFING FOR THE COMMITTEE FOR SOCIAL DEVELOPMENT

Page

SYNOPSIS

1. The Pensions Bill makes provision for Northern Ireland corresponding to the Pensions Act 2014 which received Royal Assent on 14 May 2014. It proposes changes to the State Pension, private pension provision and Bereavement Benefits, specifically:

- the introduction of a new State Pension and consequential matters;
- an option to boost additional State Pension under the current scheme;
- accelerating the increase in State Pension age to 67;
- phasing out the Assessed Income Period in State Pension Credit;
- the introduction of Bereavement Support Payment; and
- changes to private pensions.

2. The State Pension proposals were the subject of a consultation carried out in Great Britain and Northern Ireland between April and June 2011. Consultation on a new system of support following bereavement was carried out in Great Britain and Northern Ireland between December 2011 and March 2012. The Committee were briefed on 23 June 2011 and 8 March 2012 respectively. Acceleration of the increase in State Pension age to 67 in Great Britain was announced In the November 2011 Budget Statement.

3. A draft Pensions Bill was published by the Department for Work and Pensions on 18 January 2013 and issued to Northern Ireland interest groups by the Department for Social Development. The Committee were briefed on the content of the Westminster Pensions Bill on 27 June 2013.

4. An Equality Impact Assessment examined corresponding Northern Ireland proposals in the context of the promotion of equality of opportunity and good relations as required by section 75 of the Northern Ireland Act 1998. A consultation exercise was carried out from 21 November 2013 to 14 February 2014. Three substantive responses were received. Officials briefed the Committee on 6 March 2014. The Committee decided not to make a formal response.

New State Pension

5. From April 2016, the proposed new State Pension will replace the existing scheme, comprising basic State Pension and additional State Pension, with a single component flat-rate pension. The new pension will be set above the basic level of means-tested support – the Pension Credit Standard Minimum Guarantee; currently £148.35 per week for a single pensioner.

6. The aim is to provide a simpler, clearer State Pension system for future pensioners, a foundation to enable planning and saving for retirement and reduce the number of people who have to rely on means-tested benefits. People reaching State Pension age before the introduction of the new scheme will receive their State Pension in line with current rules.

7. Transitional measures will provide for:

- people who have paid, been treated as having paid or been credited with National Insurance contributions in respect of tax years before the introduction of the new scheme;
- inheriting entitlement from a late spouse or civil partner who made National Insurance contributions in respect of tax years before the introduction of the new scheme;
- women who before 1977 elected to pay a reduced rate of National Insurance Contributions; and
- sharing a pension with a former spouse or civil partner on divorce.

8. Consequential changes include:

- provision to allow people to postpone or suspend entitlement to a State Pension;
- the abolition of contracting-out for salary-related occupational pension schemes; and
- the abolition of the savings credit element of State Pension Credit for people who reach pensionable age on or after the introduction of the new State Pension.

Option to boost additional State Pension

9. The Pensions Act 2014 introduced a new class of voluntary National Insurance contribution, Class 3A, to allow people who reach State Pension age before the introduction of the new State Pension scheme to increase their additional State Pension. As National Insurance contributions are an excepted matter, these measures extend to Northern Ireland. The Bill makes consequential provision for the payment of extra units of additional State Pension to those who have paid Class 3A contributions.

Pensionable age

10. The Pensions Act (Northern Ireland) 2008 provided for State Pension age for men and women to increase to:

- 66 between 2024 and 2026;
- 67 between 2034 and 2036; and
- 68 between 2044 and 2046.

11. Subsequent projections revised life expectancy upwards and, as a consequence, the increase to age 66 was brought forward to October 2020 by the Pensions Act (Northern Ireland) 2012. The present Bill proposes to phase-in the increase to 67 between 2026 and 2028.

State Pension Credit

12. Assessed Income Periods (AIPs) in State Pension Credit remove the requirement for certain individuals to notify the Department of changes to retirement income within a defined period. The Bill proposes to abolish AIPs for new claims from April 2016. From that date, changes should be reported when they occur, triggering a review and change of award where appropriate.

13. Provision is also made to preserve existing indefinite AIPs introduced by the Pensions (No. 2) Act (Northern Ireland) 2008 for persons aged 80 or over or those with an AIP spanning their 80th birthday.

Bereavement Support Payment

14. The Bereavement Support Payment will replace existing Bereavement Benefits. It will simplify:

- the payment system by moving to a more uniform structure; and
- the contribution conditions with the introduction of a single rule.

15. Bereavement Support Payment will be paid as an initial lump sum followed by monthly instalments for one year.

Private Pensions

16. A number of the proposed measures relate to private and workplace pension schemes, the majority of which strengthen existing legislation relating to regulation and automatic enrolment.

BRIEFING NOTE

BACKGROUND

1. The Pensions Bill makes provision for Northern Ireland corresponding to the Pensions Act 2014. It proposes changes to the State Pension, private pension provision and Bereavement Benefits, specifically:

   - the introduction of a new State Pension and consequential matters;
   - an option to boost additional State Pension under the current scheme;
   - accelerating the increase in State Pension age to 67;
   - phasing out the Assessed Income Period in State Pension Credit;
   - the introduction of the Bereavement Support Payment; and
   - changes to private pensions.

2. On 14 January 2013, the Department for Work and Pensions published the Command Paper 'Single-tier pension: a simple foundation for saving' explaining the proposed new State Pension and consequential matters. The proposals were the subject of a consultation carried out in Great Britain and Northern Ireland between April and June 2011. The Committee were briefed on 23 June 2011.

3. The acceleration of the increase in State Pension age to 67 in Great Britain was announced in the November 2011 Budget Statement.

4. Consultation on a new system of support following bereavement was carried out in Great Britain and Northern Ireland between December 2011 and March 2012. The Committee were briefed on 8 March 2012. The Westminster Government published its response to the consultation in July 2012 outlining its intention to introduce the Bereavement Support Payment.

5. In his March 2012 Budget Statement, the Chancellor announced the Westminster Government's intention to introduce the new State Pension and legislative proposals were outlined in the Queen's Speech in May 2012. A draft Pensions Bill was published by the Department for Work and Pensions on 18 January 2013 and issued to Northern Ireland interest groups by the Department for Social Development. The Committee were briefed on the content of the Westminster Pensions Bill on 27 June 2013. The Bill received Royal Assent on 14 May 2014.

6. An Equality Impact Assessment examined corresponding Northern Ireland proposals in the context of the promotion of equality of opportunity and good relations, as required by section 75 of the Northern Ireland Act 1998. A consultation exercise was carried out from 21 November 2013 to 14 February 2014. Three substantive responses were received from interest groups. Officials briefed the Committee on 6 March 2014. The Committee decided not to make a formal response.

BILL OVERVIEW

7. The Bill has seven parts:

- Part 1 (which includes Schedules 1 to 14) creates a new State Pension scheme for persons attaining pensionable age on or after 6 April 2016.
- Part 2 (which includes Schedule 15) makes provision for people who reach State Pension age before the introduction of the new scheme and pay voluntary Class 3A National Insurance contributions to increase their additional State Pension.
- Part 3 provides for the acceleration of the timetable for phasing-in the increase in State Pension age to 67.
- Part 4 provides for the abolition of the Assessed Income Period in State Pension Credit.
- Part 5 (which includes Schedule 16) provides for the introduction of Bereavement Support Payment to replace existing Bereavement Benefits for new claimants.
- Part 6 (which includes Schedules 17, 18, 19 and 20) contains a number of provisions relating to private pensions.
- Part 7 contains provision for consequential amendments and technical measures.

SUMMARY OF MAIN PROVISIONS

PART 1: STATE PENSION

New State Pension

8. It is proposed that, from April 2016, the current State Pension, comprising basic State Pension and additional State Pension, will be replaced with a single component flat-rate pension. People reaching State Pension age before the introduction of the new scheme will receive their State Pension in line with current rules.

9. The new scheme will:

- simplify the pension system;
- be set above the basic level of means-tested support – the Pension Credit Standard Minimum Guarantee; currently £148.35 per week for a single pensioner;
- be increased at least in line with average growth in earnings;
- require 35 qualifying years of National Insurance contributions or credits for the full amount. There will also be a minimum qualifying period of 10 years. Those with less than 35 qualifying years but more than the minimum qualifying period will get a proportionally smaller amount;
- bring to an end:
    - the State Second Pension (subject to transitional provisions),
    - contracting-out,
    - the Savings Credit element of State Pension Credit for new claimants, and
    - the Category D (over 80s) pension and the Age Addition for people who attain pensionable age after the introduction of the new State Pension;
- be based on individual qualification, ending inheritance of, and derived rights to, a spouse's or civil partner's pension;
- make provision for women who paid reduced rate National Insurance contributions;
- continue to allow people to defer claiming their State Pension.

10. The aim is to provide a simple State Pension system for future pensioners, providing clarity and confidence about the support they can expect from the State. The reforms will provide a foundation to enable planning and saving for retirement and reduce the number of people reliant on State Pension Credit.

11. The proposed changes reflect the lives and contributions of today's working-age people; the majority of people will build up a sufficient National Insurance record to become entitled to a full State Pension in their own right, instead of relying on the contributions of a spouse or civil partner.

Qualifying Years

12. Currently, thirty qualifying years are required for a full basic State Pension. Under the proposed new scheme, the number of qualifying years required will increase to 35. This reflects the fact that working lives are lengthening and is considered to strike a balance between:

- ensuring wide coverage;
- maintaining the contributory principle; and
- ensuring overall affordability.

13. A minimum number of 10 qualifying years will be introduced to ensure that State Pension expenditure is targeted at those who make a significant economic or social contribution to the country. This is expected to affect people who have spent significant periods of their working lives outside the UK, the EEA or countries with which the UK has reciprocal agreements for social security.

14. Those with fewer than 35 qualifying years but who satisfy the minimum qualifying period will receive a proportionately reduced amount of pension.

State Second Pension

15. In addition to the basic State Pension, many people accrue entitlement to an additional State Pension which might comprise of Graduated Retirement Benefit, State Earnings-Related Pension and State Second Pension.

16. The new State Pension will replace the current two-tier system, ending the additional State Pension. People who reach State Pension age after the introduction of the new scheme and whose contributions are made entirely after its introduction will not be entitled to an amount of State Pension higher than the full level of the new State Pension.

17. Where contributions or credits exist for periods before the introduction of the new scheme, a higher amount of pension may be payable under transitional provisions.

Contracting-out

18. Since 1961 it has been possible for employers sponsoring defined-benefit occupational pension schemes to contract their employees out of the additional State Pension scheme on condition that they provide an occupational pension meeting certain statutory requirements. In return, both the employer and employee pay reduced rates of National Insurance (National Insurance contributions rebate).

19. In conjunction with the ending of the State Second Pension, the option to contract-out for defined-benefit occupational pension schemes will also end. On commencement of the new scheme, employees who were members of a

contracted-out scheme will cease to be entitled to pay reduced rates of National Insurance. This will mean an increase in the rate of contributions they pay equivalent to 1.4 per cent of their earnings (between the Lower Earnings Limit and the Upper Accrual Point), bringing them into line with the rate of National Insurance paid by other employees.

20. All employees will pay the same rate and become entitled to State Pension in the same way. Rights accrued through defined-benefit contracted-out schemes will be fully protected.

21. For a period of five years beginning with 6 April 2016, sponsoring employers of contracted-out schemes will be able change their scheme rules (where they are prevented from doing so) to adjust members' future pension accruals or pension contributions to take account of the loss of the employer's rebated National Insurance contributions, currently 3.4 per cent. This power cannot be used to change the rules of public service pension schemes, other types of scheme which may be prescribed in regulations or in relation to protected persons.

State Pension Credit

22. State Pension Credit has two elements:

- a guarantee credit; and
- a savings credit intended to reward people who have made modest savings for their retirement.

23. The new State Pension will be set at a rate above the basic level of the means test. As a result, there will no longer be a need for a complex savings reward. Removing the Savings Credit element of Pension Credit will simplify means-tested support and help to ensure Pension Credit is re-focused on providing a safety net for the poorest.

Category D pension and the Age Addition

24. The Category D pension is a non-contributory pension paid at around 60 per cent of full basic State Pension to eligible pensioners over age 80. It was introduced in 1971 to provide age-related support to particular groups who did not have sufficient qualifying years to be entitled to a basic State Pension; in particular those who had worked in the former colonies and returned in the 1950s too late to build up entitlement.

25. Under the new scheme, the majority of pensioners will be eligible for a State Pension above the basic level of the means test based on their own National Insurance records. The Category D pension will, therefore, be withdrawn for people reaching State Pension age under the new system.

26. The Age Addition is an additional payment on top of the basic State Pension for people aged 80 and above. When introduced in 1971, when the full basic

State Pension was £6 per week, it was set at 25p per week. It has remained at that level ever since. It no longer represents a meaningful addition and will be removed.

Inheritance of and derived rights to a spouse's or civil partner's pension

27. Under current rules, a person who is, or has been, married or in a civil partnership may qualify for a basic State Pension, or an increase to their own basic State Pension, based on the National Insurance record of their spouse or civil partner. These provisions go back to the establishment of the State Pension system in the post-war period. They were designed to ensure a pension would be paid to a dependent wife when her husband retired or she was widowed or divorced on the assumption that she would have no State Pension in her own right.

28. These provisions no longer reflect today's society where most individuals will qualify for a full State Pension on their own National Insurance record. For a person reaching State Pension age under the new scheme, there will be no provision for using a spouse's or civil partner's National Insurance record other than in limited circumstances.

29. People who retire under the existing system will continue to be able to use these provisions, even if their spouse or civil partner is in the new scheme. However, contributions which a person pays or is credited with into the new scheme will only count towards their own State Pension. This means that only the spouse's or civil partner's National Insurance records up to and including the tax year before the implementation of the new State Pension will be used to calculate any derived entitlement.

Provision for women who paid reduced rate National Insurance contributions

30. From 1948 to 1977, married women (and certain widows) who were employed could opt to pay lower rate National Insurance contributions in exchange for relying on their husband's contributions for State Pension entitlement. Self-employed women could opt not to pay the flat-rate self-employed contribution. This option was known as a Reduced Rate Election.

31. Fully removing the potential to derive basic State Pension from a spouse under the new scheme would disadvantage those women who elected to pay reduced rate National Insurance contributions. They may have few or no qualifying years as a result of their election, which would leave them with potentially no State Pension under the new scheme, despite a long history of paying National Insurance contributions and engaging with the system.

32. The Bill makes provision for married women and widows who paid reduced rate contributions. Where a valid election existed at the start of the 35 year period before State Pension age, they will be able to access a pension based on their own contributions to 5 April 2017 that includes an amount equivalent

to the full rate of the 'married woman's' lower-rate basic pension or, if widowed or divorced, the full rate of the basic State Pension. If they would also qualify for a new State Pension based on their own contributions, they will receive the higher of the two.

PART 2: OPTION TO BOOST ADDITIONAL STATE PENSION

33. The Pensions Act 2014 introduced a new class of voluntary National Insurance contribution, Class 3A. As National Insurance contributions are an excepted matter, these measures extend to Northern Ireland. Payment of Class 3A contributions will allow people who reach State Pension age before the introduction of the new State Pension scheme to increase their additional State Pension. The Bill makes consequential provision for the payment of extra units of additional State Pension to those who have paid Class 3A contributions.

PART 3: PENSIONABLE AGE

34. The Pensions Act (Northern Ireland) 2008 provided for State Pension age for men and women to increase to:

- 66 between 2024 and 2026;
- 67 between 2034 and 2036; and
- 68 between 2044 and 2046.

35. Subsequent projections revised life expectancy upwards and, as a consequence, the increase to age 66 was brought forward to October 2020 by the Pensions Act (Northern Ireland) 2012. In the November 2011 Budget Statement, the Chancellor announced that State Pension age in Great Britain would increase to 67 between 2026 and 2028.

Proposed Timetable

Period within which birthday falls	Age State Pension age reached
6 April 1960 – 5 May 1960	66 years and 1 month
6 May 1960 – 5 June 1960	66 years and 2 months
6 June 1960 – 5 July 1960	66 years and 3 months
6 July 1960 – 5 August 1960	66 years and 4 months
6 Aug 1960 – 5 Sept 1960	66 years and 5 months
6 Sept 1960 – 5 Oct 1960	66 years and 6 months
6 Oct 1960 – 5 Nov 1960	66 years and 7 months
6 Nov 1960 – 5 Dec 1960	66 years and 8 months
6 Dec 1960 – 5 Jan 1961	66 years and 9 months
6 Jan 1961 – 5 Feb 1961	66 years and 10 months
6 Feb 1961 – 5 Mar 1961	66 years and 11 months
6 Mar 1961 – 5 April 1969	67

36. As a consequence:

- people born after 5 April 1960 but before 6 March 1961 will have a State Pension age between 66 and 67;
- people born after 5 March 1961 but before 6 April 1969 will have a State Pension age of 67.

37. People born between 6 April 1969 and 5 April 1977 already have a State Pension age of 67. The changes will not apply to anyone affected by the bringing forward of the increase to age 66.

38. The Bill proposes corresponding measures for Northern Ireland. As with previous increases in the State Pension age, this proposal affects the qualifying age for all pension-age benefits and the upper age limit for receipt of working-age benefits.

PART 4: STATE PENSION CREDIT

39. The assessed income period (AIP) in State Pension Credit claims removes the requirement for certain individuals to notify the Department of changes to retirement provision (broadly defined as capital, annuities and retirement pension), for a specified period, for the purposes of assessing entitlement to State Pension Credit.

40. The Bill proposes to abolish AIPs from April 2016. This will affect new claimants, but a power is provided to apply it to existing claimants with a five year assessed income period in place at April 2016. From this date, any change in retirement provision should be reported when it occurs, triggering an immediate review and change of award where appropriate.

41. Provision is also made to preserve existing indefinite assessed income periods. These were introduced by the Pensions (No. 2) Act (Northern Ireland) 2008 for persons aged 80 or over or those with an assessed income period spanning their 80th birthday.

PART 5: BEREAVEMENT SUPPORT PAYMENT

42. Currently, Bereavement Benefits consist of three different payments, each of which has a different function:

- Bereavement Payment – a one-off tax-free payment of £2,000 payable to someone after their spouse or civil partner has died;
- Bereavement Allowance – a taxable weekly benefit which can be paid to someone for up to 52 weeks from the date of death of their spouse or civil partner if they are over 45 and under State pension age;
- Widowed Parent's Allowance – a taxable weekly benefit which may be payable to a parent whose spouse or civil partner has died if they have at least one child for whom they receive Child Benefit. It is payable until the

claimant reaches State pension age or upon cohabiting or remarriage/formation of civil partnership.

43. The Bill provides the legislative framework for the introduction of a new benefit, Bereavement Support Payment, to replace the existing Bereavement Benefits for new claimants. The intention is that support will:

- be focused in the period immediately after bereavement;
- designed to aid the process of readjustment; and
- support those without employment in making a return to work.

44. The Bereavement Support Payment will simplify:

- the payment system by moving to a more uniform structure; and
- the contribution conditions with the introduction of a single rule.

45. It will be paid as a lump sum with monthly instalments. The actual values and details of how instalments will be paid will be finalised in regulations. Indicative values are in the region of:

- £4,300 (£2,500 lump sum and £150 in monthly instalments for 1 year) for recipients without dependent children; and
- £9,800 (£5,000 lump sum and £400 in monthly instalments for 1 year) for those with dependants.

46. Longer term support will be provided through other benefits as appropriate. Bereavement support payment will not be payable to anyone over pensionable age; if a person is entitled when reaching pensionable age, entitlement will cease.

PART 6: PRIVATE PENSIONS

47. A number of measures relate to private and workplace pension schemes, the majority of which strengthen existing legislation relating to regulation and automatic enrolment. In summary, these are:

- power to provide for automatic transfer of small pension pots when a person moves to another scheme, for example, on changing jobs;
- provision for regulations to be made banning the practice of providing incentives that encourage individuals to transfer a cash equivalent value of their accrued rights from a salary-related occupational scheme to an alternative arrangement;
- withdrawal of the existing power to refund contributions to a person who leaves a pension scheme within 2 years of joining;
- provision for regulations restricting charges in specified schemes and imposing governance and administration requirements;

- amendments to the Pensions (No. 2) Act (Northern Ireland) 2008 relating to automatic enrolment, including a power to specify certain groups that employers will not be required to enrol or re-enrol;
- changes regarding the payment of a limited amount of unpaid pension contributions from the National Insurance Fund where an employer becomes insolvent so that all those who become members of a pension scheme under the workplace pension reforms are entitled to protection;
- power to require pension levies to be paid in respect of past periods;
- technical amendments designed to improve operational processes for the Pensions Regulator; and
- a new objective for the Pensions Regulator which sets out that the Regulator must consider how it can minimise any adverse impacts on an employer's sustainable growth when exercising its functions under Part 4 of Pensions (Northern Ireland) Order 2005.

PART 7: FINAL PROVISIONS

48. These clauses relate to the power to make consequential amendments, general provision in respect of regulations and orders under the Bill, interpretation of terms used in the Bill, commencement of provisions in the Bill and the short title.

FINANCIAL IMPLICATIONS

49. The overall costs for the new State Pension are broadly in line with expenditure on the current system as a proportion of GDP until around 2040. However, by 2060 pensions expenditure will have fallen from 9.0% to 8.4% of GDP.

50. The introduction of policy changes in the State Pension system, including changes to Pension Credit, may generate AME savings of £26m over the life of the business case. This has been determined via a read across from Department for Work and Pensions forecasts, with demographic adjustments for Northern Ireland which are highly sensitive to economic assumptions and are subject to change. It is estimated that the abolition of reduced rate National Insurance contributions will generate around £110 million in 2016-17. The implementation costs are estimated at £14.6m.

51. Bringing forward the planned increase in State Pension age to 67 by eight years will deliver net benefits-related savings in Northern Ireland of £1.88 billion in real terms. It is estimated that a further £0.24 billion in increased income tax receipts and National Insurance contributions will result from people working for longer.

52. Introducing the new Bereavement Support Payment would result in an increase in the forecasted spend on bereavement benefits in 2016/17 and 2017/18 by £1.08m and £0.36m respectively. The forecasted costs for both

the current system and the proposed Bereavement Support Payment are the same for 2018/19. In 2019/20 it is expected to reduce spending by £1.09m.