Department for
Social Development
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Clerk to the Committee for Social Development
Northern Ireland Assembly
Room 242
Parliament Buildings
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5 December 2014

Dear Sir

ISSUES ARISING – PENSIONS BILL BRIEFING 2 DECEMBER 2014

The Committee have requested clarification on a number of issues raised in evidence presented by NIPSA on 2 December.

The change in years of National Insurance Contributions from 30 to 35

Under the proposed new State Pension scheme, the number of qualifying years required for a full State Pension will increase from 30 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.

The new State Pension merges two schemes; the basic State pension which requires 30 qualifying years for full entitlement and up to 52 years for the State Second Pension. Setting a qualifying period of 35 years to achieve full entitlement strikes a balance between enabling the majority of people who contribute to achieve a full State Pension and avoiding the unnecessary complexity of a phased approach in which the value of a single tier qualifying year could differ for different cohorts.

The scheme has been designed to cost no more overall by redistributing spending. Without change, spending on the State Pension and pensioner benefits is set to increase from 6.9% of GDP to 9% by 2060. The new State Pension slows the increase to 8.4%. However, no one will be disadvantaged by the increase to 35 years. Under the current scheme, 30 qualifying years provides full State Pension entitlement of £113.10; under the proposed scheme, 30 qualifying years will provide a State Pension entitlement of £127.20 (30 x (1/35 x £148.40)).

It is also the case that people reaching State Pension age from April 2010 are able to qualify for a State Pension on the basis of National Insurance credits alone; previously National Insurance contributions or a mix of contributions and credits were required. Consequently, periods spent looking after children or caring for disabled people and periods of unemployment or incapacity for work can all help build State Pension entitlement.

The impact that the change in retirement age will have on older people

The State Pension scheme operates on a “pay-as-you-go” basis; that is, today’s workers pay for today’s pensioners. Consequently, higher proportions of adult life spent receiving the State Pension increase the financial burden on the working population. State Pension age has seen a number of changes in Northern Ireland and Great Britain in recent years primarily in consequence of increases in longevity:

- The Pensions (Northern Ireland) Order 1995 provided for State Pension age for men and women to equalise at 65 between April 2010 and April 2020 in compliance with European Directive 79/7/EEC and in light of an ageing population.
- The Pensions Act (Northern Ireland) 2008 provided for State Pension age for men and women to increase to:

    - 66 between 2024 and 2026;
    - 67 by 2036; and
    - 68 by 2046.
- The Pensions Act (Northern Ireland) 2012:

    - revised the timetable established by the Pensions Act (Northern Ireland) 2008 to phase-in the increase to age 66 between December 2018 and October 2020; and
    - accelerated the rate of equalisation set out in the Pensions (Northern Ireland) Order 1995 from 2016 so that women will be on the same footing as men by November 2018.

The present Bill proposes to accelerate the timetable for phasing-in the increase to age 67; introducing it between 2026 and 2028 rather than between 2034 and 2036.

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.

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 and the effect on any individual will be to increase their State Pension age by between one month and one year, depending on their date of birth (see appendix).

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.

The likelihood that the change in retirement age will cause labour displacement

The Department is unaware of data showing a correlation between rising State Pension age and labour displacement. It is generally accepted that the labour market does not operate on a one-out, one-in basis.

Increases in State Pension age combined with the ending of the Default Retirement Age in 2011 mean that people will be increasingly likely to continue working later in life. In 2012, the Pensions Policy Institute reported[1] that over recent decades working at older ages in the United Kingdom had increased significantly for both men and women, with women seeing a faster increase. In 1993:

- Around 64% of men aged 50 to 64 were in work. In 2011, this had increased to around 70%.
- Around 8% of men over State Pension age were in work. This had increased to around 11% by 2011.
- Around 57% of women aged between 50 and 59 were in work. In 2011, this had increased to 72%.
- Around 8% of women over State Pension age were in work. This had increased to around 13% by 2011.

1. Retirement income and assets: the implications for retirement income of Government policies to extend working lives.

In addition, those over State Pension age are free to carry on working and receive their State Pension at the same time.

Confirmation that, as noted at the meeting, this Bill does not make provision for retirement age to be increased beyond 67, and that a new Bill would be required to do this

The Bill proposes to accelerate the timetable for phasing-in the increase to age 67; introducing it between 2026 and 2028 rather than between 2034 and 2036. It does not contain a power to further increase State Pension age. Any proposals to do so would require further primary legislation.

The disadvantages of closing down contracting out of pensions schemes (including scheme sustainability and level of future occupational pensions income)

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

The new State Pension, proposed in the Pension Bill, will replace the current two-tier system, ending the additional State Pension. As a consequence, the option to contract-out will also end. Employers and employees who were sponsors or 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 paid by employees 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 paid by other employees. Rights accrued through contracted-out schemes will be fully protected;
- the loss of the employer's rebated National Insurance contributions, currently 3.4 per cent.

Former contracted-out employees shall, in common with all employees, accrue £4.24 pension for each year worked after 6 April 2016 until they earn the full amount of the new State Pension.

For a period of five years beginning with 6 April 2016, sponsoring private sector employers of contracted-out schemes will be able to change their scheme rules to adjust members' future pension accruals or pension contributions to take account of the loss of the employer's reduced National Insurance contributions. This power can only be used to recoup the actual cost of increased National Insurance contributions.

This facility will not be available to public sector employers who will be liable for additional employer contributions. NILGA raised the matter of higher National Insurance costs for Councils in their response to the Committee of 26 November. I understand that the financial impacts on Departments will be considered as part of the next Spending Review. Any provision made for Departments in Great Britain should have a "Barnett" consequential for Northern Ireland. The estimated costs for Northern Ireland are set out below (£ million):

	2016	**2020**	**2030**	**2040**	**2050**	**2060**
Public sector employers	66	66	57.2	48.4	59.4	74.8
Public sector employees	26.4	26.4	24.2	19.8	24.2	30.8
Total	**92.4**	**92.4**	**81.4**	**68.2**	**83.6**	**105.6**
Private sector employers	-	-	-	-	-	-
Private sector employees	15.4	8.8	2.2	-	-	-
Overall Total	**107.8**	**101.2**	**83.6**	**68.2**	**83.6**	**105.6**

Private sector employers who run defined-benefit pension schemes do so on an entirely voluntary basis. There is no legislative requirement for an employer to run a scheme, but those who do must comply with a number of legislative requirements. In particular, the employer is required to make good any funding shortfalls. In recent years, increasing longevity and financial volatilities mean that this can be a very considerable financial commitment for an employer. There has, therefore, been an ongoing trend for defined-benefit schemes to close or be closed to new members. In general, defined-benefit schemes are good quality schemes providing members with an assumed outcome with the risk being borne by the employer.

The proposals seek to ensure that members' rights are protected but, at the same time, ensure that regulatory burdens or costs do not encourage employers to close their defined-benefit schemes. It would not be in members' interest for remaining schemes to close. The Bill aims to ensure that employers and schemes are able to administer the changes and the transition to a new system in the most cost-effective manner, while avoiding placing additional burdens on employers who still offer schemes, which are generally very good.

The benefits of the 'flexible decade' of retirement

Increases in the State Pension age have been made in light of rising life expectancy and falling birth rates with the intention of ensuring the sustainability of the scheme. A 'flexible decade' of retirement would provide a window during which an individual could decide the date from which they receive their State Pension.

A flexible State Pension age was one option suggested in the Westminster Government's 1991 consultation *Options for Equality in State Pension Age* (Cm 1723). In reply to responses received (*Equality in State Pension* Age - Cm 2420) the Government concluded that:

- Where a person chooses to claim their pension early they would receive a lower level of pension for the rest of their life. The level would be set actuarially so that the additional years during which the pension was drawn were paid for by the permanent reduction in pension.
- This would lead to more pensioners living on lower retirement incomes and dependent on income-related benefits. This in turn would mean many more facing a disincentive to save to top up their State Pension, since modest extra retirement income would be offset and significant savings would reduce or remove entitlement to income-related benefits.
- Bringing forward the cost of paying the State Pension would be prohibitively expensive.

The current State Pension system effectively offers flexible retirement. Those who have reached State Pension age are free to:

- claim their pension and, if they wish, continue to work - the Default Retirement Age was abolished in 2011; or
- defer receiving their pension and earn increments for the period of deferment.

This will continue to be the case under the new State Pension system.

The reason for the use of the qualifying term '<u>some or all</u>' in Clause 43 of the Bill

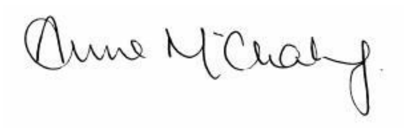
Clause 43 imposes a duty on the Department to make regulations requiring the disclosure and publication of information about some or all transaction costs of money purchase occupational pensions schemes. The "some or all" drafting formulation ensures flexibility for the future and ensures the Department is not placed under an impossible duty given the dynamic nature of the pensions field.

To avoid arguments about what constitutes a transaction cost, the intention is that the Regulations will specify the types of costs and charges to be covered. The intention is that, in effect, all transaction costs will be covered. The Regulations will be updated if new types of costs are created over time.

The wording ensures consistency with the duty of the Financial Conduct Authority under the Financial Services and Markets Act 2000 to make rules requiring the disclosure and publication of some or all transaction costs for personal pension schemes.

I hope this information is helpful.

Yours faithfully



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APPENDIX

Equalisation of State Pension ages – Increase of Women's State Pension age from 60 to 65

Date of birth	SPA reached	Age SPA reached (yrs/mths)
6 April 1950 – 5 May 1950	6 May 2010	60/1 - 60
6 May 1950 – 5 June 1950	6 July 2010	60/2 - 60/1
6 June 1950 – 5 July 1950	6 September 2010	60/3 - 60/2
6 July 1950 – 5 August 1950	6 November 2010	60/4 - 60/3
6 August 1950 – 5 September 1950	6 January 2011	60/5 - 60/4
6 September 1950 – 5 October 1950	6 March 2011	60/6 - 60/5
6 October 1950 – 5 November 1950	6 May 2011	60/7 - 60/6
6 November 1950 – 5 December 1950	6 July 2011	60/8 - 60/7
6 December 1950 – 5 January 1951	6 September 2011	60/9 - 60/8
6 January 1951 – 5 February 1951	6 November 2011	60/10 - 60/9
6 February 1951 – 5 March 1951	6 January 2012	60/11 - 60/10
6 March 1951 – 5 April 1951	6 March 2012	61 - 60/11
6 April 1951 – 5 May 1951	6 May 2012	61/1 - 61
6 May 1951 – 5 June 1951	6 July 2012	61/2 - 61/1
6 June 1951 – 5 July 1951	6 September 2012	61/3 - 61/2
6 July 1951 – 5 August 1951	6 November 2012	61/4 - 61/3
6 August 1951 – 5 September 1951	6 January 2013	61/5 - 61/4
6 September 1951 – 5 October 1951	6 March 2013	61/6 - 61/5
6 October 1951 – 5 November 1951	6 May 2013	61/7 - 61/6
6 November 1951 – 5 December 1951	6 July 2013	61/8 - 61/7
6 December 1951 – 5 January 1952	6 September 2013	61/9 - 61/8
6 January 1952 – 5 February 1952	6 November 2013	61/10 - 61/9
6 February 1952 – 5 March 1952	6 January 2014	61/11 - 61/10
6 March 1952 – 5 April 1952	6 March 2014	62 - 61/11
6 April 1952 – 5 May 1952	6 May 2014	62/1 - 62
6 May 1952 – 5 June 1952	6 July 2014	62/2 - 62/1
6 June 1952 – 5 July 1952	6 September 2014	62/3 - 62/2
6 July 1952 – 5 August 1952	6 November 2014	62/4 - 62/3
6 August 1952 – 5 September 1952	6 January 2015	62/5 - 62/4
6 September 1952 – 5 October 1952	6 March 2015	62/6 - 62/5
6 October 1952 – 5 November 1952	6 May 2015	62/7 - 62/6
6 November 1952 – 5 December 1952	6 July 2015	62/8 - 62/7
6 December 1952 – 5 January 1953	6 September 2015	62/9 - 62/8
6 January 1953 – 5 February 1953	6 November 2015	62/10 - 62/9
6 February 1953 – 5 March 1953	6 January 2016	62/11 - 62/10
6 March 1953 – 5 April 1953	6 March 2016	63 - 62/11
6 April 1953 – 5 May 1953	6 July 2016	63/3 - 63/2
6 May 1953 – 5 June 1953	6 November 2016	63/6 - 63/5
6 June 1953 – 5 July 1953	6 March 2017	63/9 - 63/8
6 July 1953 – 5 August 1953	6 July 2017	64 - 63/11
6 August 1953 – 5 September 1953	6 November 2017	64/3 - 64/2
6 September 1953 – 5 October 1953	6 March 2018	64/6 - 64/5
6 October 1953 – 5 November 1953	6 July 2018	64/9 - 64/8
6 November 1953 – 5 December 1953	6 November 2018	65 - 64/11

Current legislation - Increase from age 65 to 66 – Men and Women

Date of birth	Date State Pension age reached	Age at which State Pension age reached (yrs/mths)
6 December 1953 – 5 January 1954	6 March 2019	65/3 - 65/2
6 January 1954 – 5 February 1954	6 May 2019	65/4 – 65/3
6 February 1954 – 5 March 1954	6 July 2019	65/5 – 65/4
6 March 1954 – 5 April 1954	6 September 2019	65/6 – 65/5
6 April 1954 – 5 May 1954	6 November 2019	65/7 – 65/6
6 May 1954 – 5 June 1954	6 January 2020	65/8 – 65/7
6 June 1954 – 5 July 1954	6 March 2020	65/9 – 65/8
6 July 1954 – 5 August 1954	6 May 2020	65/10 – 65/9
6 August 1954 – 5 September 1954	6 July 2020	65/11 – 65/10
6 September 1954 – 5 October 1954	6 September 2020	66 – 65/11
6 October 1954 – 5 April 1968	66th Birthday	66

Current legislation - Increase from age 66 to 67 – Men and Women

Date of birth	Date State Pension age reached	Age at which State Pension age reached (yrs/mths)
6 April 1968 – 5 May 1968	6 May 2034	66/1 - 66
6 May 1968 – 5 June 1968	6 July 2034	66/2 – 66/1
6 June 1968 – 5 July 1968	6 September 2034	66/3 – 66/2
6 July 1968 – 5 August 1968	6 November 2034	66/4 – 66/3
6 August 1968 – 5 September 1968	6 January 2035	66/5 – 66/4
6 September 1968 – 5 October 1968	6 March 2035	66/6 – 66/5
6 October 1968 – 5 November 1968	6 May 2035	66/7 – 66/6
6 November 1968 – 5 December 1968	6 July 2035	66/8 – 66/7
6 December 1968 – 5 January 1969	6 September 2035	66/9 – 66/8
6 January 1969 – 5 February 1969	6 November 2035	66/10 – 66/9
6 February 1969 – 5 March 1969	6 January 2036	66/11 – 66/10
6 March 1969 – 5 April 1969	6 March 2036	67 – 66/11
6 April 1969 – 5 April 1977	67th Birthday	67

Proposed acceleration of increase to age 67 (Pensions Bill (Northern Ireland) 2014)

Date of Birth	Proposed age at which State Pension age reached (yrs/mths)
6 April 1960 – 5 May 1960	66/1
6 May 1960 – 5 June 1960	66/2
6 June 1960 – 5 July 1960	66/3
6 July 1960 – 5 August 1960	66/4
6 August 1960 – 5 September 1960	66/5
6 September 1960 – 5 October 1960	66/6
6 October 1960 – 5 November 1960	66/7
6 November 1960 – 5 December 1960	66/8
6 December 1960 – 5 January 1961	66/9
6 January 1961 – 5 February 1961	66/10
6 February 1961 – 5 March 1961	66/11
6 March 1961 – 5 April 1977	67

Current legislation – increase from age 67 to 68 – Men and Women

Date of Birth	State Pension age reached	Age at which State Pension age reached (yrs/mths)
6 April 1977 – 5 May 1977	6 May 2044	67/1 - 67
6 May 1977 – 5 June 1977	6 July 2044	67/2 – 67/1
6 June 1977 – 5 July 1977	6 September 2044	67/3 – 67/2
6 July 1977 – 5 August 1977	6 November 2044	67/4 – 67/3
6 August 1977 – 5 September 1977	6 January 2045	67/5 – 67/4
6 September 1977 – 5 October 1977	6 March 2045	67/6 – 67/5
6 October 1977 – 5 November 1977	6 May 2045	67/7 – 67/6
6 November 1977 – 5 December 1977	6 July 2045	67/8 – 67/7
6 December 1977 – 5 January 1978	6 September 2045	67/9 – 67/8
6 January 1978 – 5 February 1978	6 November 2045	67/10 – 67/9
6 February 1978 – 5 March 1978	6 January 2046	67/11 – 67/10
6 March 1978 – 5 April 1978	6 March 2046	68 – 67/11
6 April 1978 onwards	68th Birthday	68