Northern Ireland Assembly

Committee for Social Development

OFFICIAL REPORT (Hansard)

Northern Ireland Pensions Bill: Department for Social Development Officials

6 November 2014

NORTHERN IRELAND ASSEMBLY

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Members present for all or part of the proceedings:
Mr Mickey Brady (Deputy Chairperson)
Mr Jim Allister
Ms Paula Bradley
Mr Fra McCann
Mr Sammy Wilson

Witnesses:

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

The Deputy Chairperson (Mr Brady): The following officials are here: Anne McCleary, Gerry McCann, Seamus Cassidy and Gillian McMaster. A briefing has been provided. I welcome you to the Committee. I take it that you are taking the lead, Anne.

Ms Anne McCleary (Department for Social Development): Yes, I am afraid so.

The Deputy Chairperson (Mr Brady): Why am I not surprised?

Ms McCleary: Mr Deputy Chair, thank you very much for the opportunity to brief the Committee on the proposed Northern Ireland Pensions Bill. You might recall that we provided a briefing on the corresponding Westminster Bill on 27 June last year. The Committee was briefed on the equality impact assessment (EQIA) for the present Bill on 6 March 2014, and we had quite an extensive question-and-answer session on the proposed provisions. Therefore, members are, generally speaking, familiar with the proposals.

The current Bill is just part of the wider pensions landscape. Members will be aware that we are due to brief the Committee at the start of next month on the Pension Schemes Bill 2014-15, which is before Parliament. That Bill deals with private pension issues. Subject to ministerial and Executive approval, it is anticipated that a corresponding Assembly Bill will be introduced in the spring. The present Bill, not the Pension Schemes Bill, proposes changes to the state pension, private pensions and bereavement benefits. Specifically, it proposes the introduction of a new state pension and consequential matters: an option for individuals to boost the value of their 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, finally, changes to private pensions.

The Bill is a mixed bag. Some proposals will be welcomed, and some may not. The proposed new pension scheme has, broadly speaking, been well received. Accelerating the increase in state pension age to 67 is unlikely to prove universally popular. If you are content, I will run briefly through the main proposals.

Part 1 introduces a new state pension to replace the current two-tier scheme comprising the basic state pension and the state second pension. It has been designed to cost no more overall by redistributing spending, and it provides for three things. The first is a single component flat-rate contributory pension set above the pension credit minimum guarantee for people reaching pension age on or after 6 April 2016; secondly, transitional arrangements deal with those 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. The objectives of this Part are a simple state pension; clarity and confidence about the support that can be expected from the state; a foundation for retirement planning and saving; and, finally, a reduction in the number of people who will have to rely on means-tested benefits such as pension credit.

People reaching state pension age before the introduction of the new scheme will receive their state pension in line with current rules. It is inevitable that major changes, particularly in the current fiscal climate, will involve trade-offs: for example, the increase in the number of qualifying years for a full pension from 30 to 35 years. There are two consequences of the ending of contracting out. First, national insurance liability for employees and employers, including public sector employers, will increase. Secondly, employers may seek to recoup additional costs by changing scheme rules or increasing member contributions. On the other hand, interest groups have been campaigning for a single-tier, non-means-tested pension for many years. Furthermore, many future pensioners will not have to rely on pension credit, and people will know exactly what to expect and can, therefore, plan to supplement their retirement income without the fear of losing out through means testing.

The new scheme will benefit two groups. The first is the self-employed, who will be treated in the same way as an employee for pension purposes. The second is low earners, particularly women who have had career breaks or caring responsibilities and did not have time to build up a state second pension or paid into private pension schemes for only a short period. Under transitional provisions, people who would have been entitled to a higher pension based on their pre-2016 contributions will get paid the excess over and above the new pension rate. Protection is provided for married women and widows who paid reduced-rate contributions. I think it fair to say that there is a broad consensus that the current pension system is too complex. The proposed scheme offers a simpler and more transparent scheme.

Part 2 makes provision for increasing additional state pension. The Westminster Pensions Act 2014 introduced a new class of voluntary national insurance contribution, class 3A. Payment of class 3A contributions will allow people who reach state pension age before the introduction of the new pension to increase their additional state pension under the current scheme. As national insurance contributions are an excepted matter, these measures extend to Northern Ireland. The Bill provides for the payment of extra units of additional state pension to those who have paid class 3A contributions.

Part 3 provides for accelerating the increase in state pension age to 67. Members are aware that the Pensions Act (Northern Ireland) 2012 brought forward the increase to age 66 as a consequence of revised life expectancy projections. In the November 2011 Budget statement, the Chancellor announced that the state pension age in Great Britain would increase to 67 between 2026 and 2028, rather than between 2034 and 2036. So, it is to happen eight years earlier. The Bill makes corresponding provision for Northern Ireland. As a consequence, people born after 5 April 1960 but before 6 March 1961 will have a state pension age of between 66 and 67. Those born after 5 March 1961 but before 6 April 1969 will 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. As with previous increases, this proposal affects the qualifying age for all pension-age benefits and the upper age limit for receipt of working-age benefits, so people will continue to be entitled to working-age benefits for longer.

Part 4 provides for the phasing out of the assessed income period in pension credit. The assessed income period removes the requirement for certain individuals to notify the Department of changes to retirement provision for a specified period. Retirement provision is broadly defined as capital, annuities and retirement pension. The Bill proposes to abolish this concession from April 2016 for new claimants. A power is provided to apply the change 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 a review and change of award where appropriate. This means that people will receive the correct amount of benefit for their needs. Existing indefinite assessed income periods are preserved. 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 eightieth birthday.

Part 5 introduces bereavement support payment to replace the existing bereavement benefits for new claimants. Currently, bereavement benefits consist of three different payments, each of which has a different function. First, there is bereavement payment, which is a one-off, tax-free payment of £2,000 payable to someone after their spouse or civil partner has died. Secondly, there is bereavement allowance, which is a taxable weekly benefit that can be paid to someone over the age of 45 and under state pension age for up to 52 weeks from the date of death of their spouse or civil partner. So, you have a one-off payment and then a weekly benefit for a year after the death. Thirdly, there is widowed parent's allowance, which is a taxable weekly benefit payable to a parent whose spouse or civil partner has died, if they have at least one child for whom they receive child benefit. That is payable until the claimant reaches state pension age or upon cohabiting, remarriage or formation of a civil partnership. Those are the three elements at the minute.

Bereavement support payment will simplify that. It will simplify the payment system by moving to a more uniform structure and simplify the contribution conditions with the introduction of a single rule. The intention is that support will focus on the period immediately after bereavement. It will aid the process of readjustment and supporting those without employment in making a return to work.

Bereavement support payment will do three things. It will provide additional upfront help in the year after bereavement, when it is needed most. Secondly, it will be available to childless people under the age of 45, who would not have been entitled to bereavement allowance or widowed parent's allowance. Thirdly, it will be disregarded from capital and income calculations for entitlement to other benefits.

It will be paid as a lump sum and monthly instalments. The values and payment details will be set out in regulations. However, indicative values are in the region of £4,300 — a £2,500 lump sum and £150 in monthly instalments for one year for recipients without dependent children; and £9,800 — a £5,000 lump sum and £400 in monthly instalments for one year for those with dependants. Longer-term support can be provided through other benefits as appropriate. Bereavement support payment will not be payable to anyone over pension age. If a person is entitled when reaching pension age, entitlement will cease.

Part 6 proposes a number of measures related to private and workplace pension schemes, the majority of which strengthen existing legislation in respect of regulation and automatic enrolment. The automatic transfer of small occupational pension pots when a person changes employer will reduce the number of dormant pots, making it easier for people to track their pension savings and helping them to plan better for retirement and secure better income in retirement.

Part 7 is concerned with the power to make consequential amendments, general provision in respect of regulations and orders, interpretation of terms used, commencement of provisions and the short title.

The current pension system is widely seen as too complex. It is important that people have certainty about the new state pension scheme as soon as possible. Additionally, the scheme to allow people to purchase class 3A contributions to boost their state second pension under the current scheme goes live in October. The scheme must be enacted to allow people here to take advantage of it. We are, therefore, keen to work closely with, and do anything we can to assist, the Committee in its consideration of the Bill. Ultimately, however, pensions and benefits must be sustainable, and solutions must be fair across the generation. I think that there is consensus that we cannot leave a legacy of unsustainable pension costs to be picked up by the current younger generation. Thank you.

The Deputy Chairperson (Mr Brady): Thanks very much for that. I suppose what you are really saying is that we will work longer and get less back, ultimately.

Ms McCleary: Well, we live longer, and —

The Deputy Chairperson (Mr Brady): Yes, but not necessarily more healthily. That is what we are told in the Health Committee, anyway. I have just a few questions before I bring members in. There is a report from the Institute of Fiscal Studies on the Bill in Britain. It is estimated that most people would have to live to over 100 to be better off overall under the new system. My mother is 105, but I do not think that she will live long enough for the new system. It may well not apply to some of us here.

There are significant exceptions, including the long-term self-employed and people who start to receive credits on the basic state pension. That is predicated on universal credit coming into effect. There have been huge problems with that. They might, by the time they get up and running a system able to deal with universal credit, be able to introduce this. I attended a conference in April on European pensions. It has long been documented that basic state pensions here and in Britain are among the meanest in the developed world. That, I think, is accepted.

I have a question about how the new pension is likely to be indexed. You mentioned bereavement benefit, which relates to specific circumstances and is almost like a passported benefit because, obviously, you qualify only if you are bereaved. How did it come to be incorporated into this Pensions Bill? Bereavement benefit came about because survivor benefit then also applied to males, whereas it did not previously. It seems that bereavement benefit is now incorporated into overall state pension legislation. I wonder what the rationale —

Mr Gerry McCann (Department for Social Development): Sorry, do you mean for people under or over state pension age?

The Deputy Chairperson (Mr Brady): The Bill refers to widowed parent's allowance, for instance. I think that, at the moment, that pays a maximum of about £111 per week, and child benefit is a qualifying benefit. It depends on the child's age. I think that, assuming that a person does not remarry, a sum more significant than the £9,800 mentioned in these arrangements could be payable over a period. Are there any figures that provide a comparison between current and proposed arrangements for bereavement benefit?

Mr G McCann: The first is aimed at people with a child who receive widowed parent's allowance, and that rate can vary. The lowest amount payable is £7·78 a week, and it goes up to £111 a week, so there is a big range. It is not that each person gets paid £111 a week at the moment; it all depends on a number of other factors based on contributions.

The average length of time for which widowed parent's allowance is payable is 4·8 years. At the moment, the longest here is just over 13 years. It is not that each person is paid the allowance until a child hits the age of 16. It is not payable for 16 or 19 years in most cases; it is for a much shorter time. It is fair to say that, as we look at the old and the new, we have to bear those factors in mind. It is not that everybody gets £111 a week; some get a very small amount a week.

The aim is that rather than what is handed out by the state being spread over a long period, it will be paid up front. For the first few years, the new scheme will cost us more. It is not being done to save money; it is just to move the way in which the money is spent. It fits into the overall plan, which is that we should not really have people on benefit for life. This now means that —

The Deputy Chairperson (Mr Brady): That is part of the idea —

Mr G McCann: Yes, that is part of the overall agenda. It is not that we will save money by doing this; it is just to change the way in which the help is given.

The Deputy Chairperson (Mr Brady): The index aspect —

Mr G McCann: Of the state pension?

The Deputy Chairperson (Mr Brady): Yes. How will the new benefit be indexed?

Mr G McCann: For these purposes, the main payment is £148·40. That will be updated in line with average earnings.

The Deputy Chairperson (Mr Brady): Anne made the point that this is to encourage younger people to save for the future. Obviously, that depends on your job. The difficulty for a lot of young people now is that, by the time they qualify and get a job that pays a reasonable amount, they have so much student loan debt that it can take them years to pay it off. I find it difficult to see how people in that position, even those starting university this year, will be able to earn enough to save by the time they have paid off their debt.

This Bill is, in a sense, enabling legislation: if it went through tomorrow, they could put the pension age up to 85 if they wanted to. I know that we have figures showing that it will be 67 by whatever year, but that has already changed. If you go back to 2007-08, you see that they have upped the age even since then. The date of the age change from 66 to 67 was brought forward from 2020 to 2018. Logically, that age could be increased once the legislation is in place. You mentioned amendments and regulations. The devil will be in the detail of the regulations. Logically, they could put the age up if that were —

Mr G McCann: I will answer your second point first. There is nothing in the Bill that would allow the age to be changed again. The age is stated in the Bill. There is nothing that would allow us to change —

The Deputy Chairperson (Mr Brady): Once the Bill is in place —

Mr G McCann: It would take a further Bill to change it. In what we are looking at today, there is nothing that —

The Deputy Chairperson (Mr Brady): That is primary legislation. Secondary legislation could be introduced to change —

Mr G McCann: No. Not under the current Bill, anyway. As to whether, at some point —

The Deputy Chairperson (Mr Brady): That is all right. I just wanted to check.

Mr G McCann: There is nothing in the Bill that would allow us to do that.

Ms McCleary: It is set in the Bill. Therefore, it would take more primary legislation.

The Deputy Chairperson (Mr Brady): I am not naturally cynical; I just wanted to ask a few questions on that.

Mr G McCann: Your first question was on whether people can afford to save. As you know, one of the other things that we are working on is the idea that everybody will be in a private pension scheme, and the worker and his or her employer will pay into that. As opposed to people having to opt in to save, they would have to opt out. If they do, they will not get the benefit of what is paid in by the employer. For younger people, in particular, and for any private pension scheme, if you are in it from a very young age, it builds up quite well over a lifetime. Young people should end up with fairly decent pensions from the process.

Mr Allister: I have two quick questions. Does the advancement that the provisions contain for the self-employed have any knock-on consequence for their national insurance contributions?

Mr G McCann: National insurance contributions are an excepted matter for Westminster. We have no control over them.

Mr Allister: I accept that you do not have control, but do you know the answer?

Mr G McCann: No. I have not seen anything to say that they will change, but I do not know. I am not privy to such information.

Mr Allister: My second question is this: at present, is the lump-sum bereavement payment payable to someone over pension age?

Mr G McCann: It is, but only in certain very narrow circumstances.

Mr Allister: After this reform, it will not be payable to anyone over pension age.

Mr G McCann: I would have to check the figures, but I think that the number of people over pension age who qualify is very small.

Mr Allister: For the lump sum?

Mr G McCann: Yes. The number is very small. I can certainly come back to you with a more definitive answer.

Mr Allister: What about someone over pension age who has dependants? Are they banished from the obtaining of any bereavement assistance?

Mr G McCann: It would all depend on the date of death of the spouse.

The Deputy Chairperson (Mr Brady): On that point, maybe Mr Allister is asking whether they are overlapping benefits. If you get state pension, could you qualify for bereavement because the spouse or partner dies? Are they overlapping benefits? Is it a case of one or the other?

Mr G McCann: These bereavement benefits are for people under state pension age.

Mr Allister: Yes, but it is conceivable that somebody over state pension age has dependants.

Mr G McCann: At the moment, a person over state pension age puts in a claim for state pension.

The Deputy Chairperson (Mr Brady): On that point — sorry to interrupt — child benefit is normally the qualifying benefit. If that person has dependent children and qualifies at the moment for child tax benefit or child benefit, some benefit would have to be paid, presumably. At the moment, even if you are on income support and have dependent children, the child element is to do with the child tax credit. It used to be included in the benefit.

Mr G McCann: We would help those people through pension credit, which is linked to needs. It is payable over and above the state pension if you have needs; for example, if you have children or if you suffer from a severe disability.

The Deputy Chairperson (Mr Brady): Sorry, again, the child element is paid through child tax credit. You are not paid in the way that you used to be, even on income support now, for a child who is not included in your assessment. That is paid outside, it is HMRC that pays the child tax credit. I think that the question that Mr Allister was asking — he can correct me if I am wrong — was about how the dependent children of a pensioner would be compensated, if that is the right word, or paid benefit. People would simply get their state pension and the children would be paid separately from HMRC. People qualify for pension credit only if they have a particular disability. They would not necessarily get it because of the children. Again, correct me if I am wrong.

Mr G McCann: Perhaps it would be better if I were to write to the Committee on that point. I am wary of saying something here that is not absolutely correct.

Mr Allister: Yes, that is fine.

The Deputy Chairperson (Mr Brady): That has been a relatively painless exercise. Thanks very much for the presentation, and I am sure that we will see you again to discuss myriad issues.