Northern Ireland Assembly

Committee for Social Development

# OFFICIAL REPORT (Hansard)

## Pension Schemes Bill: Legislative Consent Motion

8 January 2015

# NORTHERN IRELAND ASSEMBLY

# Committee for Social Development

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**Members present for all or part of the proceedings:**
Mr Alex Maskey (Chairperson)
Mr Mickey Brady (Deputy Chairperson)
Ms Paula Bradley
Mr Maurice Devenney
Mr Fra McCann
Mr Sammy Wilson

**Witnesses:**

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| Mr Gerry McCann | Department for Social Development |
| Ms Anne McCleary | Department for Social Development |
| Ms Doreen Roy | Department for Social Development |

**The Chairperson (Mr Maskey):** I formally welcome Gerry McCann, Anne McCleary and Doreen Roy. I strongly apologise for the long delay that you have had today. Unfortunately, we were in an evidence session. I will speak to the Committee Clerk later on about how we schedule these things. I apologise, because I know that you have a lot of other important work to do.

We have been advised by members that we will possibly end up losing our quorum. You are here to deal with the Westminster Pension Schemes Bill and the legislative consent motion. We need a quorum for the legislative consent motion so, with your indulgence, may I move immediately to the LCM? We will deal with that in case we lose a quorum. We are likely to do so. Without any further ado, Anne, would you advise people of the legislative consent motion?

**Ms Anne McCleary (Department for Social Development):** Thank you, Mr Chair, for giving us this opportunity. We have already given fairly detailed answers to questions that were raised about the Bill. By way of introduction, I will very quickly go through the summary of the Westminster Pension Schemes Bill. It has two main aims: first, to facilitate a wider range of pension types to help people build up a good pension; and, secondly, to ensure that pensions law is compatible with the greater freedom and choice of how money-purchased pension pots can be used, as announced by the Chancellor in the 2014 Budget.

The Taxation of Pensions Act 2014 makes the necessary substantive changes to tax law to facilitate the increased flexibilities announced by the Chancellor, but the Pension Schemes Bill ensures that pension law is compatible with those flexibilities. So, the Westminster Pension Schemes Bill contains proposals to, first, establish a new legislative framework for private pensions; secondly, facilitate a greater flexibility in accessing benefits; and, thirdly, help people make informed decisions about what to do with their scheme benefits. That is a quick run through the Pension Schemes Bill. We have already provided the Committee with a draft of the legislative consent memorandum, together with a detailed explanation of each of the provisions for which we propose to seek the Assembly's consent. Most of the provisions were added to the Westminster Bill in Committee and on Report, and therefore they were late additions to the Bill. The Westminster Bill has progressed through Parliament more quickly than anticipated, and Third Reading in the Lords is now expected early next month. The Assembly's consent is required before that point, so, subject to the necessary approvals, the Assembly debate would need to take place in the week commencing 26 January. That is why we are keen to move this as quickly as possible.

The background to the provisions is the changes announced by the Chancellor in the 2014 Budget. In that Budget, the Chancellor announced tax changes to private pensions, giving savers greater flexibility in how they access their money purchase pension pots. The Budget reforms introducing the new flexibilities require substantive changes to tax legislation, and they are set out in the Taxation of Pensions Act. The Pension Schemes Bill contains measures to ensure that the tax-change flexibilities are reflected in pension law, that the two bodies of law remain compatible, and to ensure that particularly appropriate safeguards are in place. The provisions come into effect from 6 April 2015 to coincide with the tax changes.

The provisions, in the main, relate to, first, independent financial advice for those transferring out of defined benefit schemes, which are the schemes where you know what you are going to get at the end of the pension period; secondly, sums and assets that may be designated as available for drawdown, the conversion of certain benefits for drawdown, and the calculation of lump sums; thirdly, restrictions on the conversion of benefits while schemes are winding up and the payment of lump sums while schemes are in the assessment phase for access to the Pension Protection Fund; and, fourthly, changes to transfer rules for pension scheme members to facilitate the new flexibilities. If it would assist the Committee, we would be happy to provide further detail on each of the proposed provisions.

First, in relation to independent advice, trustees or managers will be required to check that a member of a defined benefit scheme, who, as I have said, is someone who knows what they will get at the end, has received appropriate independent financial advice before converting safeguarded rights into flexible benefits or transferring them to a scheme that provides flexible benefits. In general, it may be to the member's advantage to remain in the defined benefit scheme, but there are some circumstances where it may not. An example of that would be where there is limited life expectancy. Currently, most money purchase schemes already insist on a transferring member taking independent financial advice before they accept the transfer. In certain circumstances, the employer may be liable for the costs of such advice, for example, in an employer-led transfer exercise.

The second area is the provisions relating to drawdown, which provide that the designation of funds for a drawdown pension is limited to funds held to provide money purchase benefits. They also provide for conditions to be applied on the conversion of cash balance benefits to money purchase benefits and make provision for the calculation of lump sums from accrued rights to a cash balance benefit. Thirdly, they make provision to restrict the conversion of benefits during winding up and so on and the taking of a lump sum while a scheme is being assessed for admission to the Pension Protection Fund. These measures aim to ensure that the new flexibilities cannot be used to gain a higher payout, leaving other scheme members potentially worse off. Fourthly, they amend the transfer rules, for example, to ensure that members can transfer separate categories of accrued benefits where they have two or more categories of benefits in the same scheme. Finally, they amend legislation relating to the financial assistance scheme that operates on a UK-wide basis to provide help to members of underfunded pension schemes whose employer was insolvent prior to the establishment of the Pension Protection Fund, the reference to "money purchase scheme" is replaced with a reference to:

> *"a scheme under which all the benefits that may be provided are money purchase benefits".*

That does not change the effect of the legislation. It is a technical change to limit the number of categories that may be attached to pension schemes. I think we would all agree that most of those provisions are highly technical. However, they are important, and it is important that we progress with the LCM.

As I mentioned, the provisions must be in operation to coincide with the tax changes in April 2015. It would not be possible to take forward the provisions by way of Assembly Bill in that time frame. The Department is therefore seeking the Committee's support for provisions of the Westminster Pension Schemes Bill to extend directly to Northern Ireland. That will be the third legislative consent motion in respect of the Bill. The Department for Employment and Learning and the Department of Finance and

Personnel have already brought forward motions in respect of matters falling within their areas of responsibility.

We are happy to take any questions.

**The Chairperson (Mr Maskey):** OK, Anne, thank you.

**Mr Brady:** Thanks for the presentation. It is more of a comment, really, because I think it is right and proper that people who will benefit from the legislation should have access to informed decisions in terms of their pension, but it is all predicated on the whole move towards private pensions. We should be under no illusions about that. It is all about policy and ideology. I was driving down this morning listening to an item about how many employers are not even paying the minimum range. It just seems to me that the number of people who will actually benefit and be able to afford to save in their working lives will certainly be a minority, but, as legislation goes, it will benefit people. It is bringing us into line with financial advice about making important decisions in a person's life. I just want to make the point that I think it is a move towards the private pensions. Mrs Thatcher, if you remember, in 1986, put the National Insurance fund into the red for the first time in its history because she took money out to encourage people — not the working classes, it has to be said — to buy private pensions. I just want to put that on the record.

**The Chairperson (Mr Maskey):** Do any other members want to raise any questions on that? You have had the documentation and papers prior to this. Are members content that we put it to the vote formally? I will read into the record the motion around the LCM:

> *"That the Committee for Social Development has considered the draft legislative consent motion on the extension of provisions of the Pension Schemes Bill and recommends that it be agreed by the Assembly."*

Are members agreed?

*Members indicated assent.*

**The Chairperson (Mr Maskey):** Thanks very much on the briefing on that. We have dealt with that, so we are OK for the rest of the meeting in terms of a quorum. Is there anything else you need to continue on on the overall pension scheme? Are you happy enough?

**Ms McCleary:** It depends what you would like. We have a briefing here in relation to the Bill.

**Mr Brady:** Do we really want to be depressed for the rest of the meeting?

**Mr Gerry McCann (Department for Social Development):** I do not think you do, but —

**The Chairperson (Mr Maskey):** The Committee might want to report it, although there is a very tight time frame, as Anne outlined. It is not compulsory that we do anything further, other than to agree the motion, which we have done today.

**Mr G McCann:** It is in terms of the Bill for the Assembly. We will bring that forward to you some time around the end of March, so you will hear plenty about it shortly.

**The Chairperson (Mr Maskey):** OK. I very much appreciate that clarification, Gerry. On that basis, we are happy enough. I really do apologise that a lot of your time was wasted here this morning, but that was unfortunately due to other business. Thanks very much.