Northern Ireland
Assembly

COMMITTEE FOR
HEALTH, SOCIAL SERVICES AND
PUBLIC SAFETY

OFFICIAL REPORT
(Hansard)

Health and Personal Social Services (Superannuation), Health and Social Care (Pensions Scheme) (Amendment) Regulations (Northern Ireland) 2011

21 March 2011

NORTHERN IRELAND ASSEMBLY

COMMITTEE FOR HEALTH, SOCIAL SERVICES AND PUBLIC SAFETY

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Members present for all or part of the proceedings:
Mr Jim Wells (Chairperson)
Mrs Michelle O'Neill (Deputy Chairperson)
Mr Mickey Brady
Mr Pól Callaghan
Dr Kieran Deeny
Mr Alex Easton
Mr Sam Gardiner

Witnesses:

Mr Phil McCusker	)	Department of Health, Social Services and Public Safety
Mr Russell McGowan	)	

The Chairperson of the Committee for Health, Social Services and Public Safety (Mr Wells):

We have Phil McCusker and Russell McGowan from the Department with us today. You are very welcome, gentlemen. It is very rare to have an all-male line-up at these events. It is becoming almost an extinct species. A copy of the SL1 and summary of the background and purpose of the legislation are in members' information packs. The Department provided documents from Her Majesty's Treasury and the Department of Finance and Personnel about the pension increase for 2011.

There was concern last week that the statutory rule would introduce fundamental changes to National Health pension schemes in Northern Ireland. That may not be the case, as the proposed statutory rule may be much more limited, affecting only those who buy additional pension years.

Mr Phil McCusker (Department of Health, Social Services and Public Safety): Members will be aware that the Chancellor announced in June 2010 that the index used to increase public sector pensions would change from the Retail Prices Index (RPI) to the Consumer Prices Index (CPI) on 1 April 2011. The announcement will affect pensions in payment, deferred pensions — members who have left the scheme and who have left a pension in the scheme — and how new additional pension contracts are calculated.

Increases to pensions in payment and deferred pensions will be applied automatically through the Pensions (Increase) Act 1971 and article 69 of the Social Security Pensions (Northern Ireland) Order 1975. There are no provisions in the HSC pension regulations for setting pension increases or the basis on which those increases are set. Those are done centrally through the Treasury and the initial will set the index. The papers from the Treasury and the Department of Finance and Personnel show that the pension increase for 2011 has already been set at 3·1% on 1 April 2011.

The Department of Finance and Personnel makes a pensions increase order every year that applies to all public sector schemes across Northern Ireland. That has been set at 3·1%. So these regulations are not aimed at making any change in the pensions or payments to existing members or to deferred pensions. They have no impact on those.

Once the Chancellor announced that the index was to change from RPI to CPI, schemes had to amend any references to RPI in their regulations. RPI is mentioned in three regulations in the HSC pension scheme. The scheme is in two sections; a 1995 section and a 2008 section. The three affected regulations are regulation 73 in the 1995 section, and regulations 43 and 174 in the 2008 section. Those three regulations all say and do the same thing and relate to the purchase of additional pension. Members of the HSC's pension scheme can opt to purchase additional pension, which is really a top-up pension, over and above the normal pension that they build up in the scheme. That top-up pension can be bought by either a lump-sum payment or additional contributions. The regulations simply provide for any additional pension that a member may purchase to be revalued before it is put into payment. For example, if someone who is 40 years old decided to buy additional pension, that will not be payable for 20 or 25 years. The purpose of the regulation is simply to revalue the amount of pension that they have built up before it is put into payment. At the moment, additional pension is revalued by RPI (retail price index) before it is put into payment. The amending regulations changed the regulations so that, from 1 April 2011, anyone who opts to buy additional pension will have it revalued using CPI (consumer price index) rather than RPI.

There are a number of important factors in that regard. First, the regulations are limited simply to the purchase of additional pension. Additional pension is voluntary; it does not affect members' accrued pension. Secondly, for anyone who has opted to buy additional pension before 1 April, the terms of their purchase are protected. Theirs will continue to be revalued at RPI rather than CPI. The regulations affect only those who purchase additional pension on or after 1 April 2011. Thirdly, we do not know how many people will purchase additional pension from 2011 onwards. Since the facility was introduced in 2008, only 12 members of the scheme have elected to purchase additional pension. Those members' purchases are protected as they were at the time at which they made the purchase.

There are minor technical amendments and cross-references, but that is the main impact of the regulations. From 17 January to 16 February, we consulted on the regulations with employers, trades unions, HMRC and the Government Actuary's Department. We received no responses to that consultation.

The Chairperson:

That has explained the situation, but it has made me even more worried. I would have thought that the Assembly would have been consulted before the pensions generally of Health Service employees were moved from RPI to CPI. We all know what is going on here: the benefits that accrue to individual pensioners will be reduced significantly by a move from RPI to CPI; some were saying by 0·8%. It galls me when I hear people saying, for instance, that the vote of the Green Party in the Irish Republic went down by 4%. It went from 6% to 2%; that is a calamity, not a minor drop. Equally, 0·8% is an extremely significant reduction in the take-home pension of tens of thousands of Health Service workers, some of whom were very lowly employed. Why was the Assembly not consulted about a major decision that will affect the lives of tens of thousands of people in Northern Ireland?

Mr McCusker:

The regulations of the pension orders are the responsibility of the Department of Finance and Personnel rather than the Department of Health, Social Services and Public Safety. There are no provisions whatsoever in the Health Department to legislate for pension increases.

The Chairperson:

I do not know how many people in Northern Ireland receive a Health Service pension, but it must be 100,000-plus. Seventy thousand people work in the Health Service at the moment. If you add up all the people who have worked in the service since the scheme was set up, there must be a vast number who rely on their nurses' or their hospital porters' pension. It seems that a unilateral decision has been taken to alter and reduce their entitlement fundamentally without any consultation with the Department or the Committee. Am I right in thinking that that decision was taken over the heads of everybody and that we have suddenly found that that is happening?

Mr Russell McGowan (Department of Health, Social Services and Public Safety):

It is across all public services, not just health. The CPI to RPI change happened across the whole public sector.

The Chairperson:

I am not blaming you. I am simply saying that the decision has been taken, but you were not consulted and neither was the Committee. The increase will be introduced from 1 April 2011, which is two weeks away. I wonder how many of those pensioners actually know about it. Has the Department written to its Health Service pensioners to let them know, or how will they find out?

Mr McCusker:

The scheme is administered by HSC Pension Service, which is part of the Business Services Organisation (BSO). The operational end of it is the responsibility of the Business Services Organisation, and the Department has notified the BSO of the need to write and let pensioners know about the increase.

The Chairperson:

We cannot shoot the messengers here because you are totally powerless, but I am surprised that we, as public representatives, have not received a lot of representations on this issue. That leads me to believe that perhaps the pensioners do not yet know the true significance of what is about to happen to them. I know that there has been a lot of concern about the issue, and it has been debated at Westminster, I was only alerted to it happening in the Health Service when your SL1 came along. It only affects eight or 10 people, but it has exposed the fact that it will happen to everybody whether they buy a lump sum, added years or otherwise. From 1 April, everyone will go on to a reduced pension increase, which, over time, will whittle away the value of their pension because, for some reason, RPI has been consistently higher than CPI. There was one year in the past 25 years when CPI was higher. That was the very unusual situation pertaining to 2008, but, the rest of the time, it means that pensions will not be keeping up with retail prices. I am surprised that the issue has not been high profile. Indeed, this is probably the only Committee that is even aware that it is happening, and that is strange.

You said that someone who has bought added years will stay on RPI. Does that mean that people who have accumulated an ordinary pension, which does not include a lump sum or added years, will remain under RPI until 1 April?

Mr McCusker:
No. This regulation affects only the additional pension amount. The increase that we are talking about is an increase before the additional pension comes into payment. At the moment, there are 28,000 Health Service pensioners in the current payroll. All those people will move to CPI with effect from 1 April. The amending regulations will only affect people who take out an additional pension contract with effect from 1 April.

The Chairperson:
Are there only 28,000 Health Service pensioners?

Mr McCusker:
Yes.

The Chairperson:
I find that difficult to understand. There are 70,000 staff now, and, presumably, there have been very large numbers in the Health Service over the past 20 or 30 years. Have a lot of those folk opted out of the pension scheme? Why are there so few pensioners?

Mr McCusker:

There are around 1,200 new pensioners every year, but that is counterbalanced by the number of older pensioners who die every year. Therefore, the numbers have stayed reasonably steady over the years.

The Chairperson:

You are saying that folk who retire from the Health Service do not live very long. That says something about the nature of the work. *[Laughter.]*

Mr Easton:

I declare an interest.

The Chairperson:

The folk who have enjoyed an RPI increase up to now will go to CPI from 1 April, but there is no clawback. Do they keep the RPI?

Mr McCusker:

Yes, they do. The CPI will simply be applied to the value of the pension on 10 April.

The Chairperson:

You have allocated a 3·1% increase for the coming year. What would that have been had it been RPI?

Mr McCusker:

It would have been 4·6%.

The Chairperson:

That is a massive difference. That is more than a quarter less of a pension increase. That shows the significance of what I am getting at. That is much more than the running average, which is 0·8%.

Mr McCusker:

Since 1988, the average has been about 0·73%.

The Chairperson:

This decision has huge implications for pensioners. One of the things that MLAs will be asking DFP is why this issue has suddenly come to bite us two weeks before it comes into effect. Things have obviously been going on in the background, but people have not been aware of the implications of what is happening.

I think that it is because people do not understand the difference between percentages and percentage points. If someone is on a 4% pension increase and loses one percentage point, that means that one quarter of the pension has gone, not 1%. That has not been properly explained to people. Does the change mean that someone will pay less for any added years purchased because the consumer prices index (CPI) increases by less?

Mr McCusker:

Although we talk about the cost, the Government actuary will calculate the cost from tables of factors. We do not have those yet, but we anticipate that, if they are lower, people will pay slightly less.

The Chairperson:

I do not want a pensioner or a member of staff to end up in the worst of all worlds through paying the same amount but receiving less benefit on retirement. Do members have any questions on the issue?

Dr Deeny:

I declare an interest. As you know, this is a major issue in the Health Service. I am still not clear about the added years and the amendment. I take the point that everything up until now will be based on the retail prices index (RPI) but that, from 1 April, what has been approved up until now will be based on the CPI. Is that right?

Mr McCusker:

No. The way that the additional pension works is that a member opts to buy a block of pension of anywhere between £250 and £5,000. For example, if someone opts to buy £500 at 40 years of age, he or she will receive no payment until the age of 60. Twenty years down the line, the value of that £500 will not be the same as when it was bought. The purpose of the regulation is simply to revalue that £500 to its worth on the date on which the person retires. Therefore, the regulation impacts only on the actual amount of pension that the person buys. For people who elected to purchase additional pension before 1 April, the RPI will be used to revalue that when they retire.

Dr Deeny:

Is that the case even if the purchase was made in 2010 and the retirement is 20 years later?

Mr McCusker:

Yes.

Dr Deeny:

The RPI is used?

Mr McCusker:

Yes. The RPI will be used for anyone who bought additional pension before 1 April 2011.

Dr Deeny:

I have one final question. People in the Health Service throughout the UK are concerned that their pension will be reduced from 1 April. Is there any real difference between countries in the UK?

Mr McCusker:

No, none.

Dr Deeny:

The other concern about shifting the pension age to 65, which is a major concern among people in the Health Service, is that despite making increased contributions, they will receive a lower pension. Maybe this is a more general question, but do you foresee a glut of people deciding to take early retirement and the Health Service potentially losing good staff?

Mr McCusker:

That is one of the dangers. The contribution increase will be particularly tricky because, although we do not yet know for definite, one concern is that, if pension contributions do go up, some people may elect to leave the scheme. That is a concern across the whole public sector.

Dr Deeny:

Sorry for butting in again. You have been very helpful, Phil. There will be definite increases in everyone's superannuation contributions right across the public sector. People will receive a lower pension and, although the change in retirement age will not come in for a few years, they will have to work to 65 to get it. We are always looking for nurses, but many good nurses are going abroad. How many times have we heard that we cannot get junior doctors to work in our hospitals? Those are only two examples. My concern is that we cannot afford to lose staff, and every Government should be looking at that. The regulation may have a serious impact on the capacity of the service to provide the standard of healthcare staff needed for the population of Northern Ireland. It may well save money for the Government in the short term, but it has long-term health implications.

The Chairperson:

That begs the question of what we can actually do. If we decide that we object to the change fundamentally and want to go it alone, am I right in thinking that, although it has been referred to us, we do not have much option as the other three devolved legislatures have gone down this route? Is this just a token gesture? Could we say that we are not going to have this and that, even though we are talking about only eight or 10 people, we do not like it and object to it fundamentally? What would happen in that situation?

Mr McCusker:

I do not think that the Department would have the authority to go down that route. The matter has been set and has come to us almost as a fait accompli.

The Chairperson:

Or, as one member described it, a fat accomplice.

Mr Callaghan:

Accomplice, indeed.

Given that there was consultation and that, as you said, there have been 12 applicants in three years, has there been any increase in applications for additional years since word got out about this?

Mr McCusker:

No.

Mr Callaghan:

There has not been individual notification to employees yet then, has there?

Mr McCusker:

Not really; not in relation to this.

Mr Callaghan:

Has there been any increase?

Mr McCusker:

No, and we would not have anticipated a major uptake in additional pension even with this coming along. The additional pension is pretty expensive. I gave you the example of buying an additional pension of £500 a year. You are buying that £500 a year from the time that you retire until the time that you die. So, for example, somebody aged 40 would pay about £5,000, which is 10 times the amount that they are buying just to buy £500 a year worth of additional pension. If you take the maximum that you are allowed to buy, which is £5,000, it will cost approximately £50,000 to purchase that, so it is a fairly hefty undertaking.

Dr Deeny:

Is this not a way of central government knocking the additional pension on the head? I cannot see anybody taking it up after 1 April.

Mr McCusker:

No, I do not think that it is with the numbers that we are talking about.

Dr Deeny:

There have been so few in the past three years, and you are going to have a lot less, if any, after 1 April.

Mr Brady:

It is interesting that you talked about buying at 40 for 20 years, but the pension age is going to go up to 68, and it will probably carry on going up. Women who receive the state pension are already being affected. I know of a case of a woman who was 60 in December and will not get her state pension until September, so she is losing out on nine months of contributory benefit pension because the age has been moved up. That is affecting women particularly. As you said, people may live longer, but that may not necessarily be the case. So, as the pension age keeps being moved up, you are investing money that you may well never see. You are buying additional pension for when you retire, but, if the retirement age continues to move up, it is less likely that you will benefit.

It is a calculated risk, and I understand what you are saying; most people hope to retire at 60 or 65 and live for another 30 years to get the benefit. However, from my experience over the years from dealing with people who took that route, it does not always work out. There probably will not be a glut of people applying, because, as you say, it is quite expensive. Of course, if you are relying on pension credit and other benefits, occupational pensions offer no advantage, because they give to you with one hand and take from you with the other. So, there is that aspect as well.

The Chairperson:

There is the famous line from George Best about spending 80% of his money on drink, parties and wild living and wasting the other 20%. When you look at the situation as far as pensions are concerned, he was probably right; you are better to eat, drink and be merry now, because the system seems to be stacked against you. It is a race against time. Will you live to 68 to see the money? Is it worth buying the added years? You have to make a calculation about the state of your health, and you might be buying added years that you will never redeem.

However, I take your point. As much as I dislike what is being done, I understand the constitutional issues. I cannot see how we in Northern Ireland could step out of line and say that we are going to go off on our own, do a solo run and keep RPI. I am more concerned about the general fact that an awful lot of people will wake up on 1 April and find that their pension increase is a lot less than they expected it to be. The longer you live, the more impact that will have on your lifestyle. This has been done very much under the radar and no one seems to be aware of it. However, it has major implications, not only for Health Service employees but for everybody who works in the Civil Service. I just learned as well that the Assembly Members' pension scheme will also be on that basis.

Mr Brady:

I should declare an interest: I have a deferred Civil Service pension.

Dr Deeny:

Does it apply to MPs?

The Chairperson:

I think MPs are also going onto CPI from 1 April. Every state or semi-state body will be on the same basis.

Mr Callaghan:

I declared an interest the last time, Chairperson.

The Chairperson:

Is your wife —

Mr Callaghan:

No. My wife has no interest in this at all.

The Chairperson:

Is she not a part of the pension scheme, as you declared?

Mr Callaghan:

It was me, not my wife. She has never worked in the public sector, as far as I recollect.

The Chairperson:

We called a halt to the passing of this subordinate legislation to hear your views. If everyone is happy enough or as happy as they can be, we will stop. I thank the witnesses for coming along.