



Northern Ireland
Assembly

Committee for Social Development

**OFFICIAL REPORT
(Hansard)**

Pensions Bill: Departmental Briefing

9 February 2012

NORTHERN IRELAND ASSEMBLY

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Members present for all or part of the proceedings:

Mr Alex Maskey (Chairperson)
Mr Mickey Brady (Deputy Chairperson)
Mr Gregory Campbell
Mrs Judith Cochrane
Mr Michael Copeland
Mr Sammy Douglas
Mr Mark H Durkan
Mr Alex Easton
Ms Pam Lewis
Mr Fra McCann
Mr David McClarty

Witnesses:

Mr Seamus Cassidy	Department for Social Development
Mr Gerry McCann	Department for Social Development
Ms Doreen Roy	Department for Social Development

The Chairperson: I welcome Gerry McCann, Seamus Cassidy and Doreen Roy. This afternoon, we are going to go through Parts 2 to 5 of the Bill, having gone through Part 1 last week. This is not yet the clause-by-clause consideration. We are trying to get whatever information and clarification we need on some of the issues, bearing in mind that some of them are quite technical. Today, we are dealing with the automatic enrolment provisions for workplace pension schemes, indexation and revaluation of occupational pensions, amendments to money-purchased benefits, and so on. We will take a presentation from you, and then, if members have any questions or need clarification, they can ask.

Mr Gerry McCann (Department for Social Development): Good afternoon, everybody. Doreen will give a very quick outline of Parts 2 to 5, and after that we will be happy to take any questions or do whatever we can do to assist you.

Ms Doreen Roy (Department for Social Development): Mr Chairman, thank you for the opportunity to provide the Committee with an overview of Parts 2 to 5 of the Pensions Bill, following the Committee's consideration of Part 1 last week. Each clause will be considered individually in the coming weeks, so what follows is very much an overall outline.

Part 2 of the Bill introduces amendments relating to automatic enrolment into workplace pension schemes. Under automatic enrolment, employers must enrol job holders who earn more than £5,035 a year in 2006-07 terms into a qualifying workplace pension scheme. A simple, low-cost pension

scheme, the National Employment Savings Trust (NEST), aimed at moderate to low earners who do not have access to a workplace pension scheme, has also been set up so that employers do not have to set up their own pension schemes. Auto-enrolment is being phased in for existing employers between October 2012 and April 2017, starting with the largest employers first.

Ultimately, minimum contributions of 8% on earnings between £5,035 and £33,540 — again, in 2006-07 terms — will have to be paid in respect of the member. Job holders' contributions will be matched by a minimum employer contribution of at least 3% and a contribution from the state in the form of tax relief. However, the contribution regime is also being phased in, so the full contributions will only apply from 2018. That will help employers and employees to adjust gradually to the new regime. The aim is to enable people with low to moderate incomes to build up a private pension income, many for the first time. It is important to note that job holders are free to opt out of a workplace pension. No job holder will be compelled to be a member of a scheme.

In June 2010, the Westminster Government announced an independent review to examine the scope of the automatic enrolment policy. The findings were published in October 2010 in the report 'Making Automatic Enrolment Work'. A number of recommendations were made to ease the burden on employers in complying with the legislation, while maintaining the key aim of ensuring that low to moderate earners are able to save for retirement. Those recommendations provide the basis for several of the measures in the Bill.

The Bill proposes an earnings trigger at which an employee must be automatically enrolled into a workplace pension. That will be set at £7,475 a year, which is the current threshold at which a person begins paying income tax. That will prevent the automatic enrolment of individuals who are consistently lower earners and who may find that the state, through pensions and benefits, provides them with a sufficiently high replacement rate without additional saving. The earnings trigger and earnings band will be reviewed annually, and will take into account tax and national insurance thresholds, a general level of prices and earnings, and the prevailing rate of the basic state pension.

The Bill proposes an optional waiting period of up to three months before the automatic enrolment duty on employers begins. Under existing arrangements, employers are required to automatically enrol job holders with effect from the automatic enrolment date. Many employers expressed concern that the existing policy could lead to additional costs associated with enrolling large numbers of employees working for short periods. An optional waiting period of three months will reduce the number of individuals who are automatically enrolled on any particular day. It will particularly affect young people who are likely to move jobs relatively frequently. However, they will retain the right to opt in. Allowing employers the flexibility to select any automatic enrolment date within the waiting period is designed to allow them to align it with their existing payroll cycles and reduce administrative burdens.

The existing legislation requires employers to re-enrol eligible job holders who previously opted out or cancelled their scheme membership. That has to be done every three years, with a month's flexibility around the specific re-enrolment date. That provision reminds individuals who choose to opt out to re-evaluate their circumstances and savings arrangements, and also prompts employers to ensure that they continue to comply with their duties. The change is proposed to give employers greater freedom to undertake the re-enrolment process at a time that works for them. Employers will be allowed a window of three months either side of the anniversary date in which to complete re-enrolment. The details will be set out in secondary legislation. The only change to primary legislation will be to stipulate that re-enrolment may be no more frequent than once in every two years and nine months.

The Bill also brings forward changes to simplify the way in which an employer can certify that their pension scheme meets the necessary quality test in order to comply with the automatic enrolment duties. The simplified certification process is intended to minimise the burden associated with verifying that a workplace pension scheme delivers at least equivalent benefits to those specified under automatic enrolment. That addresses the concern that employers with good schemes might find it more economical to start a new scheme with potentially lower benefits than to go through complex validation processes with an existing scheme.

The Bill also makes a series of technical amendments to existing legislation. The key aim is to support the introduction of the automatic enrolment duties by refining the process and reducing the burden on employers in complying with the new obligations.

Part 3 contains amendments to indexation and revaluation requirements for occupational pensions in consequence of the Government's decision to use the consumer price index (CPI) as the measure of inflation and includes amendments relating to the pensions protection fund and the Pensions Regulator. It also includes other minor technical amendments.

In June 2010, it was announced that the consumer price index will be used as the general measure of inflation for uprating social security benefits — except the basic state pension or state pension credit — and public sector pensions. In July 2010, it was announced that the CPI would be used for the statutory revaluation and indexation of private sector occupational pension schemes, increases to the financial assistance scheme payments and the revaluation and indexation of pension compensation.

The Secretary of State for Work and Pensions is required to specify revaluation percentages annually. The Department makes corresponding provision for Northern Ireland. It does not have the power to set different rates.

The Bill makes comparatively minor amendments regarding indexation and revaluation requirements as a consequence of the decision to use the CPI rather than the retail price index (RPI) for uprating.

Part 4 contains measures to amend the definition of money purchase benefits following a judgement of the Supreme Court. That is primarily to ensure that members of schemes affected by the judgement do not lose access to various safeguards such as access to the pensions protection fund.

Part 5 proposes a number of technical amendments to existing legislation to enable the Department to make grants directly to pensions advisory bodies or those undertaking other specified functions in relation to pensions, and to introduce rules to provide a means of proving that a notice or other document authorised or required by the legislation is sent to its intended recipient. They also specify the persons to whom the notifications or documents are to be sent and the manner in which they can be properly served on them. Basically, this extends the existing rules that apply to the pensions schemes to automatic enrolment provisions.

Mr Chairman, that concludes our overview of the Pensions Bill. I hope that members found it useful, and we are happy to take questions and elucidate further.

The Chairperson: Thank you, Doreen. There is a lot of talk that the earnings trigger, which is currently set at around £7,000, is likely to change. What is the mechanism to change that? Does it require a new statutory rule?

Mr G McCann: That would change by order and there is a power under the existing Act for it to be changed in that manner.

The Chairperson: Is that one of those orders that we would take note of, as opposed to having anything to say about it?

Mr G McCann: We would, of course, send it to you. However, as far as I remember, the nature of the power is that the only rate that we can set for it is the same rate as in Britain. Even though we may want to change it, under the Act, we do not have any power to do so.

The Chairperson: So, at the end of the day, it can be done under an order over which we have no power.

Mr G McCann: It is just that we do not have the power to vary the rate.

The Chairperson: You spoke of a few months' grace for employers to enrol someone automatically. That is to allow for payroll cycles, and so on. That sounds reasonable enough, but none of that relates

to the wishes or ability of the employee. An employer may say that he can do that within a month, but the employee may say that he or she needs three months, if you get my drift.

Mr G McCann: I take your point. However, the aim is to allow the employers to have extra flexibility. There is a balancing act between making sure that everybody in work is able to access extra money ultimately when they come to retirement age. The other point is to ensure that we were not putting any extra burdens on the employer. We are very conscious that every employer is finding it tough at the moment. Even though it may seem a slightly longer period of three months, it is only a small number of months out of a person's working life, which could be 40 or 50 years. From that point of view, we do not think that it is a major problem.

The Chairperson: The employee might think that it is a problem. I think that it is unfair. To me, it smacks of being a wee bit all the one way. I am not disputing its usefulness.

Mr G McCann: We are doing it to help employers and to ensure that the burdens are not going to be too onerous on them.

Mr Brady: Thank you for the presentation. I would like you to clarify a couple of things. The figure of £7,475 was known as the lower-earnings limit. Above that —

Mr G McCann: It is the rate at which you start to pay tax.

Mr Brady: Yes, but below the lower-earnings limit was the figure at which you did not pay taxes.

Mr G McCann: It is slightly different now. The two are not in kilter with each other.

Mr Brady: In relation to that, is it an 8% employee contribution?

Mr G McCann: No. Overall, the total amount that has to be paid is 8%, and that will be employer, employee and the state.

Mr Brady: So is it 3% from the employer?

Mr G McCann: It is about that. It will be phased in. For the first two years, both the employer and employee have to pay 1% each. From the end of 2017, it goes up to a total of 5% between the employer, the employee and the state. It is only when you get to the end of 2018 that it goes up to the full whack of 8%. However, that figure of 8% is the amount that has to be paid under law. If the employer or the employee wishes to pay more, that is fine.

Mr Brady: Going from the retail price index to the consumer price index will mean that people on benefits will get less. The same will apply to the amount paid into the pension scheme.

Can you clarify whether pension credit and state pension will still be based on the retail price index?

Mr G McCann: Yes. Well, actually, with the state pension, it will be the best of the three: earnings, the CPI or 2.5%. It is whatever happens to be highest for the state pension. To come back to the point on the CPI, we are altering the law to reflect what has already happened, as such. The Bill is not changing the rules —

Mr Brady: It is catching up.

Mr G McCann: It can be consequential amendments following on from that decision. It is not that we are setting this for the first time.

Mr Brady: On that point, are we only catching up now? On a lot of this parity legislation, we were told that if it does not go through, people will lose out. If it does not match what is happening in Britain, people here will lose out. However, now we are only catching up on this. Is that at play across the board?

Mr G McCann: It is not only us; it is also Britain. We are all catching up. For example, it will ensure that a scheme does not have to uprate by the higher of the two. Say, for example, that a scheme opts to stay with its own rules for years, which would be to upgrade in line with RPI, and say, for example, that some year it was further down the road and we happened to get the odd year where the CPI was higher, this will ensure that those people who have earned far more over the years anyway will not have to get that extra hike.

Mr Brady: On the three-year re-enrolment for people who have opted out, are they presented with an opportunity to go into the system?

Mr G McCann: People are put back into the system, and they have to opt out again.

Mr Brady: Yes, because you would be re-evaluating. Presumably the older you get, the better idea you have —

Mr G McCann: Over that period of time, your earnings could have changed or you may not have paid as much rent or something, which may mean that you want to look at it again. It is there to ensure that someone of 18 does not opt out and does not bother doing anything about it over the years.

Mr Brady: I understand, but you are re-enrolled and then you have to re-opt out.

Mr G McCann: Yes; you have to opt out again.

Mr Brady: That seems a bit cumbersome.

Mr G McCann: If you look at the various statistics and work done on pensions, one of the big problems about getting people in is that they simply do not bother. As they move through their life cycle, it is not important when you are young and you suddenly get to a point in your late 40s or early 50s when you start to panic and think that you should have made plans for this.

Mr Brady: But the difficulty is for people at the lower end, who are termed the working poor. With changes to housing benefit and so on, which we rehearsed this morning, they may never have the opportunity to enrol because they simply could not afford to.

Mr G McCann: We are very aware of that. We are also aware that opting into a scheme is not a good idea for some people simply because if your earnings are only £7,400 or £7,500, maybe by the time you pay your rent and you will not be able to do it anyway. That figure is just a way to get everybody into the system and then individuals are free to opt out if they cannot afford it or feel that they do not need it. That is an important point. If they wish to opt out, they can. It is not the case that everybody out there has to go into a pension scheme. It is purely optional.

Mr Brady: It probably depends on the information given to the individual at the time as to the benefits or otherwise, even for people on very low incomes. You have to assume that if the legislation goes through and the age limit for pensions eventually goes up to 68, there is absolutely no reason why they could not then put it up to 70, 72 or 74. There is no doubt that that will eventually happen because, statistically, people are living longer. That is the inevitable consequence, in a sense.

Mr G McCann: If we look at it from the other way round, the fact that we are living longer means that people should be in work for longer. So, even if they are not able to opt into the scheme early in their lives, if they opted in during their early 30s it would still give them a fairly long period to build up their pension rights.

Mr Brady: Statistically, people are living longer but not necessarily more healthily.

The Chairperson: That is another argument.

Mr Brady: It was just to make that point.

The Chairperson: I know; I understand.

Mr Brady: Compton talked about that in his report.

Mr G McCann: It is generally true that people are living longer and are being healthier for longer. The fact that we can treat most of the major illnesses means that people are living longer and maybe are not that fit. In general terms, however, people are living longer.

Mr Campbell: I have three questions, and I will keep them brief. I am a bit confused about the level of earnings at which contributions start. Doreen mentioned a figure, in 2006-07 terms, of £5,000. Is it £7,400 as of now?

Mr G McCann: No, we are speaking of two different things. £7,400 is the earnings trigger. That is the point at which any person has to be put into the scheme. Once they are in the scheme, the employer has to pay contributions on any earnings above £5,315.

Mr Campbell: What about the people in between those two bands?

Mr G McCann: Anybody in between that can opt into the scheme if they want to. Their employer has to take them into the scheme and has to make contributions. Anybody under the band does not have to be put into the scheme. It is automatic.

Mr Campbell: On the figure of £7,475, there is not much I agree with the coalition Government about with regard to the social and welfare reforms. One of the good things they have introduced, however, is the progressive increase to £10,000 over the lifetime of this Parliament when people will begin to pay tax only at the level of £10,000. There is another issue about national insurance, which I have been raising with the Department, but we will set that to one side. Is it envisaged that, as that goes up, that trigger will rise?

Mr G McCann: Under the law, that figure has to be looked at every year. Members of the Committee may remember that we sent you a consultation paper last month looking at that very point. At the moment, the figure is £7,475, which is linked into the income tax rate. We are asking whether that link to income tax should continue or whether there is any other way to do it.

It was out for consultation, and that ended at the end of last month, so everything is still being looked at.

Mr Campbell: You have explained that the 8% contribution is the total sum from the employee, the employer and what I presume amounts to the tax relief if a person was in a personal pension scheme. Is the tax relief element the same as it would be for a personal pension — that is, the lower rate of 20%?

Mr G McCann: No, the tax contribution is expected to be around 1% of that 8%.

Mr Campbell: That is not what I mean. If you were in a personal pension scheme and made a gross contribution of, say, £1,000 a year, 25% of that would qualify for tax relief. Is a quarter of the gross sum that will be paid under the new arrangements eligible for tax relief? It sound to me like it is not and it will be only one twelfth. It is 1% of the 8%.

Mr G McCann: At the moment, it is meant to count as 1% of the 8%. I would have to do some more work to answer the exact question that you are asking me. I would have to go to the tax —

Mr Campbell: I will summarise what I am saying. Will people who are enrolled in the new scheme be treated exactly the same way as anyone else who has taken out a personal pension scheme and would be entitled to get tax relief on their contributions according to their rate of income tax, that is, 20% if they are a lower paid employee? Would they be getting 20% in the same way, or would they be getting less?

Mr G McCann: I understand what you are asking, but we have now moved to an element of law related to tax, which is an excepted matter, so we do not have any competence to —

Mr Campbell: I understand that, but for clarity —

Mr G McCann: I will see what I can find out for the Committee and write to you, but, as I said, it is a matter for the tax authorities and I cannot really comment on it because it is an excepted matter.

Mr Campbell: My last question is about the three-month introductory period and relates to what the Chairman said. I take it that, whatever we might think about that, in Northern Ireland there will not be any flexibility, or will there be, if we thought that it would be a better idea if it was six months or two months?

Mr G McCann: No. Again, our aim is to try to put all of the burdens onto the employers in exactly the same way. In Northern Ireland, we have a fairly sizeable number of employers who are not based here and who operate from Britain; for example, big stores such as Marks and Spencer and Tesco. We want to avoid having a separate law in Northern Ireland, which they would have to meet separately for their Northern Ireland employees, because all that would do is to add to their burdens.

Perhaps I should explain more about the three-month period. One of the other reasons for that three-month period is to ensure that the employer does not have to automatically enrol someone who is only there for one month and then says that they do not like the job, throws up their head and moves on. As well as allowing the employer to fit the employee into their payroll periods, the three-month period means that the employee should be able to show at the end of three months that they are settled in the job. It is to avoid all the employers having to enrol someone from day one and then finding that they have moved on at the end of the month.

Mr Campbell: The reason I am asking about the three-month period is that I want to know if there have been any discussions about something that might appear ludicrous now but may not be as ludicrous in two or three years' time. Given the issue of short-term employment, I can fully understand why there would have to be some sort of period. For example, if you had a casual employee over the summer, there would not be much point in going through the time and trouble of enrolling them for six or eight weeks for them then to go back to university or whatever they were doing before the summer. I can fully understand that. However, because of the amounts that we are talking about — up to £7,000 and maybe up to £10,000 — in two or three years' time, if there are difficulties as the scheme rolls out, it could well be the case that the Government — particularly this Government — might see that there is not that much difference between the amount of benefit being paid and the amount of money that people are getting from employment. To minimise the problems, they might actually — ludicrous as it might seem now — ask whether the scheme is worth transferring over to people who are also on benefits.

Mr G McCann: I am not sure that I fully —

Mr Campbell: We think that it is going to go up to £10,000 in the next two or three years. I know that that is out for consultation.

Mr G McCann: It may or it may not.

Mr Campbell: It is at £150 a week at the moment. So £10,000 is £200 a week.

Mr G McCann: We do not know that yet.

Mr Campbell: Anybody who is going to be earning in or around £200 a week in work will be pitched into the opportunity for this scheme, advantageous as it may be for them in the long run, although they have the opportunity to opt out. However, this Government, particularly with the introductory period, might say that they can do away with the introductory period if everybody has to do this — unless they opt out — whether they are working or not, because they are earning £200 a week whether they are in work or whether they are on benefit.

Mr G McCann: I am certainly not aware of any thinking along those lines or that anybody has —

Mr Campbell: Has there been no discussion between Departments?

Mr G McCann: I am certainly not aware of it. I am sure that Mr Brady will intervene here to support —

Mr Campbell: With his experience, you mean.

Mr G McCann: The various benefit levels are set at the rates at which people need to get by on. I have not been aware of any thinking that we should also be taking money off —

Mr Brady: Gregory is taking a very cynical view of the coalition Government to even think that they could contemplate doing such a dreadful thing. Though I am sure that they will.

Mr Campbell: It is maybe not so cynical then.

Mr Brady: It is not. I was only joking. I am sure that, if they see that as a route, they will.

As regards what people can live on, we are talking about subsistence level anyhow. You talked about the big employers from Britain. Considering the fact that students probably make up 50% of the casual workforce in Salisbury's in Newry, in B&Q and in all of those large retail units and taking the point that Gregory made, we know that they would not apply. Therefore, that is not necessarily an issue.

With regard to the working poor, however, most working people in my constituency could not afford to enrol because they are on subsistence wages anyhow. Consider the number of people on working tax credit at the moment — universal credit will, allegedly, change all that. People trying to access tax credit and getting hit with huge overpayments, even though they are given all the information, is a regular occurrence and continues to be. Therefore, your point is probably very valid. They will see this as a route out of it. We are talking about comparatives. One of the whole planks of welfare reform is to get people back to work and to tell them that they are better off working than they are on benefit. However, if they see that you are not necessarily better off, they will have to change something. That would seem to be a logical or illogical route, depending on the way in which you want to look at it.

Mr G McCann: To answer your point about people at the lower end and whether or not they should be opting in or out: that is why you can opt out. We understand that, for many people, this is not a sensible option.

As regards the people you mentioned who work part time, it could be that they are the partner of somebody and it could be that either party has access a scheme. They might say, "OK, I work only part-time hours, but I do want to use some of this money towards our future pension income." The fact that someone is working only part time does not necessarily mean that they would not want to joint this.

Mr Brady: If you go into Salisbury's in Newry any weekend, you see that the vast majority of people at the tills are students. They do not have partners, or at least they are not living with partners in that sense. Therefore, that would not apply.

Mr G McCann: It is true that, if you are saving for any pension income, the earlier you start, the more you will get out of it ultimately. People may not earn very much when they start working, but if we can get them in early on, it means that when they reach pension age their outputs will be much better, even though they are not saving that much into it.

Mr Brady: Gregory's point about tax relief is that there is an incentive to go into a private pension scheme. During her reign, Mrs Thatcher put the national insurance fund into the red for the first time in its history to subsidise private pensions. Things like that could happen all over again.

Mr G McCann: As I said to Mr Campbell, I cannot comment on tax matters.

The Chairperson: Gregory raised a point about the current Government taking the opportunity to say that that will apply to people on benefit as well. It was a fair point made. It is not in the Bill, but it has been raised all right and is important enough. However, the key issue raised by Gregory and Mickey

was about the tax benefit that would accrue to someone going into a private pension. We are now dealing with provision for people who will be automatically enrolled in a pension scheme once they reach that earnings trigger. In my opinion, we are trying to encourage as many people as possible to stay in the scheme, which is why the point that Gregory raised about the tax incentives that may accrue with that is a very valid one.

There is also the point I raised earlier about the period within which the scheme could be introduced. I agree entirely about giving flexibility to employers and facilitating them to get it into a cycle of their system. However, there must be some flexibility for the low income person in the first few months of their employment. There will be upfront costs for most people when they take up a job in order to readjust and all the rest. Those three or four months could be critical for a person who feels that they just cannot afford it and opts out. If there is that flexibility for the employer, you need to have flexibility for the employee who would be enrolled automatically.

Mr G McCann: There is flexibility in existing law. As we pointed out, every two years and nine months, as it shall now be, they will have to move back into the scheme and, therefore, opt out again. If they change their mind during that period, however, they can go to their employer and ask to be put into the scheme.

The Chairperson: OK. Thanks for that.

Mr McClarty: Do employees on a probationary period of six, nine or 12 months also become eligible for inclusion in the scheme after three months?

Mr G McCann: Yes, they do. We are trying to avoid the situation in which somebody is in a job for a year, moves on for another year and again for another year and suddenly finds that they have changed jobs eight or nine times and have nothing. Our view would be that, if you are working for someone for a year, that is quite a sizeable amount of time, and we would, therefore, want you to be enrolled.

Mr McClarty: In this day and age, pensions are very transferable.

Mr G McCann: They are, but you have to be in one first. That is why we are keen to get them in as soon as we can. That is why the period of three months is seen as a balance between helping out the employer and making sure that the individual will not lose out if they are in a job for only a short time, such as one year at a time.

Mr Copeland: My memory of this issue is littered with terms such as SERPS (state earnings-related pension scheme) and additional voluntary contributions. The more I look at it and try to read this, the more confused I become. Going back to something the Chair said: if I understand correctly, you will be automatically enrolled for three months when you take up a position and during that period deductions may be made —

Mr G McCann: No. Automatic enrolment has to kick in after the three months. However, your employer can automatically put you in from day one if he wants to do so.

Mr Copeland: If he wants to do so as opposed to you wanting to do so?

Mr G McCann: If he wants to. Say, for example, that your first week happens to link into one of the pay periods for his computer system. In that case, it may work out well for him to put you in from day one. Alternatively, it may be a further month before his computer runs are made. So, there are all those things, but, after three months, you have to be put into the scheme.

Mr Copeland: There is a conceivable position, therefore, of money belonging to you being deducted and put into a scheme prior to you putting into effect your desire not to be in the scheme. How do you get your money back out?

Mr G McCann: As soon as you opt out, that money has to be given back to you by your firm.

Mr Copeland: Right. What happens in the event of someone going through that whole thing and passing away prior to the pensionable date? Is there life protection?

Mr G McCann: Under the money that you put in, there is provision for a survivor. Again, we are getting into the detail, but yes, there are provisions for survivors.

Mr F McCann: What Michael said reminds me of the argument a couple of weeks ago about people trying to get their deposits back in the private rented sector. You see all sorts of problems and difficulties there.

I have one question, which probably comes at it from a different angle. If I am employed and get £8,000 a year and am in the scheme, and I am probably one of 40 or 50 people who are employed by the same employer, when that tots up it probably runs into thousands of pounds over the year. If that starts to affect the employer's profitability, is there anything there to stop them passing that cost onto the employee, perhaps by reducing the wages? Everything seems to be aimed at protecting the employer, rather than protecting the employee. Can they reduce your wages to cover the cost?

Mr G McCann: Obviously, we will not be sure how it is going to work out until it is up and running, but we probably would consider that, when your employer looks at your wage rise each year, he may want to factor in the fact that he is now having to pay into a pension scheme. So it could have an effect on your income ultimately.

Mr F McCann: So there is no protection at all for the employee?

Mr G McCann: If the employee is not happy with that situation, he can opt out. The question that you are asking is not part of the issue covered by this Bill. That was part of the Bill that the Assembly passed back in 2008.

The Chairperson: I take Fra's point entirely, but any employer can do that at any point in time, and they do. There are a number of sectors that have not had a pay increase in the last number of years on the basis that the employer said that they were not making enough money and could not sustain the business. In fact, people have been taking pay cuts, some of which have been imposed and some of which have been notionally negotiated. There is no protection, though I wish that there could be.

Mr G McCann: At the moment, for us, for example, our employer takes into account the fact that we are in a scheme, and every year he adds that on to the amount of money that is taken into account when it comes to looking at pay rates. That is the case for all public servants, for example. At the moment, any employer who operates a scheme does take into account the fact that they are having to pay money into a scheme for employees as part of their overall pay bill. Under law, an occupational pension is, in fact, pay. It is just not paid to you now but at a future point in time.

Mr F McCann: What we are talking about is a shared responsibility between the employee and the employer, but, at the end of the day, the total responsibility for the financial end of it could rest with the employee if the employer decides to reduce wages to cover the cost of it. People may want to opt in, but they may have to meet the full cost of it, rather than what is laid out in the legislation.

The Chairperson: I do not think that the employee deciding to opt out of a pension at that point will make a damn bit of difference, because the employer is still going to set the salary scale according to their overheads. I agree with you that there is no protection in that. If you take the option of withdrawing from the pension scheme, all you will do is save a couple of pounds from going into the pension scheme. It is not actually going to change your wages. You asked whether there is protection; the answer is no. I think that it is quite clear.

Mr Brady: I want to make two points. You said that, if the employer does not give you a rise, you can opt out of the scheme, but surely that negates the whole point of having the scheme. The whole point of the scheme is to enhance your end-of-work income.

Mr G McCann: Perhaps I did not phrase it very well. The point I am making is that, at the moment, any employer who runs an occupational pension scheme is taking that into account anyway. What we

expect to happen under automatic enrolment is not really any different from what is happening now to any employer who runs a pension scheme.

Mr Brady: Surely this is aimed at the employers who are not running a scheme.

Mr G McCann: Yes, but if they do take that into account in setting future wage rates, they would only be doing the same as an employer who operates a scheme at the moment. It is the same as what happens now.

Mr Brady: My other question relates to logistics. There is a three-month period when somebody can opt out, and then, in two years and nine months, they re-enrol. Is that done on an individual basis? I am thinking of the logistics of doing it for each employee in terms of the three months, two months or whatever period they opted out, and then having to go to three years. Is that not just a rolling three years for every employer or is it each individual employee?

Mr G McCann: Under law, the only people who have to be automatically re-enrolled are those who are not active members. That means, in effect, people who opted out. The firm may find it easier to handle it by hitting a button that puts all the names back into the pot. However, under law, only those who opted out have to be automatically re-enrolled.

Mr Brady: If you are with an employer, your wages are low and you opt out, there will be large numbers or they will have to do it on an individual basis. The logistics of doing that would, presumably, be problematic for the employer and make the scheme less attractive and less workable.

Mr Seamus Cassidy (Department for Social Development): The three months is to give the employer flexibility to make his own arrangements. He is not required to re-enrol everyone on the same date. He can make his own arrangements within the three months.

Mr Brady: I understand that. That is the point I am making.

Mr G McCann: I take your point that it may add to the burden of employers. However, if we were not to do that, somebody may make an option when they are 18 and end up being out of a scheme for the rest of their life simply because they never get round to doing anything about it. Those are the very sorts of people that we want to try to catch. Thinking back to when I was 18, I know that planning for a pension was not high in my priorities.

Mr Brady: You have a great memory, Gerry. *[Laughter.]*

Mr G McCann: As you age, however, it goes higher up your list of priorities. We want to avoid people making that option when they hit their early 50s because, if you are starting to plan for your pension only when you get to that stage, the amount of your earnings that you would need to put away to end up with anything of any size coming out the other end is quite a high proportion.

Mr Brady: That is a view in an ideal world, where people can plan for their future. However, large numbers of people who work here will never be able to afford a pension. That does not seem to have been factored in. It may be a good idea in the south-east of England, although maybe not in the north-east or north-west of England and various other places. It is a good idea in theory, but the reality is that huge numbers of people here who are on low incomes will never be able to afford a pension. Otherwise you would not have family income supplement, family credit and working tax credit. Those are to supplement low wages.

Ms Roy: NEST, the new scheme, is aimed at low to moderate earners. The aim is to provide a scheme that low earners can avail themselves of.

Mr Brady: That is laudable in theory but not in practice.

The Chairperson: Ultimately, what we have to conclude — not today but when we go through the legislation clause by clause — is whether we agree with the principle of automatic enrolment. If we do agree with that, do we then agree with the principle of allowing a person to opt out and, consequently,

to be automatically re-enrolled with the same option to opt out? Those are the principles that we ultimately have to decide upon as a Committee.

Mr G McCann: To return to the point raised by Mr Brady: that is why people can opt out. In its evidence to you last week, NIPSA argued that everybody should have to be a member of the scheme and should be forced into it. Our view, however, is that there will be people who will not be able to afford it and, therefore, that is why people are not being forced into this. We are also keen to avoid people being forced into a scheme and for them to find at the end of their working lives that they were no better off.

Mr Brady: With respect, NIPSA represents public sector workers, and there is already some sort of pensionable scheme in most public sector jobs. It represents vested interests.

Mr G McCann: I take that point. I am saying that, in the evidence the NIPSA representative gave to the Committee, he said that everybody should be forced into a scheme. That is what we were concerned about.

The Chairperson: That was NIPSA's presentation. You are absolutely right. They said that everybody should be in the scheme. Everybody around this table would prefer to see people on a decent wage and feeling comfortable and able to join a pension scheme. I think that that is the concern of us all.

Mr Copeland: I have one point on possible areas of exclusion from automatic enrolment. Northern Ireland is the only part of the United Kingdom that shares a land border with another European state. There will be cases where people could be resident in Donegal and working in Londonderry. Are we facing a situation where people will be enrolled even though it is pretty certain that they are not going to stay?

Mr G McCann: The law states that a jobholder is someone who is working in Northern Ireland. So, if somebody happens to live outside our jurisdiction, that is not really a major issue as long as they are working here. There are other special rules for cross-border matters, which we probably should not get into now because they are extremely technical. There are certain rules under the fact that we are all part of the European Union. One clause in the Bill deals with cross-border and European employment.

Ms Roy: Clause 18.

Mr G McCann: That is to come for you to look at, so you will enjoy it.

The Chairperson: Some of us would argue that, at some point, they will all be in the one jurisdiction anyway, so it will not matter. Anyway, that is the political argument.

No other members have indicated that they wish to speak or seek clarification. That was another useful exchange, so thank you, Gerry, Seamus and Doreen, for your contributions and for fielding the questions. Thank you very much. We will continue next week.