Northern Ireland Assembly

Committee for Social Development

OFFICIAL REPORT (Hansard)

Pensions Bill: DSD Briefing

27 June 2013

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)
Ms Paula Bradley
Mr Sammy Douglas
Mr Mark Durkan
Mr Fra McCann

Witnesses:

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

The Chairperson: With us this afternoon are Seamus Cassidy, Gerry McCann and Anne McCleary. You are very welcome. Thank you for being here this afternoon. If members are happy enough, we will go ahead with the presentation.

Ms Anne McCleary (Department for Social Development): First, thank you very much for inviting us to brief you today on the Westminster Pensions Bill. To assist the Committee, we provided a written briefing on the draft Bill in March, and, more recently, we gave you an updated version.

The Pensions Bill in Westminster had its Second Reading on 17 June and is now in Committee Stage in the House of Commons. That stage is expected to be completed by the start of the summer recess.

The Bill contains measures reforming aspects of state and private pension provision and bereavement benefits. If you are content, I will run through the main proposals in the Bill, and then the team will try to answer any questions that members might have.

There are five Parts to the Bill. Part 1 proposes to introduce a new single-tier pension for all new pensioners from April 2016. It will provide for three measures. The first is a single component contributory pension scheme for people who reach pension age on or after 6 April 2016. The second is transitional arrangements dealing with people who reach pension age on or after 6 April 2016 and have qualifying years accrued under the current system. The third is the ending of contracting out for salary-related occupational pension schemes. I will look at each of the three elements in turn.

The single-tier pension will replace the existing state pension, comprising the basic state pension and additional state pension, with a single component flat-rate pension. It will be set above the basic level of means-tested support — that is the pension credit standard minimum guarantee — which is currently £145·40 a week for a single pensioner. It will be increased at least in line with average growth in earnings. It will require 35 qualifying years of national insurance contributions (NICs) or credits for the full amount. There will also be a minimum qualifying period of between seven and 10 years. So those with fewer than 35 qualifying years but above the minimum qualifying period will get a proportionately smaller amount. It will be based on individual qualification, so it will end the inheritance of, and derived rights to, a spouse's or civil partner's pension. It will make special provision for women who paid reduced rate national insurance contributions, and it will continue to allow people to defer claiming their state pension. People reaching state pension age before the introduction of the single-tier scheme will receive their state pension in line with current rules.

Part 2 provides for measures relating to the increase in state pension age. The increase in state pension age to 67 was announced in the November 2011 Budget statement. The proposals in this Part will bring forward the increase in the state pension age to 67, beginning in 2026 and ending in 2028, which is eight years earlier than previously planned. It also provides a framework for a regular review of the state pension age every five years.

Part 3 introduces a new bereavement support payment. Consultation on, and reform of, bereavement benefits was carried out in Great Britain and Northern Ireland between December 2011 and March 2012. The Government published their response to the consultation in July 2012, which outlined their intention to introduce the bereavement support payment to replace existing bereavement benefits by providing for a lump sum followed by monthly instalments for a year. The detail will be set out in regulations, but the Government response gave the following indicative amounts. If there are no dependent children, there will be a lump sum of £2,500 and £150 a month for a year; if there are dependent children, there will be a lump sum of £5,000 and £400 a month for one year.

Part 4 also provides clarification on, and changes relating to, private pensions. First, it will provide for the automatic transfer of small pension pots when a person changes employer. That will reduce the number of dormant pension pots and make it easier for people to keep track of their pension savings, which, in total, will help them to plan better for their retirement and get a better outcome in retirement.

Secondly, it will increase the maximum period — from three to five years — within which small occupational pension schemes must submit scheme returns to the Pensions Regulator.

Thirdly, it will provide the power to prohibit the offering of incentives to transfer defined benefit scheme rights to be commenced only if the extant voluntary code fails to bring an end to the practice. So we are trying to prohibit the offering of incentives.

Fourthly, it will end the ability for money purchase schemes to refund employee contributions when those people leave the scheme within two years. That is known as the short service refund.

Fifthly, it will deal with technical issues and clarify existing powers, including the power to exclude specified groups from automatic enrolment if it would be detrimental to them.

Sixthly, it will amend an existing power to provide greater flexibility to limit administration charges for qualifying schemes for automatic enrolment.

Finally, it will provide a new statutory objective for the Pensions Regulator to minimise the adverse impact on the sustainable growth of employers.

Part 5 contains clauses with consequential amendments and general provisions.

That was a fairly quick run-through. Some of the Bill is pretty technical and detailed. As ever with pensions, the legislation is complex; we cannot avoid that. However, if you have any questions, we are more than happy to try to deal with them.

The Chairperson: Thanks very much for that, Anne.

Mr Brady: Thanks for the presentation. I have more of a comment than a question. Yesterday, we got a copy of the 'Government Response to the Fifth Report of the House of Commons Work and Pensions Select Committee'. It talks about the single-tier pension, and, as with most such legislation, much of the detail will be set out in regulations rather than being contained in primary legislation, so we will have to see how that rolls out. One of the issues is, of course, to encourage people to save because anyone intending to rely on the state pension is in serious trouble. That report says:

"The single-tier pension will clarify incentives to save by lifting most people above the basic level of means-tested support".

So the point is that, irrespective of how it is dressed up, this will still be the meanest pension scheme in the entire developed world. Whatever incentives you give people, the basic rate of pension here is abysmal compared with other European countries.

Ms McCleary: There are certainly people who will benefit from this.

Mr Brady: That is like saying that you will be slightly better off in a system that makes everyone fairly badly off. I do not want to get into a discussion about it.

Also, Steve Webb, who is a Pensions Minister, told that Committee that it would not be introduced until 2017, and he was very clear in making that point. The following week, he said that they were going to change it to April 2016. That surprised the Committee because, I presume, some of its members are in his party and had not been informed. It is a system that will encourage people to save rather than giving people the wherewithal to try to have a reasonable standard of living.

Ms McCleary: The overall aim is to encourage those who can save to do so, and that is why we have moved into the automatic enrolment environment. Undoubtedly, we want to encourage those who can save to do so, but the underlying state pension entitlement is still there, and there are a considerable number of people who will benefit from it. However, as with any change of this type, there are those who may not.

Mr Brady: Women will lose out and have already lost out because of the equalisation of age. It has to be said that women have borne the brunt of this. As for encouraging people who can save to do so, we live in a low-wage society, so the number of people who can make provision to save for the future is very limited. Most people will depend on the state pension, and my point is that the state pension here is extremely low. The response recommends that the Government make it clear that there are passported benefits that people can claim. Anyone who subsidises that with pension credit will still be at subsistence level.

The Chairperson: I have a couple of points, Anne. Earlier, you stated that a number of pension schemes will be done away with. Do you have a sense of the cumulative impact of all that? Secondly, we have been told by Westminster that the bringing to an end of contracting out will increase national insurance contributions for many in the public sector. Do we have any way of working out what that might mean, particularly given the current arguments about the progressive payments being cut and so on?

Mr Gerry McCann (Department for Social Development): I will answer the first part your question. On 6 April 2016, we will do a few sums and work out what you were entitled to under the existing system. We will also work out what you would have been entitled to had this new system been in force, and, whichever of those two amounts happens to be higher, that will be the amount on which we will start to build for the future. If that amount is higher than the rate of the new single-tier pension, when you come to take your pension, you will get the single-tier pension plus any amount of money over that which you had earned already under the existing scheme. Is that clear enough?

The Chairperson: I will have to cogitate on that one.

Mr G McCann: On 6 April, we will calculate what you would have got under the existing scheme and what you will get under the new scheme.

The Chairperson: It sounds good.

Mr G McCann: If the amount that you are to get under the new scheme is higher than the new rate of single tier, which is £144, you will get £144 plus any amount that you have earned over that amount.

Ms McCleary: That is the transitional protection.

The Chairperson: What might end the transition period? In welfare reform, transition is —

Ms McCleary: For a limited period.

Mr G McCann: This will carry on until we do not have anyone who has not earned more under the existing scheme.

The Chairperson: So it is for life?

Mr G McCann: Yes, it will carry on being paid for life.

You mentioned higher national insurance contributions for those in public sector schemes. The amount to be allocated will fall into the next spending round. So, at that time, the fact that the public sector scheme will have to pay more will have been factored into the spending round.

The Chairperson: So, at this stage, you do not know what the impact will be.

Mr G McCann: I have seen figures for the total amount, but I could not break it down into figures for Northern Ireland. I can certainly look for figures for you if that would be helpful.

The Chairperson: That would be helpful. It would give us a sense of scale. As I said earlier, we are now into another argument about ending the progressive payments that some people get, so it could be argued that this might be a double whammy. I do not know whether that will be the impact or outworking of that, but you can see the argument coming down the track.

Mr G McCann: If employers in the private sector so wish, the extra national insurance cost that they will have to bear can be passed on to scheme members, either in the form of the amount of benefit being cut or by asking them to pay more into the scheme. The whole point of that is to ensure that employers do not just decide that they will no longer run the scheme because the costs are too high.

The Chairperson: So it will be optional for the employer, but, if the employer tells the employee that they have to carry the cost, that will not be optional for the employee?

Mr G McCann: There is a power for him to change the scheme rules, or for the scheme rules to be changed by the trustees. They can allow that to be taken into consideration.

The Chairperson: Thank you for that.

Mr Douglas: I have a couple of questions. You mentioned deferring the pension. What does that effectively mean?

Ms McCleary: I will let Gerry explain that. It is another technical one.

Mr G McCann: Say, for example, that I have reached state pension age but do not want to take my pension. I am in work and earning quite a bit of money, so I do not want to have to pay more tax —

Mr Douglas: Is that what this is for?

Mr G McCann: That is not the only reason. I am just using that as an example of why people may opt to defer. It could be that they do not want the money at a certain time, so deferring is a way to save that money and earn extra money. Then, when they reach the age at which they finally want to take their pension, they get the ordinary amount and the extra money that they have not taken.

Mr Douglas: That is fine, Gerry.

You talked about the bereavement support payment. There is also a reference to "contribution conditions". What does that mean?

Mr G McCann: It means that, in any one year, you must have paid NICs to a rate of 25 times the lower earnings limit. That sounds very technical, but it is a certain amount that is set each year to be the lower earnings limit. If you have worked and paid for 25 contributions at that rate, you would be able to get into this system.

Mr Douglas: Thank you.

Mr Brady: That means that you can work on for another couple of years, Sammy.

Mr Douglas: I have a wee bit to go yet, Mickey.

The Chairperson: No other members are indicating that they have a question. So, Anne, if you and your team are happy enough, we will leave it there. You have given your presentation, and members have had the opportunity to ask questions. I have no doubt that some will reflect and come up with further questions, but this will be an ongoing issue anyway. Again, thank you very much for being here today and helping the Committee in its deliberations.