

YOUR REF

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The Leading Public Service Union

Brian Campfield General Secretary

Mr K Pelan
NI Assembly
DSD Committee Clerk
Room 284
Parliament Buildings
Stormont
BELFAST 4

26 November 2014

Dear Kevin

PENSIONS BILL – BRIEFING TO COMMITTEE FOR SOCIAL DEVELOPMENT

Thank you for your letter of 25 November, in respect of the above. I can confirm I will be attending and will be accompanied by Mr John O'Farrell of NIC-ICTU.

I am setting out below some supplementary points to the submission (attached) that was made in response to the DWP Whitepaper:- The Single-tier Pension: A simple foundation for saving of January 2013. Appended to that response was the NIPSA submission of June 2012 to the DWP Green Paper:- A State Pension for the 21st Century. Whilst there is some vintage now to those submissions they remain apposite to the content of the draft Bill.

Many of the issues in the Bill, in particular increasing the age for applying the State Pension, cover ground dealt with during the passage of the Public Sector Pensions Bill earlier this year.

Some of the key issues in the Bill that need addressing include:-

- Job displacement in the local economy.
- Impact on financial and retirement planning for those closest to retirement.
- Benefits of a flexible decade of retirement i.e an opportunity to retire before the SPA without detriment and better enhancements for deferring claiming of state pension.
- Significant disadvantages of closing down contracting out for both Public Sector and Private Sector DB Schemes, including scheme sustainability and level of future occupational pensions income.
- Unfair treatment of pre 2016 retirees and post 2016 retirees albeit many post 2016 will not get the full flat rate pension.
- The draconian change in years of NI contributions from 30 to 35. This should move incrementally on a year by year basis tied to the amended SPA.

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- Need for an underpin guarantee to increase the pension by the higher figure of earnings growth or RPI.
- Uprating to apply regardless of which country a retiree lives in.
- The pro-rated payment will need to meet an acceptable level above the pensioner poverty threshold.
- No provision for employers to unilaterally amend provisions of DB schemes to compensate for ending of contracting out.
- Remove provision to take pensions as pure cash pots.
- Full disclosure of all transaction costs.

Some other issues also arise including education/information. Pensions are complex and the proposed changes add to the complexity. There will be a need for a full but easy to understand education/awareness programme. To date what is available under NI Direct or the DWP web site falls very far short of what is needed. Furthermore rather than having to request information and entitlement details these should be provided to everyone affected by the changes.

NIPSA would also wish to see an additional clause added to the Bill. Currently the DFP committee is looking at legislative consent (to which on this occasion the trade unions agree) to prohibit transfers out of unfunded Public Sector Schemes, Defined Benefit schemes to DC Schemes and then accessing the cash pot rather than a pension (see point above). This is not the case for funded schemes, such as the LGPS/NILGOSC Scheme. Under Part 6 of the Bill we would wish to see a new clause that closes this loophole. I also attach a copy of the TUS letter to the DFP Committee Clerk on this matter.

Yours sincerely



**BUMPER GRAHAM
NIPSA AGS/NICTU PUBLIC SECTOR
PENSIONS GROUP CHAIRPERSON**

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Mr S McAteer
NI Assembly
DFP Comm Clerk
Room 144
Parliament Buildings
Stormont
BELFAST

12 November 2014

Dear Shane

**RE: LEGISLATIVE CONSENT MOTION (LCM) POWERS TO PREVENT
TRANSFERS OUT OF UNFUNDED PUBLIC SERVICE DEFINED BENEFIT
PENSION SCHEMES TO DEFINED CONTRIBUTION PENSION SCHEMES**

I refer to your correspondence of 6 November 2014 addressed to my colleague John O'Farrell. I am letting you have this response on behalf of NIC ICTU in my capacity as Chairperson of the NIC ICTU Public Service Pensions Group.

As referred to in the correspondence there have been exchanges with DFP and sponsoring Departments of Public Service Pension Schemes via the CCWG on Public Service Pensions.

The trade unions are supportive of the legislation to prevent the switch from Defined Benefit (DB) to Defined Contribution (DC) Scheme. On this occasion we would also agree to the use of the legislative consent mechanism.

I would however wish to highlight a number of points:-

- Our concern relates to the Scheme member and the potential vulnerability of their future if the loophole is not closed. A transfer from DB to DC and then accessing their pension pot via cash release(s) will damage their future security in retirement.
- The basis of the correspondence to the Committee of 21 October from the DFP Departmental Assembly Liaison Officer puts undue attention on scheme/public purse impact. Whilst this is a factor, as pointed out above the most important reason to support the legislative consent proposal is to protect the individual scheme member.

- The Trade Unions would wish to see the Westminster legislation go further and should it not do so we would wish the Assembly to pick up this point. We would wish the legislation to cover all public sector pension schemes including the funded schemes; in particular the LGPS/NILGOSC Scheme. We do so to ensure equitable protection of all public servants future pension provision. The DB to DC switch and then accessing cash pots is not dissimilar from the pension liberation scams which leave individuals in retirement with little or no ongoing occupational pensions; and
- The focus on the ability of the scheme to release cash assets vis-à-vis the unfunded schemes is also erroneous as it still represents an adverse impact on the totality of the scheme's funding position.

If you wish to discuss further please feel free to contact me.

Yours sincerely

BUMPER GRAHAM
NIC ICTU Chairperson
Public Service Pensions Group

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DWP WHITEPAPER: The Single-tier Pension: A Simple foundation for saving
(Jan 2013)

<u>Para No</u>	<u>Executive Summary</u>
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2.	NIPSA is not only opposed to the increase in State Pension Age (SPA) but in the linking of SPA to Normal Retirement Age (NRA) as prescribed for in the Public Service Pensions Bill.
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4.	The proposals of the draft Pensions Bill further adversely impact on the sustainability of occupational pension schemes and in particular Defined Benefit (DB) schemes, especially public sector pension schemes. The dual impact of the Pensions Bill and the Public Service Pensions Bill will raise genuine issues of sustainability for many of the schemes.
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The termination of contracting out will also spell the death knell for many of the remaining private sector DB schemes. This will result in increased numbers of workers leaving occupational pension schemes or at best a movement to Defined Contribution/Money Purchase schemes which historically have failed to deliver decent pensions and/or resulted in either rip-off schemes or provide /lavish returns for investment managers/annuity providers and very poor value for the employee.

5.	The Turner Report made very strong recommendations as to the proportionate income percentage needed for pension value vis-à-vis pay levels. The Pensions Bill totally fails to move forward in line with the Turner recommendations on this aspect (see para 32 of Appendix 1 the NIPSA response to the Green Paper).
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6. The support to people saving for retirement is highly swayed in favour of the most wealthy in society: 60 per cent of the gross tax relief – more than £22 billion a year (going) to higher rate tax payers.
7. Whilst auto-enrolment is to be welcomed the current arrangements and associated NEST provisions are very limited.
11. NIPSA was one of the organisations that submitted comments on the Green Paper (see Appendix 1). NIPSA considers that the Pensions Bill and other related initiatives such as; Public Service Pensions Bill, Welfare Reform and other aspects of the Government's Austerity Programme do nothing to improve the position of current pensioners and those who will retire (albeit delayed retirement due to increases in SPA and NRA) in forthcoming years and decades.
19. The proposals can only but undermine DB schemes (see 4 above). It is wholly unacceptable for the Government to promote the position that employers can offset additional NI contributions by **"reducing future pension benefits or by increasing employee contribution costs"**.
29. The real position of the Government is made somewhat transparent by confirming that the aim of the proposals are to reduce public expenditure by bringing projected GDP expenditure down from 8.5% to 8.1% by 2060.
31. There are clear concerns as to the future of the current triple-lock approach to uprating.

Para No Section 1 – The Context for Reform

3. This ignores the implications of the on-going Welfare Reforms which will result in further embedding pensioner poverty.

4. NIPSA fully accepts that the current system is overly complex and off-putting resulting in low take-up of pension credit and wholly inadequate. NIPSA wishes to see a fair, simple system that eradicates pensioner poverty, these proposals fail on all counts.
5. See comments in respect of paras 5 and 31 Executive Summary. The proposed introductory flat rate pension of £144 is 13% below the current pensioner poverty rate of £165. The 18% value of mean full-time earnings is indecent and will ensure that the UK remains at the bottom of the EU and the OECD league tables for state pension values. No comfort can be taken to the references to bus passes, TV licences etc, especially as caveated by "under current plans, the Government will continue."
6. See comments on para 6 of Executive Summary. Tax relief for the top 1% of those earning more than £150,000 is more than £8bn and for all higher rate taxpayers £20bn plus. These reliefs should be ended and directed to providing additional resources to eradicate pensioner poverty. Real action is needed to restore confidence in occupational pensions not least in DC Schemes for which UK assets fell by 1/3 between September 07 and February 09.
8. It is wholly erroneous to state "that many current pensioners have access to relatively generous DB schemes." For Public Service DB Schemes over half of pensioners receive less than £5,600 pa and in the LGPS women's pension is circa £2,800. When you consider the state underpin very many of these pensioners are by and large substituting their occupational pension for pension credit entitlement.
9. See 5 above re the position of the UK in respect of other developed countries relative pension position.
10. The race away from DB schemes by private sector employers can only be exacerbated by the end of contracting-out. Between 2004 and 2007

there was a 25% fall in private sector workers in DB Schemes. Since 1967 when there were 8 million pension scheme members in the private sector we have witnessed a race to the bottom and these proposals will enhance the pace of decline.

14. NIPSA would question how the 1/3 figure has been arrived at and would suggest it will be higher and added to post 2017 when contracting-out goes with the burden mainly passed to employees (see comments para 19 Executive Summary).
15. See comments on para 7 of Executive Summary.
16. The Government has totally failed to reinvigorate workplace pensions, other than for the most wealthy. The public knows only too well what "risk-sharing" means – massive unchecked bonuses for investment bankers and their fellow travellers in the pensions industry whilst pension pots fall massively in value and the public purse accepts the total cost of the casino risk takers.
22. As the single flat rate proposals apply for those who qualify post 2017 the current inadequate flawed system will pertain for decades to come in a dual system and hence more administratively complex system. Government is therefore continuing to embed pensioner poverty and doing next to nothing to get to the 1/3 pensioners who whilst entitled are not currently claiming pension credit to avail of it.
27. The equalisation provisions are of course perverse in that women's age of SPA entitlement is extended and that for years to come the system continues to perpetuate inequality.

Section 2 – The Single-Tier Pension

- 33. The move to a contribution record based on 35 years represents a 16.66% increase in requirement, from the current 30 years. It would be more appropriate to move in line with the SPA increase ie from 30 – 31 in 2020 and 32 from 2026.
- 40. The level of means-tested pension credit support still leaves millions of UK pensioners in pension poverty.
- 41. The five year period will still result in a cliff edge impact.

Section 3 Managing the end of contracting out

- 59. NIPSA strongly objects to the potential erosion of schemes and taking certain powers away from Trustees to give to employers.
- 61. There can be no guarantee that the impact will not undermine DB schemes. This linked to para 59 is liable to result in higher levels of employee opt-out and hence damage scheme sustainability.
- 69-71. The proposed changes on top of the attacks by the government on public service pension schemes calls into question not only the purported "25 year guarantee" but also the government's position in the negotiations, as clearly removing the contracting-out provision was a well advanced policy consideration.

The government needs to be absolute at an early stage as to what it means by "Public Service employers will therefore not be able to pass the cost of increased NI contributions onto their employees et seq." Does this mean **all costs** including the additional employee NI contributions?

Section 4 The Transition to the single-tier pension

103. The costs control and the aim by 2060 to reduce GDP outlay (see para 29 Executive Summary) will therefore retain the relative levels of pensioner poverty. In addition by 2060 the impact of the employer flight away from occupational pensions of the past 20 years and the likely high levels of employee opt-out will place more pensioners into being dependent upon the state pension as their sole basis for income.
109. DWP should establish immediately a robust online pension estimate calculator covering the current scheme, transitional arrangements and steady state flat rate pension scenarios.

Section 5 – Sustainability and assumptions

110. This para again confirms that what underpins the government's approach is cost cutting albeit in the medium to longer term.
113. Given that this government has proven to be wholly incapable of short-term economic forecasting no confidence can be taken from these longer term forecasts.
117. Historical approaches have resulted in the devaluation of the state pension vis-à-vis earnings growth, this is confirmed at para 119.
121. The triple lock assumption is of little value, it needs to be guaranteed via being established on the face of the bill.
122. This would go a little way to improving the value of state pensions and is a nod albeit a limited one in the direction of the Turner Report.

Section 6 – Longer-Term sustainability: State Pension Age

127. Little or no work has been carried out as to the impact on youth/graduate unemployment, women returners to the labour market as a consequence of increasing the SPA and the NRA link to it for public sector schemes. It is also likely to fuel the casualization, part-time and under utilisation of workers. Likewise the impact of the "grey pound" has not been assessed.
130. Again there has been little assessment of the labour market implications as a consequence of the removal of the default age.
134. This needs to be properly assessed taking account of the comments above on paras 127 and 130.
- 141-155. NIPSA as recorded in this response and in numerous other consultations strongly opposes increases in SPA and the NRA linkage. Government should provide for a more flexible approach to retirement providing people with choice, many will opt to remain in work or take flexible retirement whilst others would opt to go at existing NRAs. Such provisions should therefore retain 65 or at worst 66 as SPA and for existing NRA there should be no actuarial reductions enforced.
161. As with para 127 above there is a need to fully assess the labour market implications.

DWP GREEN PAPER
A STATE PENSION FOR THE
21ST CENTURY

NIPSA RESPONSE

June 2011

Introduction

1. NIPSA is concerned with the fragmented approach being taken by the Government to the issue of pensions, both in respect of the State Pension and for occupational pensions especially with regard to public service pensions.
2. Since the election of the Government in 2010 there have been numerous reviews and changes to pension provision, these include:-
 - Indexation move from RPI to CPI
 - Hutton Public Service Pensions Commission
 - Increased subscriptions for public service pension scheme employees
 - Early access to Pension Savings
 - Taxation changes
 - Changes to State Pension Age (SPA)
 - Review of the Discount rate
 - McFall Commission 'Workplace Retirement Income Commission

and now the Green Paper – "A State Pension for the 21st Century".

3. In addition to the numerous interventions by the UK Government there has also been the European Green Paper – 'Towards Adequate, Sustainable and Safe European Pension Systems.'
4. It is clear that the UK Government's approach to the wider pension debate be that as an employer or as the provider of Social Security Benefits is to further penalise ordinary workers be they in employment or in receipt of pensions. The Government is fixated with it's deficit reduction plans and via pension reform seeks to again place the burden on working people (including the retired).
5. The Government totally fails to address the fact that in the UK 2.5m pensioners live below the official poverty line, defined as 60% median population income (based on 2007/08 figures). None of this Government's actions or its predecessor have addressed pensioner poverty in fact in 2009/10 pension poverty rose by 300,000 or by 822 people per day.

6. Approximately 61% of pensioner couples have an income of less than £15,000, whilst 45% of all single pensioners have an annual income of less than £10,000.
7. From the Minister's Foreward it is clear that the Government's objective is to place greater responsibilities on individuals providing for their retirement income. The consultation document is littered with references to the outworkings of any change having to be 'cost neutral'.
8. At no point is there a recognition that the UK is bottom of the European League in respect of the value of the State Pension (basic and second) as a proportion of average working pay. The UK percentage is 30.6% compared to for example:- Ireland 32.5%, France 51.2% or the Netherlands at 81.9%. The UK is some 29.4% behind the EU average of 60%.
9. NIPSA believes that there is an obligation on the State to ensure that no-one lives in poverty and that the State must provide a pension that meets this requirement. This pension should be supplemented via decent occupational pensions that should be of a defined benefit (DB) nature with mandatory employer/employee contributions based around a fair ratio of contributions.
10. Whilst the above comments and in particular those that follow relate to the current debate on pension provision NIPSA does not believe that the Government's approach will lift pensioners out of poverty nor meet the Turner Commission recommendations on income replacement.

Executive Summary

11. With regard to the four guiding principles NIPSA has a number of concerns:-
 - Personal responsibility – the failure to include the employers role is unacceptable
 - Fairness – the right to a basic pension income that meets the poverty threshold should not be based on contributions. There is clear scope for payment over and above the poverty threshold that is based upon NI contributions.
 - Affordability and sustainability – NIPSA does not accept that the approach for provision of state pensions should be cost neutral. As

referred to at para 8 the UK is at the bottom of the European league with regards to the value of pensions as a proportion of average working pay. To lift pensioners out of poverty and to meet the Turner report on adequacy there is a clear requirement to increase the proportion of public expenditure on state pensions.

12. It is foolish to bank on auto-enrolment, it is likely that many people will opt-out and that the administration costs in pension schemes will rise considerably.
13. NIPSA would not dispute the difficulties created via means testing and that for many pensioners they feel stigmatized in applying for pension credit. The process also does little to address the inherent inequalities in pension provision, both state and occupational pensions. The options for a revised system as proposed in the Green Paper do little to provide for decency in retirement and seek to put more of the burden on individuals as opposed to the state and employers.
14. The Government has failed to address, in fact it has aided and abetted the retreat from decent and fair occupational pensions by employers. At the same time it has done very little to address the outlandish actions at Boardroom level in creaming off unjustifiable pension funds for the elite.
15. Regardless of the outcome of the current examination of pensions, stability must be brought back so that people, especially those within 10/15 years of the SPA know what their entitlements will be, including those in occupational schemes in order that they can make a considered plan for their retirement.

Chapter 1 – The Current Pension System

16. It is clear to the bulk of commentators that the existing system is failing working people and that the value of the state pension including pension credit and the state second pension does not provide an adequate or decent standard of living for pensioners.
17. Whilst the demographic trends have improved rapidly over recent decades they are beginning to slow, in addition no work has been carried out to assess the impact on life expectancy by the increase in SPA. This is especially so for manual employees and for those living in areas such as Northern Ireland,

Glasgow and the North East of England who have much higher mortality rates.

18. NIPSA is concerned that the recent NAPF research for YouGov identified that 34% of respondents indicated that they are relying on the state pension only. In addition 17% are dependent upon property investment at a time when a very high percentage of home owners are in negative equity.
19. The nature of British Society is also borne out by the NAPF survey with 8% banking on a lottery win and 9% on inheritance windfall to fund their retirement. As per para 9 there is a need to ensure that the state pension is supplemented by decent occupational pensions.
20. The current structure of the state pension is not only complex it also discourages participation in occupational pension schemes, especially for the low paid the bulk of whom are women and hence the endemic inequalities in UK pension provision. The variable withdrawal rates on income/savings of up to £184pa are a clear disincentive for the lower paid to participate in occupational pension schemes.
21. The current and proposed safety nets fall well below what is necessary to take pensioners out of poverty.
22. Whilst NIPSA does not accept the cost neutral policy of the Green Paper it is clear from para 53 that there is currently circa £2.9 billion that should be paid out to pensioners and that this provides some albeit limited finances to improve upon the inadequate pension rates currently paid.
23. It is clear to all that the answer to question 1 is a definitive 'no'. The current system is failing millions of pensioners and increasing the level of pensioner poverty.

Chapter 2 – Options for State Pension Reform

24. The Government seeks to cover itself with credit in respect of the comments at para 62 with regard to the "triple guarantee" whilst conveniently ignoring the impact of the indexation impact in moving from RPI to CPI.

25. At paras 75-81 the case against option 1 is compelling. Option 1 does little to provide for real improvements and takes too long to work through, thus enshrining inequalities for decades to come.
26. The dependency on the second state pension only encourages further retreat by private sector employers from provision of occupational pensions.
27. There is also a falsification of the maximum qualifying years "49/50 from 16 to 65/66" only a very small minority of the working population meet this, in fact for many who progress through the education system it will be age 24/25 before they contemplate entering the labour market. For many other young people they are deprived from building up pension entitlement due to mass youth unemployment.
28. In respect of Option 2, NIPSA does not accept that a value of £140 pa is adequate and totally rejects the cost neutral stance.
29. NIPSA is very concerned that with the changes to public service pensions, including considerable increased employee contributions, and the already announced stealth tax on pension funds via a reduction in the contracted out rebate from 5.3% to 4.8% this will exacerbate the withdrawal rates from occupational pension schemes.
30. To go further under option 2 with the abolition of the contracting out rebate will result in yet more employers closing DB schemes and employees leaving on mass. The Government should be seeking to support workplace pension schemes rather than adding extra costs unto them.
31. The Hutton Commission addressed this issue and whilst NIPSA mainly opposed the Commission's recommendations it by and large did get it right in it's comments on the contracting-out rebate.
32. NIPSA believes that there should be a single-tier pension set at a level that meets peoples needs and that via occupational pensions the combination should provide for pensioner income that is at least at the levels recommended by Turner:-

Benchmark replacement rates set out by Lord Turner's Pensions Commission

Gross income	Benchmark gross replacement rate (%)
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Less than £9,500	80
£9,500 - £17,499	70
£17,500 - £24,999	67
£25,000 - £49,999	60
£50,000 and above	50

Source: Pensions Commission

33. There is an acknowledged need for the state to provide an equivalent occupational scheme for the self employed and for employers with a small workforce. This should be a funded scheme similar to the LGPS with arrangements to ensure that employers, self-employed and employees are represented on the equivalent of a Board of Trustees.

Chapter 3 – Means-Tested Safety Net For Pensioners

34. If the Government was to adopt the approach as set out by NIPSA in this response there should be no need for any safety net.
35. It is clear that as the Green Paper suggests itself e.g para 53 that the current means tested system fails.
36. The floor for pension provision should be a guarantee to all pensioners of a minimal entitlement that is at a level above the poverty line (£178 pw as per the National Pensioners Convention for 2011). The pension should increase each year via RPI. The state pension should be topped up via an occupational pension with no offsetting. The tax system should deal with income rather than offsetting via Social Security, otherwise the system is not only complex but adds to opt-outs.

Chapter 4 – State Pension Age

37. NIPSA commented on the Consultation Paper (9/8/10) on moving the SPA to age 66 and would refer to that submission.
38. It is clear from the debate in the House of Commons of 20 June that many MPs are concerned as to the impact on moving the SPA to age 66 especially

with such little notice. As per para 15 above there needs to be proper notice of such changes and transitional arrangements to ensure that people can properly plan for their retirement.

- 39. Changing the SPA also has wider labour market implications, especially in respect of reducing opportunities for education leavers and returnees to the labour market to find employment.
- 40. Increasing the SPA is also likely to adversely impact on those in manual employment, see para 17 above.
- 41. NIPSA broadly would endorse para 146 as this would help address the points raised above at paras 17 and 40.

Conclusions

- 42. NIPSA does not believe that the Green Paper will make any significant improvements to pension provision nor to adequate levels of income in retirement.
- 43. Some of the direction of travel eg reduction/abolition of the Contracting-Out Rebate will only further damage availability and membership of DB occupational pension schemes.
- 44. It is wholly unrealistic for the Government to adopt a cost neutral approach if the UK is to move from being bottom of the European league in pension provision and more importantly to see positive movement in the eradication of pensioner poverty.
- 45. NIPSA reiterates its call for the state to provide a flat rate state pension set at a level above the current poverty line of £178pw to be supplemented via occupational pensions (see paras 32/33 above).
- 46. Occupational Pensions should be DB and as such should provide for portability that does not reduce the value/acquired rights of employees on transfer from one employer scheme to another.
- 47. NIPSA calls on the Government to reverse its punitive decision to switch indexation from RPI to CPI, both for state pension provision and for all public sector occupational schemes.