



## **Department of Finance**

# **Report on the 2016 Review of the Effects of the Public Service Pensions Act (Northern Ireland) 2014**

*Laid in the Northern Ireland Assembly in accordance with section 10(9) of the Public  
Service Pensions Act (Northern Ireland) 2014 on 20 October 2016*

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## 1. EXECUTIVE SUMMARY

1.1 On 27 April 2016 the Department of Finance commenced a review of how the provisions of the Public Service Pensions Act (Northern Ireland) 2014 (the Act) affect public servants.

1.2 The review is a requirement of section 10 of the Act itself:

*'The Department of Finance (and Personnel) must conduct a review at intervals of not less than every two years following commencement of section 10 as to how the provisions of this Act affect the persons set out in section 1 (2) and shall lay a report of the review before the Assembly on or before six months following the commencement of the review'<sup>1</sup>.*

1.3 Section 10 of the Act was commenced on 28 April 2014<sup>2</sup>. This report sets out the approach taken by the Department of Finance in conducting the first review, together with the review findings and recommendations. In accordance with section 10(9) the Department laid this report of its review before the Assembly on 20 October 2016.

### **Background**

1.4 The Public Service Pensions Act (Northern Ireland) 2014 received Royal Assent on 11 March 2014. It set out provisions for reformed public service pension arrangements which Northern Ireland Departments, with responsibility for public service employments, were required to reflect in regulations for new schemes with effect from 1 April 2015.

1.5 These reforms replaced the Final Salary scheme design with a Career Average Revalued Earnings (CARE) scheme model, and introduced a default link between normal scheme pension age and State Pension Age (SPA) for the main public sector employments. The Act made separate provision on pension age for police officers and firefighters. It specifies a normal pension age of 60 for the police scheme. It specifies that normal pension age for firefighters should be set in scheme regulations but at no lower than 55 and no higher than 60. The Act also makes transitional provision to mitigate the effects of the changes to scheme design and normal pension age for those closest to pension age at the time of their introduction (see part 8).

1.6 These changes only apply to the pension benefits that members of public service pension schemes will build up from 1 April 2015. Pension rights

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<sup>1</sup> Section 10 (9) of the Public Service Pensions Act (Northern Ireland) [2014 C.2].  
<http://www.legislation.gov.uk/nia/2014/2/contents>

<sup>2</sup> <http://www.legislation.gov.uk/nisr/2014/123/contents/made>

attributable to public service before that date are unaffected. Pre 1 April 2015 accruals remain linked to final salary on retirement or resignation and current scheme members may still opt to retire and draw pre-April 2015 final salary pension entitlements at their previous normal scheme pension age if they choose to do so.

### **Approach**

- 1.7 The Department of Finance established an interdepartmental review body to take forward the first review. This group was constituted as a delegated subgroup of the Collective Consultation Working Group (CCWG). The CCWG is the recognised forum for engagement on public service pension policy change. It comprises representatives from Management Side and Trades Unions Side for each of the main public service schemes. Terms of Reference for the CCWG review sub-group are at *Appendix 1* to this report.
- 1.8 In its approach to the first review, the review group has acknowledged the policy intent of the Act is that this review is a recurring requirement for the foreseeable future. The group identified and requested data relevant to the first review from public service authorities and pension schemes with the aim of capturing an accurate representation of the state of schemes immediately prior to the introduction of the reforms, and which would enable evidence based analysis of effects of the changes over the course of recurring future reviews. Data request templates were issued to scheme representatives on the main CCWG on 27 April 2016 and 22 June 2016 for this purpose. Data returns have been considered, and follow up actions taken, by the group at each of its meetings throughout the review period. It is the view of the group that consistency in the way relevant data is recorded and made available will be of key importance for this review process.

### **Key findings and recommendations**

- 1.9 The review group was also mindful that, whilst the technical legislative requirement is for the effects of the provisions of the entire Act to be reviewed, the main feature of reformed schemes which has, and will likely continue to focus stakeholder attention over the course of future reviews, is the alignment of scheme pension age with SPA.<sup>3</sup>
- 1.10 As the first review occurs less than two years from the commencement of reformed schemes on 1 April 2015 sufficient time has not elapsed to allow a body of data to accumulate on which evidence based analyses and conclusions on the effects of the pension age change could be based. The

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<sup>3</sup> This was apparent during the further consideration debate in the Assembly where during the debate on two marshalled amendments for a potential review (amendment 10 and 11) the effects of changes to pension age was the main provision debated, to the almost total exclusion of the other provisions of the bill:

<http://www.niassembly.gov.uk/assembly-business/official-report/reports-13-14/27-january-2014/>

review group also noted the fact that transitional protections provided in the Act mean that the majority of those public service workers who were within 10 years of their normal pension age as at 1 April 2012 will see no change. The forthcoming planned increase in the state pension age to 66 will also not begin to be phased in until 2018<sup>4</sup>, beyond which time there will be scheme members who will still be benefiting from the transitional protections. Therefore, the effects of the statutory link between scheme pension age and SPA for public service workers are likely to become observable over a sustained period and will not be immediately measurable in the short term.

- 1.11 On this basis the review group undertook to establish a baseline position for the schemes immediately prior to the introduction of the reforms on 1 April 2015. The review group also identified categories of data relevant to the purpose of measuring trends and effects of the Act over the course of subsequent reviews to be collated going forward.
- 1.12 In the course of its work the review group noted variances in the quality of data authorities with responsibility for schemes were able to provide for the measurement of age related factors influencing retirements or resignations from the public service. Given these concerns the report recommends that public service schemes and employers should take steps to address data deficiencies and ensure the data types, (that have been identified in the review as relevant to tracking effects of pension age change on trends for age related departures from public service employment), are consistently captured and made available for the purpose of future reviews.
- 1.13 The review group noted potential benefits introduced by new provisions carried in the Act for: improved scheme administration, governance and scheme oversight. The new common approach to the annual provision of benefit information to public service workers, for example, typifies progressive effects of the Act in areas which should enhance workers' capacity for control and decision making in their financial planning for retirement. In this regard the Act also provides an expanded regulatory role for the Pensions Regulator. A new regulatory code is introduced by the Regulator as an effect of the reforms carried in the Act. It sets out revised responsibilities for scheme managers and authorities to comply with various legal requirements relating to the governance, management and administration of their public service pension schemes (see part 7). Other key issues identified by the review group in this first report included the frequency of future reviews. The review group identified merit in a reconsideration of the frequency of each review, with a possible revision to a longer interval than the current biennial requirement.

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<sup>4</sup> Section 18 of the Act provides transitional protection which has been deployed by all schemes in regulations (with the exception of LGPS(NI)) to the effect individuals who were within ten years of normal pension age immediately before 1 April 2012 will be fully protected and see no change to their pension age.

## **Recommendations**

- 1.14 The report recommends further consideration is given to revising the review cycle to a longer interval of at least 4 years, which would align with most schemes' valuation timetables. A longer timetable would also be more in line with timescales normally adopted for other similarly framed long term review projects. Preliminary discussions on this recommendation should be taken forward at the main CCWG.
  
- 1.15 The report recommends that public service schemes and employers now take steps to ensure the data types, identified as relevant to the review, are consistently collated and made available for the purpose of the future reviews that will be undertaken. Arrangements should be taken forward and monitored by the Department of Finance at the main CCWG where each scheme has representation.

## 2. INTRODUCTION

2.1 The Public Service Pensions Act (Northern Ireland) 2014 (the Act) gave legislative effect to the public service pension reform policy agreed by the NI Executive on 8th March 2012 to:

- *commit to the policy for a new career average revalued earnings (CARE) scheme model with pension age linked to state pension age to be adopted for general use in the public service schemes; and*
- *adopt this approach consistently for each of the different public sector pension schemes in line with their equivalent scheme in Great Britain and not to adopt different approaches for Northern Ireland.*

2.2 The main provisions in the Act are based on recommendations made by the Independent Public Service Pension Commission chaired by Lord Hutton of Furness. Lord Hutton's Commission reported in October 2010 that the (then) current public service pension structure would require major reform to adequately respond to a rising pension cost to employers and taxpayers associated with increased longevity in recent decades. In its final report in March 2011 the Hutton Commission recommended the replacement of final salary schemes with CARE schemes with normal pension age linked to SPA. The view of the Commission was that these reforms would make schemes more sustainable and fairer across their membership and for the taxpayer<sup>5</sup>.

### Longevity

2.3 The Hutton Commission concluded that many of the pre 1 April 2015 public service pension design features, including accrual rates, normal pension ages and the link to final salary, required revision. The Interim report of the Commission observed that *"In 1841, someone who reached the age of 60 might expect to live a further 14 years on average, but most people did not live to this age. By the early 1970s, when the schemes were substantially reformed, the life expectancy of a 60 year old had increased to about 18 years"*. By 2010 this figure had risen to around 28 years.<sup>6</sup>

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<sup>5</sup> <https://www.gov.uk/government/publications/independent-public-service-pensions-commission-final-report-by-lord-hutton>

<sup>6</sup> Interim report of the Independent Public Service Pensions Commission, published 7 October 2010. [http://webarchive.nationalarchives.gov.uk/20130129110402/http://www.hm-treasury.gov.uk/d/hutton\\_pensionsinterim\\_071010.pdf](http://webarchive.nationalarchives.gov.uk/20130129110402/http://www.hm-treasury.gov.uk/d/hutton_pensionsinterim_071010.pdf)



2.4 In Northern Ireland male life expectancy at age 65 increased by 1.4 years from 2004-06 to reach 83.1 in 2012-14. Female life expectancy rose by 0.9 years to reach 85.5 in 2012-14<sup>7</sup>. It is not certain that these trends for longevity will continue indefinitely. The Office for Budget Responsibility recently noted that the latest Office for National Statistics' principal projection had been revised slightly downwards. It projects United Kingdom life expectancy at birth in 2039 to be 0.2 years lower for men and 0.6 years lower for women<sup>8</sup>. However the effect of general increases in longevity to date has already had significant impacts on future state pension age planning<sup>9</sup>.

### **Future State Pension Age**

2.5 The current timetable for changes to state pension age specifies it will equalise at 65 for men and women by November 2018. A general increase to 66 will then be phased-in between December 2018 and October 2020. It will then increase to 67 between 2026 and 2028 and under current provisions would then rise to 68 by 2046<sup>10</sup>. The Westminster Government gave a commitment in the Pensions Act 2014 to periodically review SPA. The first SPA review is currently underway. It will consider current evidence, including changes in life expectancy, before reporting recommendations to the Government in the first part of 2017<sup>11</sup>. This State Pension Age review will not impact the existing timetable for scheduled change up to April 2028.

2.6 For the majority of public servants who do not retain transitional protections under the Act the significant implication of the default linkage to SPA introduced by the Act with effect from 1 April 2015 means that future decisions

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<sup>7</sup> Office for National Statistics, National Life Tables, United Kingdom: 2012–2014

<sup>8</sup>[http://budgetresponsibility.org.uk/docs/dlm\\_uploads/FSAP\\_July\\_2016\\_population\\_projections\\_and\\_pensions\\_spending.pdf](http://budgetresponsibility.org.uk/docs/dlm_uploads/FSAP_July_2016_population_projections_and_pensions_spending.pdf)

<sup>9</sup> In its Second Report published in November 2005 the 'Turner' Pension Commission made recommendations for State Pension Age to be increased progressively beyond 65 - A New Pension Settlement for the Twenty-First Century - The Second Report of the Pensions Commission - <http://www.webarchive.org.uk/wayback/archive/20070802120000/http://www.pensionscommission.org.uk/publications/2005/annrep/annrep-index.html>. This recommendation was implemented in Northern Ireland by the Pensions Act (Northern Ireland) 2008.

<sup>10</sup> The Timetable for equalisation of State Pension Age for men and women was originally set out in the Pensions (Northern Ireland) Order 1995. The Pensions Act (Northern Ireland) 2008 set a timetable for incremental increases for both men and women to 68. These timescales were accelerated under the Pensions Act (Northern Ireland) 2012 and the Pensions Act (Northern Ireland) 2015.

<sup>11</sup> John Cridland CBE has been appointed to lead the State Pension Age review. The terms of reference for the review can be accessed at: <https://www.gov.uk/government/publications/state-pension-age-review-terms-of-reference>

taken about SPA are now the main determining factor for when they may retire from public service with an unreduced pension. In future individuals will be required to work longer before accessing an unreduced pension in the new schemes. The long term aim of the periodic review of effects of the Act will be to collate and present data relevant to an examination of the capacity of individuals in the various categories of public service employment to work longer to a pension age linked to SPA in these schemes.

- 2.7 The Act also gives effect to other recommendations made by the Hutton Commission for reform in public service pensions. These include new processes aimed at enhancing scheme governance and administration processes across all schemes, and a framework for scheme valuations and cost control.
- 2.8 The review group agreed a list of headings under which provisions of the Act should be presented in the report. These relate to the 'cross-headings' contained in the Act itself. The review group agreed these provided an appropriate format to categorise a report of the first review. The detail of each provision and the findings of the review group on known effects for public servants schemes are given in the following sections.

### 3. ESTABLISHMENT OF NEW SCHEMES

- 3.1 The main enabling power for new schemes for public servants created under the Act is given at sections 1 to 3.
- 3.2 Section 1 of the Act defines the public service employments for which new schemes may be established. These are:
- Civil servants;
  - Holders of judicial office;
  - Local Government workers;
  - Teachers;
  - Health service workers;
  - Fire and rescue workers, and
  - Members of the police service.
- 3.3 Section 2 and Schedule 2 of the Act specify the Northern Ireland Ministerial Departments designated as responsible authorities to make scheme regulations for each category of public service worker<sup>12</sup>.
- 3.4 With the exception of the scheme for the Police Officers and the scheme for Firefighters each of the public service schemes in existence prior to the Act had been established and maintained under the Superannuation (Northern Ireland) Order 1972<sup>13</sup>.
- 3.5 With the exception of 'holders of judicial office', a devolved defined benefit pension arrangement existed for each of the public service employment groups listed at section 1 prior to 1 April 2015. The overwhelming majority of public servants who were members of the schemes in place at 31 March 2015 were accruing final salary benefits. Only the Civil Service scheme had already introduced a CARE arrangement and this only applied for new entrants to the service from 30 July 2007.

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<sup>12</sup> Northern Ireland Executive Departments were reduced from 12 to 9 and renamed wef from 8 May 2016 by the Departments Act (Northern Ireland) 2016. Some functions of the dissolved former Departments were also transferred to the renamed Departments under the Departments (Transfer of Functions) Order (Northern Ireland) 2016.

<sup>13</sup> Schemes for civil servants established under Article 3; see Article 9 for the Local Government workers; Article 11 for teachers, and article 12 for health service workers: <http://www.legislation.gov.uk/nisi/1972/1073/contents> Pre April 2015 pension arrangements for firefighters were made under the Fire Services (Northern Ireland) Order 1984 and subsequently consolidated under the Fire and Rescue Services (Northern Ireland) Order 2006. <http://www.legislation.gov.uk/nisi/2006/1254/contents>. Schemes for police officers were operated under the authority of the Police (Northern Ireland) Act 1998, <http://www.legislation.gov.uk/ukpga/1998/32/contents>

3.6 As at 31 March 2015 there were 175,633 active members of public service schemes which were final salary schemes. On 1 April 2015 those schemes were replaced by the new CARE schemes. On 1 April 2015 the new schemes comprised a total of 136,452 active members for the purposes of all future pensionable service accrued from that date. Service and pension rights accrued in pre 1 April 2015 schemes are protected and remain payable at the associated normal pension age for each scheme.

3.7 The Act introduced a newly devolved scheme for holders of judicial office for the first time. Pension provision for these offices was previously made in a non devolved scheme operated by the Ministry of Justice under the Judicial Retirement and Pensions Act 1993<sup>14</sup>.

**Table 3A: Active scheme membership as at 31 March 2015**

<b>Scheme</b>	<b>Pre – 1 April 2015 Schemes</b>
Health and Social Care Pension Scheme	61,462
Local Government Pension Scheme (NI)	52,876
NI Civil Service Pension Scheme	33,491 <b>(5,887 are members of the Nuvos CARE section)</b>
NI Teachers Pension Scheme	25,158
NI Police Pension Scheme	6,783
NI Fire and Rescue Service Pension Scheme	1,750
NI Judicial Pension Scheme	-
<b>Total:</b>	<b>181,520</b>

Source: scheme data collated from resource accounts published by schemes for year ending 31 March 2015.

**Table 3B: Active scheme membership in new CARE schemes as at 1 April 2015**

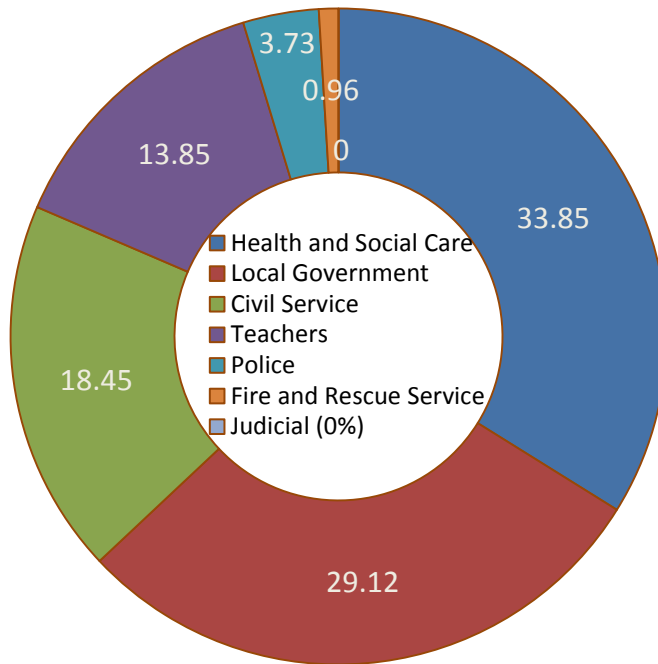
<b>Active membership as at 1 April 2015</b>	<b>Reformed schemes established under the Act</b>
Health and Social Care Pension Scheme	38,947
Local Government Pension Scheme (NI)	52,876
NI Civil Service Pension Scheme	20,248
NI Teachers Pension Scheme	19,627
NI Police Pension Scheme	3,755
NI Fire and Rescue Service Pension Scheme	966
NI Judicial Pension Scheme	33
<b>Total:</b>	<b>136,452</b>

Source: scheme data collated from NI public service representatives to the CCWG April – October 2016.

<sup>14</sup> <http://origin-www.legislation.gov.uk/ukpga/1993/8/contents>

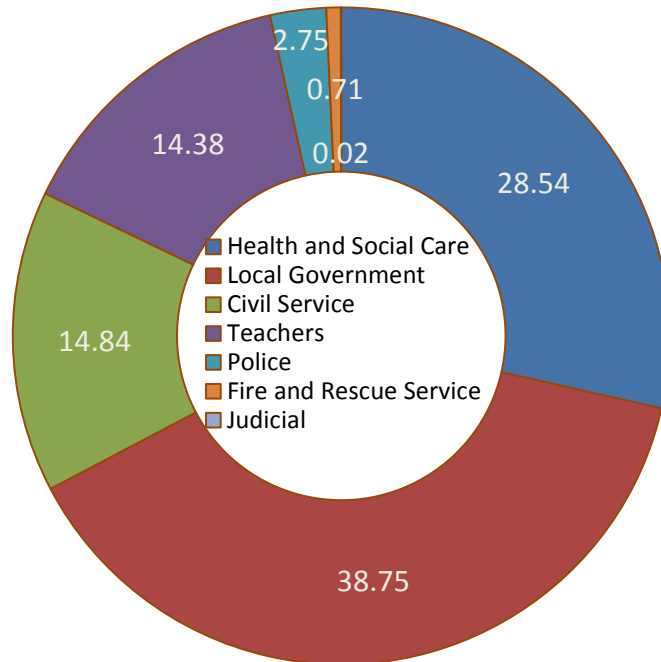
**Chart 3A: Active scheme membership at 31 March 2015: Percentile breakdown**

**Active membership by Scheme - 31 March 2015 (%)**



**Chart 3B: Active scheme membership at 1 April 2015: Percentile breakdown**

**Active membership by Scheme - 1 April 2015 (%)**



- 3.8 The majority of differences in membership figures evidenced in these tables are attributable to the effect of transitional protections which the Act permits schemes to provide in their scheme regulations. With the exception of the Local Government Pension Scheme each of the Northern Ireland public service schemes has introduced transitional provisions under section 18 of the Act so that members who were already within 10 years of the normal pension age for the scheme as at 1 April 2012 will see no change to their public service entitlement and retain their membership of the final salary scheme with its associated normal pension age until they choose to retire or leave service. Transitional protection was a recommendation of the Hutton Commission to avoid the ‘cliff edge’ effects of major changes to pension arrangements for those who were already closest to retirement. The Local Government Pension Scheme (NI) did not incorporate this form of protection. All members of the Local Government Scheme moved to the new scheme on 1 April 2016. However, the scheme regulations provide for an ‘underpin’ in the new scheme for members who were within 10 years of their normal pension age as at 1 April 2012. This underpin ensures that a member will draw ‘final salary’ benefits at retirement which are no less than they would have been had the final salary scheme continued<sup>15</sup>.
- 3.9 The Act also gave flexibility to responsible authorities to extend a tapered form of transitional protection to those on immediate margins of the 10 year protection period. As a consequence most members within up to four years of the 10 year limit are entitled to a proportionally extended period wherein they retain membership and accrue benefits under the terms of the old scheme. This does not apply to the Local Government Scheme.
- 3.10 At 1 April 2015 a total of 33,645 public service pension scheme members retained full transitional protections under the Act. Of these 28,524 were able to remain permanently in their existing ‘pre-reform’ scheme with its associated pension age. 5,121 members of the local government scheme retained full protection in the form of the ‘underpin’ provided in the rules of that scheme. 11,987 public service scheme members retained tapered transitional protection, whereby they move to the new schemes at a later date. Transitional protection provisions including scheme breakdowns are dealt with further at part 8.

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<sup>15</sup> See regulation 4 of the Local Government Pension Scheme (Amendment and Transitional Provisions) Regulations (Northern Ireland) 2014 <http://www.legislation.gov.uk/nisr/2014/189/contents/made>

## 4. GOVERNANCE

- 4.1 The Governance provisions of the Act introduced a requirement for the establishment of a pension board and scheme advisory board for each scheme. The purpose of the pension board is to assist the scheme manager in effective and efficient governance of the scheme. The function of the scheme advisory board is to consider the desirability of changes to the scheme and provide advice to the scheme manager accordingly. These governance bodies were a specific recommendation of the Hutton Commission which reported that public service arrangements lacked sufficient separation of administration and governance duties to adequately assure members of transparency and accountability in the scheme. The pension boards are also intended to enhance member representation in governance issues for each scheme. The Act requires that pension boards have equal numbers of employer and member representatives. Scheme regulations also contain provision to ensure there can be no conflict of interest for any member appointed. The pension boards have legal responsibilities under the Act to discharge their role in assisting scheme managers in relation to securing compliance with scheme regulations and any other legislation relating to the governance and administration of the scheme. The Act also places a statutory requirement with the pension boards to secure compliance with requirements imposed on the scheme by the Pensions Regulator's Code of Practice (see part 7).
- 4.2 Responsible authorities for each of the Northern Ireland public service schemes for the public service employments listed at section 1 of the Act have now been established and operate both a pension board and scheme advisory board to discharge the roles for each as specified in the governance provisions of the Act.
- 4.3 Frequency of meetings for each of those boards to date is detailed in Appendix 2. In the course of their activities to date none of the scheme boards have made any recommendations which have resulted in a change to a scheme.

## 5. DESIGN

5.1 The design provisions in the Act specify the types of public service scheme which may be established for public servants; the normal pension age in those schemes, and how CARE benefits of active members are revalued in each scheme year to take account of changes in the cost of living.

### Types of scheme

5.2 In line with the Executive agreement of 8 March 2012 each of the Northern Ireland departments, with regulation making responsibilities for public service pension schemes<sup>16</sup>, introduced a new CARE scheme with effect from 1 April 2015. With the exception of those members with transitional protection allowing them to remain in their original scheme all other members of the final salary schemes moved to the new CARE schemes for future service<sup>17</sup>.

5.3 In a CARE scheme each member builds up a fraction (the accrual rate) of their average annual earnings as pension for each year of membership of the scheme. The accrual rate, (and also the revaluation process), used for each Northern Ireland scheme is set out in scheme regulations. It is not specified in the Act but reflects the arrangement put in place during policy development and following engagement between Departments and employee representatives for each individual scheme. The accrual and revaluation rates that now apply for members of each of the Northern Ireland schemes are summarised in the table below:

**Table 5A: CARE accrual rates and revaluation rates from 1 April 2015**

<b>Scheme</b>	<b>Accrual rate</b>	<b>Revaluation rate</b>
Health and Social Care Pension Scheme	1.85%	CPI + 1.5%
Local Government Pension Scheme (NI)	2.04%	CPI + 0%
NI Civil Service Pension Scheme	2.32%	CPI + 0%
NI Teachers Pension Scheme	1.75%	CPI + 1.6%
NI Police Pension Scheme	1.81%	CPI + 1.25%
NI Fire and Rescue Service Pension Scheme	1.56%	Average Earnings
NI Judicial Pension Scheme	2.32%	CPI + 0%

Source: Accrual rates as set in regulations made by each scheme under the Act.

<sup>16</sup> As listed at schedule 2 of the Act.

<sup>17</sup> The Department of Finance had already introduced a CARE pension scheme design (nuvos) on 30 July 2007 under the terms of the Superannuation (Northern Ireland) Order 1972. This scheme applied only for new entrants recruited to the civil service and its associated employments from that date. From 1 April 2015 all members of nuvos without transitional protection moved to the new civil service scheme established under the Public Service Pensions Act (Northern Ireland) 2014.



5.4 In the 'old' final salary schemes the accrual rate was set as a fractional proportion of the member's final salary at pension age. This fraction of final salary was used to calculate the annual pension with reference to the total years of reckonable service built up by an individual in the scheme. The pre 1 April 2015 salary accrual rates are summarised in the table below:

**Table 5B: Accrual rates before 1 April 2015<sup>18</sup>**

Scheme	Accrual Rates in public service pension schemes before 1 April 2015			
Health and Social Care Pension Scheme	1995 scheme (for members who joined before 1 April 2008) 1/80 <sup>th</sup> (Automatic lump sum of 3/80 <sup>ths</sup> )		2008 scheme (for members who joined from 1 April 2008) 1/60 <sup>th</sup> (No automatic lump sum)	
Local Government Pension Scheme (NI)	All membership built up before 01/04/09. 1/80 <sup>th</sup> (Automatic lump sum of 3/80 <sup>ths</sup> )		All membership built up after 31/03/09 1/60 <sup>th</sup> (No automatic lump sum)	
NI Civil Service Pension Scheme	Classic (pre Oct 2002) 1/80 <sup>th</sup> (Automatic lump sum of 3/80 <sup>ths</sup> )	Premium (Oct 2002- Jul 2007) 1/60 <sup>th</sup> (No automatic lump sum)	Classic Plus 1/80 <sup>th</sup> for reckonable service up to 30/9/02. 1/60 <sup>th</sup> for reckonable service from 1/10/02	Nuvos Aug 2007- 2.3% (CARE)
NI Teachers Pension Scheme	pre 2007 (for members who joined before 1 April 2007) 1/80 <sup>th</sup> (Automatic lump sum of 3/80 <sup>ths</sup> )		post 2007 (for members who joined from 1 April 2007) 1/60 <sup>th</sup> (No automatic lump sum)	
NI Police Pension Scheme	1988 scheme (for members who joined before 6 April 2006)  1/60 <sup>th</sup> (Entitled to a lump sum but not mandatory)  (Years 1–20 - 1/60 <sup>th</sup> ); (Years 21–30 - 2/60 <sup>th</sup> ) To note that on 30 years' service the officer will have accrued 40/60 <sup>th</sup> – may retire on full pension at 30 years).		2006 scheme (for members who joined from 6 April 2006)  1/70 <sup>th</sup> (Entitled to a lump sum but not mandatory)	
NI Fire and Rescue Service Pension Scheme	Firefighters Pension Scheme 2007 (for members who joined before 6 April 2006) has an accrual rate of 1/60 <sup>th</sup> for the first 20 years of service, and then doubled accrual up to a maximum of another 10 years service (with lump sum provided through commutation).		New Firefighters Pension Scheme 2007 (for members who joined from 6 April 2006) has an accrual rate of 1/60 <sup>th</sup> (and no double accrual) with lump sum provided through commutation. Firefighters in the New Firefighters 2007 scheme can retire at age 60.	
NI Judicial Pension Scheme	JUPRA Scheme  1/40 <sup>th</sup>			

<sup>18</sup> In general scheme reforms which occurred in the early -mid 2000's removed scheme entitlements to an automatic lump sum for new entrants. Across the schemes provisions were introduced for members to commute accrued pension for an optional tax free lump sum amounts up to a maximum of 25% of pension value.

- 5.5 In its interim report the Hutton Commission had concluded that the final salary scheme design was unfair, both across public service scheme memberships, and for the taxpayer. The Commission observed that final salary favoured public servants who enjoyed rapid and multiple salary progression throughout their career as a result of career promotions and who could receive up to twice as much in pension payments per £100 of contributions in comparison to employees with a flatter, more static salary profile over the course of their public service life. Analysis by the Pensions Policy Institute characterised these earning profiles in terms of ‘High Flyer’ and ‘Low Flyer’. ‘If two median earning 40-year-old men had joined the NHS scheme before 1 April 2008, the High-Flyer would have had a pension benefit of 29% of salary, compared to 11% of salary for the Low-Flyer’<sup>19</sup>. The Pension Policy Institute analysis also further compared projected effects on pension values across lower and higher earners following the reforms. ‘For example, a 50-year old member of the NHS Pension Scheme who had joined the scheme before 1 April 2008 earning up to £15,000 would have a pension benefit worth 21% of salary. By contrast, a 50-year-old member of the NHS Pension Scheme who joined the scheme before 1 April 2008 with earnings above £110,274 would have a pension benefit worth 11% of salary’.<sup>20</sup> The future effects then can be that that the public servant with a static progression profile over the course of their public service life accrues a pension each year that represents a higher percentage of salary than before the reforms in comparison to the public servant with multiple promotion progression, and the percentage difference in previous outcomes is narrowed.
- 5.6 Having considered a number of possible options to address the issues it identified in the final salary scheme design, including notional and collective defined contribution, and cash balance models the Hutton Commission recommended the CARE option as providing the best balanced solution in terms of the distribution of the final salary risk between members and the taxpayer and to maintain the assurance of a defined benefit pension for the member.<sup>21</sup> The chart below was used by the Hutton Commission to illustrate

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<sup>19</sup> PPI Briefing Paper on the impact of the Coalition Government’s proposed reforms of the four largest public service pension schemes: NHS, Teachers, Local Government and the Civil Service, October 2012, P12.

<sup>20</sup> [http://www.nuffieldfoundation.org/sites/default/files/files/20121023\\_A\\_PPI\\_Briefing\\_Paper\\_-\\_implications\\_of\\_Govts\\_reforms\\_to\\_public\\_sector\\_sector\\_pensions\\_2012.pdf](http://www.nuffieldfoundation.org/sites/default/files/files/20121023_A_PPI_Briefing_Paper_-_implications_of_Govts_reforms_to_public_sector_sector_pensions_2012.pdf) - Page 12 (Note that outcomes would be subject to application of relevant HMRC tax rules e.g LTA).

<sup>21</sup> On balance, the Commission decided to recommend career average as the option that provides “more certainty for members is better understood and will be more practical to implement” (Independent Public Service Pensions Commission: Final Report - 10 March 2011 p.10).

the distributional impact of moving from final salary to CARE and the balancing effect for members of the reformed public service schemes:

Chart 5A: Distributional Impact of Moving from Final Salary to CARE



*“The chart shows the effective employee benefit rate (EEBR), the value of the pension benefit, net of employee contributions, accrued annually by an average member of the scheme expressed in terms of a percentage of pay, for both a proxy to the current final salary schemes and an example CARE scheme. Under the example CARE scheme the ‘Effective Employee Benefit Rate’ is higher for a Low Flyer than in the proxy to the current final salary schemes, while for a High Flyer it is lower. A CARE scheme therefore redistributes pension benefits from High Flyers to Low Flyers. This redistribution occurs because, for a fixed cost, the savings from the removal of the final salary link for High Flyers can be recycled into providing a better level of benefit for other scheme members”.*<sup>22</sup>

<sup>22</sup> Independent Public Service Pensions Commission: Final Report - 10 March 2011 p.10.; The chart is based on modelling by the Pensions Policy Institute. The proxy scheme illustrated is a final salary scheme with a normal pension age 65, an accrual rate of 1/60 of salary for each year of service, and with benefits for deferred and pensioner member indexed by CPI.

- 5.7 Attributing outcomes of any comparisons to the effects of the specific reforms carried in the Act is of course subject to the fact that future value of any pension entitlement will always be affected by a number of variables. The effects of some of these variables are beyond the framework requirement for scheme design set down in the Act. These can include an individual's own career choices and length of service. Also, although the Act makes the framework provision for the CARE scheme design, within that framework it is both the variable for accrual rate (see part 5 above) and the revaluation process, which combine as the main determinant of the future value of pensions.
- 5.8 Reforms to public service pensions, instigated by the Westminster Government in 2011, prior to the introduction of new schemes changed the inflation related method of indexation of pensions in payment from the Retail Price Index (RPI) to the Consumer Prices Index (CPI). This reform alone represents a significant change in how benefits are revalued which has contributed to the reduction in value in real terms of a public service pension over a lifetime. In contemporary modelling of the effect of the change from RPI to CPI *the Pensions Policy Institute* projected an 8% decrease in the value of a pension for a typical public servant after 10 years in payment.<sup>23</sup> At the time of this change the TUC estimated the long term effect on a public service pension would be a reduction in its value by 25 pence in every pound<sup>24</sup>.
- 5.9 This switch from RPI to CPI is outside the technical scope of the Act. The effects of this change can be observed as having a reducing effect on the future value of a public service pension regardless of the scheme design to which it is applied. In fact the final salary design may be seen as technically more vulnerable in that CPI is the only index used to uprate final salary benefits in public service schemes. Under the provisions of the Act schemes did have flexibility at the regulation making stage to incorporate either the annual change in CPI or the change in average annual earnings as the method for revaluing CARE benefits as they are accrued annually by active

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<sup>23</sup> Projection based on a public service worker who retired in 2010 on a median level public sector pension of £4,500 a year. "If the link to RPI had remained then in 2020 his pension would be £5,970 a year (£3,845 in 2010 earnings terms). Under the CPI increases (his) pension in 2020 would be £5,485 a year (£3,530 in 2010 earnings terms). In this scenario the change from CPI to RPI would result in a pension 8% lower after 10 years in payment" (Pensions Policy Institute - future of public sector pensions- <http://www.pensionspolicyinstitute.org.uk/publications/reports/the-future-of-the-public-sector-pensions>)

<sup>24</sup> TUC – 'Economics Bulletin' – June 2011. <https://www.tuc.org.uk/economic-issues/pensions-changes-and-pay-freeze-will-cost-low-paid-staff-over-eight-cent>

members in each scheme year<sup>25</sup>. Once put into payment all pensions payable from public service schemes are currently index linked with reference to the annual change in CPI<sup>26</sup>.

- 5.10 Other significant reforms over recent years include increases applied to employee contribution rates across all public service pension schemes equivalent to an average 3.2 % rise between April 2012 and April 2014. As these increases were not implemented by the Act and occurred before the new schemes took effect they are outside of the scope of the review. However like the change from RPI to CPI this reform represents a significant recent change which should be borne in mind when considering any comparative analysis of the public service pensions' landscape immediately before and after 1 April 2015<sup>27</sup>.
- 5.11 The introduction of the new CARE schemes remains a very recent development and as yet there is no historical and evidence based analysis of the effects of the transition to CARE design across the public service. There has been some recent evaluative analysis which simulates the general effects on public service workforces of the reforms. In May 2016 the National Institute of Economic and Social Research and Centre for Macroeconomics (NIESC) published a summary of the simulated effects of recent changes to public service pension arrangements over the course of a typified public service career. It compared the effects using the example of graduate and non-graduate employees. The simulation found that non graduate workers with low or moderate earnings in the NHS, Local Government and Civil Service schemes would see an increase in the value of their pension of between 10-20%. Graduate workers with faster wage growth in the Civil Service, Teachers and Local Government schemes on the other hand may lose between 3% and 5%<sup>28</sup>.

### **Revaluation**

- 5.12 The CARE scheme design set out in the Act requires that the portion of earnings built up as pension in each year of active service in a public service scheme is revalued at the start of the next scheme year with reference to the annual change in the level of either prices, or earnings. The Act requires the Department of Finance to make legislative Orders annually which specify the level of change for each of those indices.

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<sup>25</sup> The recommendation made by the Hutton Commission was that CARE benefits should be uprated in line with average earnings during the accrual phase for active members, and pensions in payment in line with prices. (Final report 2011, recommendation 8).

<sup>26</sup> The annual change in CPI for uprating purposes at April 2016 was -0.1%. For 2016 public service pensions in payment were not increased but neither were they decreased.

<sup>27</sup> Comparative figures for employee contribution rates in the public service schemes are provided at Appendix 3.

<sup>28</sup> 'Who Wins? Evaluating the Impact of UK Public Sector Pension Scheme Reforms' - National Institute of Economic and Social Research and Centre for Macroeconomics – May 2016.

5.13 The framework provision in the Act does not specify which index, i.e. CPI or earnings, must be used or how it is applied. The revaluation process that is used is determined at the secondary legislation level and specified in each scheme's regulations but it will always have reference to one of two revaluation orders made by the Department of Finance under the Act. For the purposes of revaluation for the scheme year 1 April 2015 to 31 March 2016 the Department of Finance made:

- i. The Public Service Pensions Revaluation (Prices) Order (Northern Ireland) 2016 – This Order set a revaluation figure of **-0.1%** which is the published percentage change in the Consumer Prices Index (CPI) from September 2014 to September 2015.
- ii. The Public Service Pensions Revaluation (Earnings) Order (Northern Ireland) 2016 - This Order set a revaluation figure of **2%** which is the published percentage change in the published Average Weekly Earnings figure (AWE) from September 2014 to September 2015.

5.14 The table below summarises the arrangements set in scheme regulations for the Northern Ireland public service schemes for revaluation of CARE benefit accruals for members in the scheme year 1 April 2015 to 31 March 2016. (See also table 5A).

**Table 5C: Revaluation in schemes from 1 April 2015**

<b>Scheme</b>	<b>Responsible Department</b>	<b>Process for revaluation</b>
Health and Social Care Pension Scheme	DoH	CPI + 1.5%
Local Government Pension Scheme (NI)	DfC	CPI + 0%
NI Civil Service Pension Scheme	DoF	CPI + 0%
NI Teachers Pension Scheme	DE	CPI + 1.6%
NI Police Pension Scheme	DoJ	CPI + 1.25%
NI Fire and Rescue Service Pension Scheme	DoH	Average Earnings
NI Judicial Pension Scheme	DoJ	CPI + 0%

Source: Regulations for new schemes established from 1 April 2015

5.15 Where scheme regulations have provided for a revaluation by reference to a flat rate of CPI the outcome for the scheme year 2015/16 is for a slight negative revaluation. For example: revaluation for an active Local Government worker on a salary of £21,000 means their accrued pension

entitlement at the start of the 2016/17 scheme year is reduced by less than £0.50. For those on a salary of £36,000 the reduction is by less than £1.

5.16 To date, benefits in the Civil Service (NI), Devolved Judicial and Police Pension Schemes have not been revalued for the scheme year 2015/16. This is a consequence of minor drafting inconsistencies common to the regulations for each of these schemes and which each responsible Department is currently preparing to amend. Had the revaluation been applied to the Civil Service (NI) and devolved Judicial pension schemes it would also have resulted in a similar negative revaluation of the 2015/16 CARE accruals of scheme members on account of the flat rate of CPI revaluation specified in regulations for the civil service pension scheme.

5.17 In the cases of both the Health and Social Care Scheme, the NI Teachers Pension Scheme and the scheme for Firefighters positive revaluations have been implemented by responsible authorities for those schemes based on the arrangements given in table 5C. For example: a Health Service Worker on a salary of £21,000 has had their accrued pension revalued by around +£5.44. A Health Service Worker on a salary of £36,000 has had their accrued pension revalued by +£9.33. A teacher earning the same salary will have their year's accrual in the scheme revalued by +£9.45. For a firefighter earning £36,000 the revaluation is +£11.23.

### **Pension Age**

5.18 The requirements in the Act for normal pension age for the schemes introduced from 1 April 2015 are as follows:

**Table 5D: Normal pension age from 1 April 2015**

<b>Scheme</b>	<b>Normal Pension Age from 1 April 2015</b>
Health and Social Care Pension Scheme	state pension age or 65, if that is higher
Local Government Pension Scheme (NI)	
NI Teachers Pension Scheme	
NI Civil Service Pension Scheme	
NI Police Pension Scheme	60
NI Fire and Rescue Service Pension Scheme	To be set in scheme regulations but no less than 55 and at no more than 60 ( <i>now set in regs at 55</i> )

5.19 The pre-April 2015 schemes operated the following normal pension ages:

**Table 5E: Normal pension age before 1 April 2015**

<b>Scheme</b>	<b>Normal Pension Age (NPA) before 1 April 2015</b>
Health and Social Care Pension Scheme	The NPA for this scheme rose to 65 for all new entrants from 1 April 2008; prior to this date the NPA for this scheme was 60.
Local Government Pension Scheme (NI)	The NPA for this scheme was always 65. Special conditions for an earlier retirement under the 'rule of 85' were abolished from 1 October 2006.
NI Civil Service Pension Scheme	The NPA for this scheme rose to 65 for all new entrants on 30 July 2007; prior to this date the NPA for this scheme was 60.
NI Teachers Pension Scheme	The NPA for this scheme rose to 65 for all new entrants on 1 April 2007; prior to this date the NPA for this scheme was 60.
NI Police Pension Scheme	Any police officer recruited from 6 April 2006 could retire at age 55; In the previous '1988' scheme, any police officer up to the rank of Chief Inspector with 30 years' service could retire earlier than age 50; higher ranking police officers with 30 years' service could only retire from age 50.
NI Fire and Rescue Service Pension Scheme	The NPA for this scheme rose to 60 for new entrants from 1 April 2006; prior to this date the NPA for this scheme was 55.
NI Judicial Pension Scheme	The NI Judicial Pension Scheme was newly established on 1 April 2015. Prior to this date pension provision was made in the non-devolved scheme under the auspices of the Ministry of Justice in Great Britain. Normal pension age in the Ministry of Justice scheme was already set at 65.

5.20 As these tables illustrate the non-uniformed schemes already operated a normal pension age of 65 before the Act took effect. By 2006-7 these main schemes had raised normal pension age as part of reform initiatives progressed under the last Labour Government. (The Local Government Schemes had always operated a pension age of 65). In each case these increases were fixed at a maximum of age 65 and in most cases applied only for new entrants to the pension scheme going forward. In the view of the Hutton Commission the extent of this previous reform had not been sufficient to fully address costs associated with increased longevity in preceding decades. The recommendation by the Commission that normal scheme pension age be linked with SPA which the Act implements has now effectively established a new driver for reform by automatically, and indefinitely, linking future change in normal scheme pension age to current and future plans to change SPA.



5.21 The main concern for stakeholders during policy development stage, and which was debated during Assembly passage for the Act was the effect of this change on capabilities for various groups of public service workers to continue to work to a higher normal scheme pension age as it rises in line with SPA. In its consideration of this issue the review group identified that one potentially measurable effect may be changes in trends for early departures from the main public service employments. The review group compiled a list of datasets relevant to tracking possible evidence based correlations between early departures across the public service and future changes in normal pension age. These are given below:

**Table 5F: Relevant data types**

<b>Data type</b>	<b>Sub-data type</b>
Age profile scheme members	
Gender breakdown	
Scheme-by-scheme mortality:	I) Pensioner mortality II) Death in service mortality
Workforce composition (grades/occupations)	
Average age of retirement with benefits	I) Age retirement II) Ill health retirement III) Severance (Early exit with unreduced early pension (LGPS(NI))) IV) Flexible (partial) retirement
Age profile ill health retirements	

5.22 To track any potential effects of pension age changes over the long term the review group sought to establish a snapshot of the schemes as at 31 March 2015 with particular reference to data for categories of exit from the public service as a consequence of resignation, age retirement, ill health retirement, and voluntary early retirement with an actuarially reduced pension put into payment.

## SNAPSHOT OF SCHEMES

Source: Scheme data collated from NI public service representatives to the CCWG April – October 2016. The content reflects depth of breakdown across their employers which schemes have been able to provide.

### HEALTH AND SOCIAL CARE PENSION SCHEME (HSC)

**Table 5G: Age and gender as at 31 March 2015**

Active members by gender	age group								
	16-24	25-39	40-49	50-55	56-60	61-65	66-70	71-75	75+
Male	258	3,716	3,538	2,233	1,325	408	48	5	0
Female	1,088	16,235	13,863	8,957	4,500	1,260	179	16	0

**Table 5H: Age related departures from service - 31 March 2015**

Members...	age group								
	16-24	25-39	40-49	50-55	56-60	61-65	66-70	71-75	75+
...who died in service	0	6	5	6	7	*	*	0	0
...who retired	0	0	0	123	325	378	45	7	0
...who retired due to ill health	0	9	35	74	55	*	0	0	0
...who took voluntary early retirement with actuarially reduced pension	0	0	0	66	99	6	0	0	0

\* the number is less than 5 and therefore deemed too small to release.

## LOCAL GOVERNMENT PENSION SCHEME (NORTHERN IRELAND) [LGPS(NI)]

**Table 5I: Age and gender as at 31 March 2015**

Active members by gender	age group								
	16-24	25-39	40-49	50-55	56-60	61-65	66-70	71-75	75+
Male	543	4,418	5,116	3,952	2,608	1,412	347	79	0
Female	1,385	9,025	10,685	7,149	4,204	1,587	326	40	0

**Table 5J: Age related departures from service - 31 March 2015**

Members...	age group								
	16-24	25-39	40-49	50-55	56-60	61-65	66-70	71-75	75+
...who died in service	0	*	11	13	15	6	5	*	0
...who retired	0	0	0	0	0	85	106	12	0
...who retired due to ill health	0	*	26	51	61	55	0	0	0
...who took voluntary early retirement with actuarially reduced pension	0	0	0	0	20	162	0	0	0

*\* the number is less than 5 and therefore deemed too small to release.*

## CIVIL SERVICE PENSIONS (NORTHERN IRELAND) [CSP(NI)]

**Table 5K: Age and gender as at 31 March 2015**

Active members by gender	age group								
	16-24	25-39	40-49	50-55	56-60	61-65	66-70	71-75	75+
Male	108	4,392	3,598	2,659	1,560	705	141	13	*
Female	83	5,259	4,084	2,941	1,443	334	57	8	*

**Table 5L: Age related departures from service - 31 March 2015**

Members...	age group								
	16-24	25-39	40-49	50-55	56-60	61-65	66-70	71-75	75+
...who died in service	0	*	5	6	7	5	*	0	0
...who retired	0	0	0	7	83	186	59	8	0
...who retired due to ill health	0	12	49	70	48	9	*	0	0
...who took voluntary early retirement with actuarially reduced pension	0	0	0	7	9	0	0	0	0

\* the number is less than 5 and therefore deemed too small to release.

## NORTHERN IRELAND TEACHERS PENSION SCHEME (NITPS)

**Table 5M: Age and gender as at 31 March 2015**

Active members by gender	age group								
	16-24	25-39	40-49	50-55	56-60	61-65	66-70	71-75	75+
Male	153	2,364	1,786	1,046	689	140	18	*	0
Female	523	8,489	5,836	2,510	1,606	268	13	*	0

**Table 5N: Age related departures from service - 31 March 2015**

Members...	age group								
	16-24	25-39	40-49	50-55	56-60	61-65	66-70	71-75	75+
...who died in service	0	*	*	*	*	0	0	0	0
...who retired	0	0	0	0	0	554	31	0	0
...who retired due to ill health	0	*	8	33	30	0	0	0	0
...who took voluntary early retirement with actuarially reduced pension	0	0	0	155	160	0	0	0	0

*\* the number is less than 5 and therefore deemed too small to release.*

## POLICE PENSION SCHEME (PPS)

**Table 5O: Age and gender as at 31 March 2015**

Active members by gender	age group								
	16-24	25-39	40-49	50-55	56-60	61-65	66-70	71-75	75+
Male	83	1,753	2,287	595	78	35	0	0	0
Female	26	1,040	684	136	13	*	0	0	0

**Table 5P: Age related departures from service - 31 March 2015**

Members...	age group								
	16-24	25-39	40-49	50-55	56-60	61-65	66-70	71-75	75+
...who died in service	0	0	*	0	0	0	0	0	0
...who retired	0	0	0	197	37	7	0	0	0
...who retired due to ill health	0	0	*	29	10	*	0	0	0
...who took voluntary early retirement with actuarially reduced pension	na	na	na	na	na	na	na	na	na

\*the number is less than 5 and therefore deemed too small to release.

na – data not available

## FIREFIGHTERS PENSION SCHEME (FFPS)

**Table 5Q: Age and gender as at 31 March 2015**

Active members by gender	age group								
	16-24	25-39	40-49	50-55	56-60	61-65	66-70	71-75	75+
Male	25	568	743	296	58	13	*	0	0
Female	*	26	15	*	0	0	0	0	0

**Table 5R: Age related departures from service - 31 March 2015**

Members...	age group								
	16-24	25-39	40-49	50-55	56-60	61-65	66-70	71-75	75+
...who died in service	0	*	*	0	0	0	0	0	0
...who retired	0	0	0	19	*	*	0	0	0
...who retired due to ill health	0	*	7	8	*	0	0	0	0
...who took voluntary early retirement with actuarially reduced pension	na	na	na	na	na	na	na	na	na

\* the number is less than 5 and therefore deemed too small to release.  
na - data not available

## NORTHERN IRELAND JUDICIAL PENSION SCHEME (NIJPS)

**Table 5S: Age and gender as at 1 March 2015**

Active members by gender	age group								
	16-24	25-39	40-49	50-55	56-60	61-65	66-70	71-75	75+
Male	0	*	5	*	*	*	0	0	0
Female	0	7	6	7	0	0	0	0	0

*\* the number is less than 5 and therefore deemed too small to release.*



## Data Issues

- 5.23 In the course of collating this data from public service schemes and their responsible departments the review group noted gaps and inconsistencies across the public sector employers/schemes in the data they currently hold or can supply for the purpose of tracking change in these exits. There were also discrepancies in the scope of data schemes were able to readily supply to inform the baseline snapshot of the position in each scheme for the reforms. The review group was particularly concerned that detail on the occupation/grade associated with early departures, especially ill health retirements, could not be provided, particularly in the case of multiple employer schemes. There were also some issues associated with the supply of accurate gender and age related breakdown information. The group acknowledged that the short time-span, which has elapsed from the identification of the relevant datasets and commencement of section 10 of the Act, to the reporting date for the first review has restricted time available to schemes and their responsible Departments to collate all the data requested by the review group, particularly on occupational breakdown of the workforce. It nevertheless emphasised the importance that data issues are addressed from the outset so that future reviews are able to undertake meaningful analysis in line with the requirements of the Act and associated regulatory codes.
- 5.24 Given the legal requirement for this review, and that it must be undertaken periodically and for the foreseeable future, the review group recommends that schemes and responsible Departments, whose employees are within the scope of the Act, should ensure occupational specific data for early departures, and all other data identified by the review group as relevant to the purpose of the review, is consistently captured and made available upon request for future reviews going forward.

## 6. COST CONTROL

- 6.1 The Act introduced a new valuation and cost control regime for public service pensions. The approach taken is based on recommendations by the Hutton Commission for a common approach to scheme valuations and cost management aimed at rebalancing risks that are shared between employers and scheme members. The framework is also intended to increase transparency for scheme member and taxpayers and promote effective oversight and analysis across the public service schemes<sup>29</sup>.
- 6.2 Under the Act the assets and liabilities for public service pension schemes must be valued periodically in an actuarial valuation undertaken in accordance with procedures set out in Directions made by the Department of Finance.<sup>30</sup> These Directions set out how and when scheme valuations should be completed, together with requirements for scheme data and demographic and fiscal assumptions which should be used. The Act requires each scheme to operate a cost cap controlling the proportion of scheme costs which fall to public service employers. This employer cost cap mechanism is designed to operate asymmetrically so that in the event that scheme costs fall below the lower limit of the cost cap any savings can be used for the benefit of scheme members. The margins for the upper and lower limits of the cost cap are set in regulations by the Department of Finance<sup>31</sup>.
- 6.3 The concept for a cost control mechanism in public service schemes existed before the Act. Each of the schemes for Teachers, Health Service Workers and Civil Servants had already begun to implement a 'cap and share' mechanism as part of earlier reform. The Hutton Commission concluded that, although cap and share was as yet an untried system and had not yet affected the distribution of employer/employee contributions in the schemes, it was not designed to take account of increased costs associated with changes in longevity. It also observed that operating the mechanism on a scheme-by-scheme basis was unlikely to produce coherent outcomes across the public sector. *“Those outcomes would include what members of different schemes pay for a comparable benefit, what benefit designs are offered and how risk to taxpayers, employers and members is managed”*<sup>32</sup>

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<sup>29</sup> Final report, 2011 – recommendations 6 & 12.

<sup>30</sup> See the 'Public Service Pensions (Valuations and Employer Cost Cap Directions (Northern Ireland) 2014' made by the Department of Finance on 26 November 2014 <https://www.finance-ni.gov.uk/sites/default/files/publications/dfp/psp-valuations-employer-cost-cap-2014.pdf>

<sup>31</sup> <https://www.finance-ni.gov.uk/sites/default/files/publications/dfp/psp-employer-cost-cap-regulations-ni-2015.pdf>

<sup>32</sup> Interim report 2010 p47.

- 6.4 The valuation and cost control provisions of the Act and the Directions made by the Department of Finance set a common framework of the actuarial assumptions, and processes that should be used to measure scheme liabilities and to calculate employer contributions rates and employer cost caps for each scheme. As a consequence each scheme now has a default process set out in its regulations to address cost pressures which would breach the margins of the employer cost cap. This process requires engagement to take place between the scheme, its responsible Department and also representatives of scheme members to reach agreement on a course of action to return costs within the margins of the cost cap if they are breached.
- 6.5 All schemes have now also incorporated an employer cost cap in their CARE scheme regulations. With the exception of the NI Judicial Pension Scheme which uses the employer cost cap figure for the Judicial Pension Scheme in Great Britain, the cost cap figure is based on calculations made by actuaries for each scheme using results from the first valuations completed in line with the Directions made by the Department of Finance under section 11 of the Act. The second scheme valuations, which will use scheme data as at 31 March 2016, are currently being prepared. This valuation process will measure changes in the cost cap for each scheme to determine if a breach has occurred. At the second and then each subsequent valuation the actuary for each scheme is required to compare the new cost cap cost of the scheme identified by the new valuation report, to the existing cost cap set out in scheme regulations. If the cost cap costs of the scheme have gone beyond the margins on either side of the employer cost cap specified in Department of Finance Regulations (currently set at 2% above or below the employer cost cap for the scheme)<sup>33</sup> the scheme actuary must notify the responsible authority, thus triggering the process to manage the breach as described in the preceding paragraph. Employer cost caps for each scheme from 1 April 2015 and employer contribution rates are as set out in tables below.

**Table 6A Employer cost caps from 1 April 2015**

<b>Scheme</b>	<b>Employer Cost Cap</b>
Health and Social Care Pension Scheme	12.9%
Local Government Pension Scheme (NI)	17%
NI Civil Service Pension Scheme	18.3%
NI Teachers Pension Scheme	13.2%
NI Police Pension Scheme	13.1%
NI Fire and Rescue Service Pension Scheme	18.3%
NI Judicial Pension Scheme <sup>34</sup>	25.7%

<sup>33</sup> <https://www.finance-ni.gov.uk/publications/public-service-pensions-employer-cost-cap-regulations-northern-ireland-2014>

<sup>34</sup> The Department of Finance directions specify that in the case of the Northern Ireland Judicial Pension Scheme the valuation report of the Ministry of Justice Pension Scheme shall be used for the purpose of setting the employer cost cap in the scheme (Direction 46).

**Table 6B Employer contribution rates in public service schemes**

<b>Employer Contribution Rates in the NI Public Service Pension Schemes</b>		
<b>Scheme</b>	<b>Average employer contribution rate at 31 March 2015</b>	<b>Employer contribution rate from 1 April 2015</b>
Health and Social Care Pension Scheme	13.3%	16.3%
Local Government Pension Scheme (NI)	20% (for the majority of employers <sup>35</sup> ).	20%
NI Civil Service Pension Scheme	19.5%	22.3%
NI Teachers Pension Scheme	13.6%	17.7%
NI Police Pension Scheme	24.2%	25.1%
NI Fire and Rescue Service Pension Scheme	16.2%	24.3%
NI Judicial Pension Scheme	31.9% (non devolved scheme)	38.2% ( devolved scheme)

Source: 2015 scheme regulations made each responsible Department

6.6 The review group noted that effects of recently completed, and future , public service exit schemes and recent lack of public service recruitment, particularly in the civil service, may have effects for future scheme valuations, which could have associated impacts on management of scheme costs for the future.

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<sup>35</sup> The employer contribution rate from 1 April 2015 is 20% for the majority of employers. Not all employers pay 20% and those who are closed or have a particular set of circumstances pertinent to them will have a separate rate applied.

## 7. ADMINISTRATION

### **Information about benefits and record keeping**

- 7.1 The provisions of the Act dealing with administration regularise the action schemes and responsible Departments are required to take in providing information to members about their pension entitlements in the scheme. Section 14 of the Act requires each scheme to provide an annual statement of benefits to each member and to do so in line with directions made by the Department of Finance under the Act. The directions detail the categories of information which must be included<sup>36</sup>. Before the introduction of the Act defined benefit public service pension schemes were only required to issue a statement of benefits in response to a request by the member (with the exception of LGPS(NI) whose historic and current scheme regulations have required it to issue pension benefit statements to its active, deferred and pension credit members). This is in contrast to the position for defined contribution pension arrangements in the private sector where a requirement to provide benefit statements each year as a matter of course already existed. Again this new provision in the Act is one which gives effect to a recommendation made by the Hutton Commission (recommendation 18) for the purpose of improving transparency, increasing both member knowledge of pension matters, and also their capacity to make informed decisions about their future retirement options.
- 7.2 Regulations for each of the new CARE schemes now contain a requirement to issue annual benefit statements in line with section 14 of the Act. The first iteration of annual benefit statements in the new schemes were due to be issued to all members by 31 August 2016. The review group noted some schemes have experienced difficulties in adjusting systems to fully meet this deadline. Where schemes have not been able to issue 100% of annual benefits statements to members by 31 August 2016 they have been advised, by the Department of Finance, to report any breach of the requirements of the Act to the Pensions Regulator, and in doing so to set out their plans and timescales for completion of the 2016 benefit statement exercise. It is expected that all statements will have been issued by the end of the 2016 calendar year. The review group acknowledges the difficulties experienced by schemes in discharging these new duties under the Act. It expects that system adjustments which have prevented any scheme from meeting the 2016 deadline should not be carried forward to the 2017 round of member benefit statements, and where there are outstanding issues for quality of data in relation to meeting the legal requirements of the Act and complying with the

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<sup>36</sup> <https://www.finance-ni.gov.uk/publications/public-service-pensions-information-about-benefits-directions-northern-ireland-2015>

Pensions Regulator codes in this matter these should be immediately addressed<sup>37</sup>.

- 7.3 The administration provisions of the Act also include requirements for all schemes to maintain records as set out in Regulations made by the Department for Communities (formally Department for Social Development) for the purposes of the Act. These requirements were set out in the Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations (Northern Ireland) 2014<sup>38</sup>. Their purpose is to ensure good governance and administration in the recording the scheme's financial transactions is continued under the new regulatory provision of the Act. They address recordkeeping on member information; financial transactions of contributions received; benefits paid out; transfer payments and any other payments made to or by the scheme. Under the regulations schemes are now also required to maintain relevant records on the activities of the new pension boards created under section 5 of the Act, including details of decisions taken by the board and details of when the meetings are held, and attendees.

#### **Regulatory oversight**

- 7.4 Section 17 and Schedule 4 of the Act make provision relating to the responsibility of the Pensions Regulator in areas for governance and administration of public service schemes made under the Act (and their connected schemes).
- 7.5 Schedule 4 amends the Pensions (Northern Ireland) Order 2005 with reference to an expanded role for the Pensions Regulator and the codes of practice it may issue in respect of the legal responsibilities for scheme managers and pension boards in governance, management and administration of the public service pension schemes.
- 7.6 The Pensions Regulator's new code of practice for the governance and administration of public service pension schemes took effect on 1 April 2015. It provides guidance for schemes and pension boards aimed at ensuring they meet their responsibilities to scheme members for adhering to good standards of administration and governance in the scheme<sup>39</sup>.

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<sup>37</sup> See paragraphs 187 -195 of the Pensions Regulator code for its specific reference to how schemes must comply. <http://www.thepensionsregulator.gov.uk/codes/code-governance-administration-public-service-pension-schemes.aspx#s16852>

<sup>38</sup> <http://www.legislation.gov.uk/nisr/2014/321/contents/made>

<sup>39</sup> <http://www.thepensionsregulator.gov.uk/codes/code-governance-administration-public-service-pension-schemes.aspx#s16838>

## 8. TRANSITIONAL

- 8.1 Section 18 of the Act specifies the framework provision under which schemes have flexibility to provide transitional measures to mitigate the potential ‘cliff edge’ effects of the reforms on those members who were closest to retirement at the policy development stage for these reforms in April 2012, and who would therefore have had the least capacity to adjust to the changes.
- 8.2 As outlined at part 5 (pension age) each of the schemes, with the exception of the Local Government Scheme (NI) have now incorporated measures in scheme regulations which mean that those scheme members, who were within 10 years of their normal pension age as at 1 April 2012, will retain membership of their previous pension arrangement until they choose to retire or leave service. Members of these schemes who fall up to 4 years outside of this 10 year limit have ‘tapered’ transitional protection and continue to accrue reckonable service in their previous scheme for an additional proportional period in some cases up to almost 8 years. When the period of tapered protection expires these members move to the new CARE scheme for all future service. Details on the transitional protection effects in each scheme are illustrated below:

**Table 8A Full transitional protection**

<b>Full transitional protection in public service schemes</b>	
<b>Scheme</b>	<b>Full protection as at 1 April 2012</b>
Health and Social Care Pension Scheme	12,266
Local Government Pension Scheme (NI)	All members moved to the new scheme on 01/04/2015, but NILGOSC had 5,121 active members with ‘underpin’ transitional protections.
NI Civil Service Pension Scheme	9,466
NI Teachers Pension Scheme	4,242
NI Police Pension Scheme	2,056
NI Fire and Rescue Service Pension Scheme	0,494
NI Judicial Pension Scheme	0,000
<b>Total:</b>	<b>33,645</b>

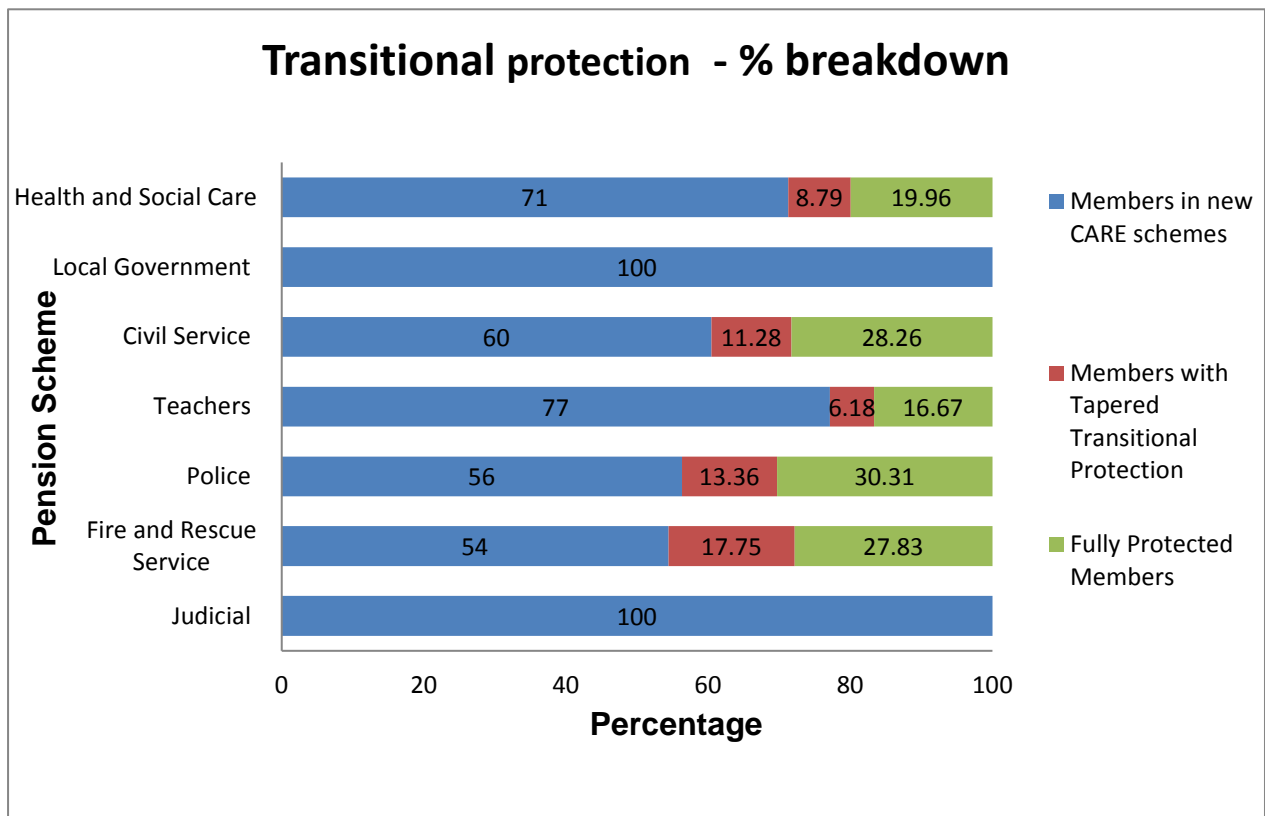
Source: Data collated from CCWG representatives April-October 2016

**Table 8B: Tapered transitional protection**

Tapered transitional protection in public service schemes	
Scheme	Tapered transitional protection as at 1 April 2015
Health and Social Care Pension Scheme	5,401
NI Civil Service Pension Scheme	3,777
NI Teachers Pension Scheme	1,572
NI Police Pension Scheme	906
NI Fire and Rescue Service Pension Scheme	315
NI Judicial Pension Scheme	16
<b>Total:</b>	<b>11,987<sup>40</sup></b>

Source: Data collated from CCWG representatives April-October 2016

**Chart 8A: Members of new schemes, Full and tapered transitional protection – Percentile breakdown:**



Source: Data collated from CCWG representatives April-October 2016

<sup>40</sup> Tapered transitional protection does not apply to LGPS(NI).



## **Final salary link**

- 8.3 The transitional provisions in the Act also provide that those members of the final salary schemes on 31 March 2015, who moved immediately to the new schemes from 1 April 2015, (or following expiration of their tapered transitional protection) will retain the final salary link for all reckonable service they have already accrued in the previous scheme. The effect is that the method of calculation of these benefits takes account of any future salary progression and the resulting final salary portion of the member's pension will be calculated with reference to their pensionable salary at whatever time in the future they choose to retire or leave service. The final salary link applies for all future pensionable service regardless of any single, or combination of two or more, gaps in continuous service up to a total of 5 years.

## 9. PROCEDURE FOR SCHEME REGULATIONS

### Protected elements

- 9.1 The reforms in the Act are intended to be long-lasting. They propose to negate the need for any further reform of the default scheme design for at least 25 years from the date the new schemes took effect on 1 April 2015. Section 22 of the Act gives a commitment that any proposals made by a responsible authority for a scheme established under the Act to change certain ‘protected elements’ before the date of 31 March 2040 will be subject to an enhanced procedure for consultation with member representatives which must be conducted with a view to securing their agreement<sup>41</sup>. The procedure also requires a report on the proposed change is laid in the Assembly. The elements that are designated in the Act as ‘protected’ are:
- i. the extent to which the scheme is a career average revalued earnings scheme;
  - ii. member contribution rates under the scheme, and
  - iii. benefit accrual rates under the scheme.

- 9.2 To date none of the responsible authorities for the public service schemes established under the Act have proposed any change to protected elements which engage the enhanced consultation procedure under section 22 of the Act.

### Retrospective provisions

- 9.3 Section 23 of the Act contains a similar provision for enhanced consultation intended to safeguard member’s interest from potential effects of retrospective changes to the scheme. Where an authority proposes a retrospective change that would appear to have a significantly adverse effect on the benefits payable to members the authority must first obtain the consent of member representatives. Where a proposed retrospective change would have a significant adverse effect for members in any other way for example in relation to injury or compensation benefits payable under a connected scheme, the authority is required to consult with member representatives with a view to securing their agreement. In both scenarios a report on the consultation undertaken must be laid for the scrutiny of the Assembly.
- 9.4 To date none of the responsible authorities for the public service schemes established under the Act have proposed any retrospective change which has engaged the enhanced consultation procedure under section 23 of the Act.

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<sup>41</sup> The procedure for enhanced consultation does not apply for changes which are made as a consequence of the operation of the cost cap mechanism in regulations for the scheme.

## 10. NEW SCHEMES: SUPPLEMENTARY

- 10.1 This part of the Act makes technical provision for schemes established under clause 1 to determine that access in the scheme is extended to individuals who would not otherwise be entitled to membership. Section 25 requires responsible authorities to maintain a list of additional persons to whom it has determined the scheme shall apply. To date only the Civil Service Pension Scheme (NI) has engaged this provision. As a consequence membership in the scheme has been made under section 25 for employees in Office of the Northern Ireland Public Services Ombudsman from 1 July 2015<sup>42</sup>, and the Office of the Certification Officer for Northern Ireland from 1 April 2015.<sup>43</sup>

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<sup>42</sup> The Public Service Pensions (Assembly Ombudsman for Northern Ireland and the Commissioner for Complaints) Regulations (Northern Ireland) 2015.

<sup>43</sup> The Public Service Pensions (Certification Officer for Northern Ireland) (No.2) Regulations (Northern Ireland) 2016.

## 11. EXISTING SCHEMES: SUPPLEMENTARY

- 11.1 Section 29 of the Act amends the Superannuation (Northern Ireland) Order 1972 in respect of powers for the Department of Finance to extend access in the Civil Service Pension Scheme (NI) to individuals who would not otherwise be entitled to membership. To date the Civil Service Pension (NI) Scheme has not had cause to engage this provision.

### **Police pensions**

- 11.2 Prior to the Act regulations relating to police pension arrangements had required that pensions payable to police widows before 6 April 2006 were terminated if a recipient widow (or civil partner) remarried/ co-habited or formed a new civil partnership. Section 30 of the Act revoked those rules in the police scheme so that pensions, which were previously terminated by virtue of their application, may now be re-instated and payable from 1 July 2014. As a consequence of section 30 of the Act a total of 194 police widows have now had their police widows pensions reinstated.
- 11.3 As an indirect effect of Section 30 of the Act, Civil Service Pensions amended its scheme rules applying for entitlements in the scheme before October 2002. From 1 April 2016 pensions payable to widows/widowers under pre 2002 are not to be extinguished where the surviving partner remarries or cohabits with a new partner. Similarly survivor pensions previously extinguished before this amendment have been reinstated from 1 April 2016. These survivor pensions are now payable for life in the same way as those in respect of membership of the scheme in all later arrangements in the Civil Service since October 2002.

## **12. OTHER PROVISIONS**

- 12.1 The remainder of the provisions of the Act provide the technical detail for the general interpretation, definitions, confirmation that financial provision is made for the devolved Judicial Pension Scheme, and arrangements for commencement of the foregoing provisions.

### **13. CONCLUSIONS AND RECOMMENDATIONS**

- 13.1 The most significant effect of the Act for public service workers within its remit will be the default link that is now made between normal pension ages in the public service schemes and State Pension Age (SPA).
- 13.2 Future change in state pension age is outside the scope of influence of the Act yet the direction of travel for policy change as a consequence of what is regarded as a suitable SPA in the future will be crucial to the purpose and thrust of future reviews of the effects of the Act.
- 13.3 The review group notes that in the immediate period following implementation of the April 2015 pensions reforms, transitional protections will continue to have effect for those closest to normal pension age up to 2022 and an increase in SPA beyond 65 will not begin to occur until 2018. Identification of trends for leaver behaviour related to increasing pension age will become apparent over the medium to long term. The report recommends further consideration is given to revising the review cycle to a longer interval of at least 4 years, which would align with most schemes' valuation timetables. A longer timetable would also be more in line with timescales normally adopted for other similarly framed long term review projects<sup>44</sup>. Preliminary discussions on these proposals should be taken forward at the main CCWG.
- 13.4 Notwithstanding the recommendation to review the frequency of reviews, it will be of considerable importance that the evidential data that is required to inform observation and analysis of future effects is reliable and is consistently recorded from the outset. The review group has concerns for consistency in the quality of data that has so far been made available from public service authorities responsible for public service schemes for the purpose of the first review.
- 13.5 Given these concerns the Review Group recommends that public service schemes and employers now take steps to ensure the data types identified as relevant to the review are consistently collated and made available for the purpose of the future reviews that will be undertaken. The Group recommends arrangements are taken forward and monitored by the Department of Finance at the main CCWG where each scheme has representation.

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<sup>44</sup> For example Westminster Government legislation for a periodic review of State Pension Age specifies reviews at intervals of 6 years. <http://www.legislation.gov.uk/ukpga/2014/19/contents/enacted>

## Recommendations

1. The report recommends further consideration is given to revising the review cycle to a longer interval of at least 4 years, which would align with most schemes' valuation timetables. A longer timetable would also be more in line with timescales normally adopted for other similarly framed long term review projects. Preliminary discussions on this recommendation should be taken forward at the main CCWG.
2. The report recommends that public service schemes and employers take steps to ensure the data types identified as relevant to the review are consistently collated and made available for the purpose of the future reviews that will be undertaken. Arrangements should be taken forward and monitored by the Department of Finance at the main CCWG where each scheme has representation.

## TERMS OF REFERENCE

### DEPARTMENT OF FINANCE AND PERSONNEL (DFP) AND THE NORTHERN IRELAND COMMITTEE – IRISH CONGRESS OF TRADE UNIONS (NIC-ICTU) COLLECTIVE CONSULTATION SUB-GROUP FOR THE REVIEW OF THE IMPACT OF THE PUBLIC SERVICE PENSIONS ACT (NORTHERN IRELAND) 2014

**NOTE: These Terms of Reference are presented within the context that the term ‘consultation’ where it is used by the Department of Finance and Personnel is disputed by NIC-ICTU. NIC-ICTU has formally requested that in each instance where the term ‘consultation’ is used it should be substituted for the term ‘negotiation’.**

#### **1. Introduction**

1.1. The Collective Consultation Biennial Review Sub-group provides an arena for engagement between Management Side and a composite representation of Trade Union Side, under the auspices of NIC-ICTU, for the purpose of the statutory review of the effects of the provisions of the Public Service Pensions Act (NI) 2014.

#### **2. Background**

2.1. The ‘Public Service Pensions Bill’ received Royal Assent on 11 March 2014 and is now the ‘Public Service Pensions Act (Northern Ireland) 2014’

2.2. Northern Ireland Public Service Pension Schemes have now introduced reformed pension schemes from 1 April 2015 in line with the provisions within the 2014 Act.



2.3. Section 10(9) of the Public Service Pensions Act (NI) 2014 requires that a review by DFP must be conducted into how the provisions in the Act affect persons set out in section 1(2).

2.4. These terms of reference set out the principle purpose of this sub-group.

### **3. Purpose**

3.1. The sub-group will provide a forum for consultation between Management Side and a composite representation of Trade Union Side, on process and content of the Biennial Review into how the provisions of the Public Service Pensions Act (NI) 2014 affect persons set out in section 1(2) of the Act.

### **4. Scope**

4.1. Management Side will provide timely, relevant and meaningful information to Trade Union Side to facilitate constructive and timely consultation on the review. The guiding principle will be to engage effectively and timeously with Trade Union Side representatives of employee groups impacted by the 2014 Act.

4.2. Section 10(9) of the Public Service Pensions Act (Northern Ireland) 2014 requires the Department of Finance and Personnel to conduct the review at intervals of not less than every two years following commencement of section 10. Section 10 was commenced on 28 April 2014. The Department proposes to formally commence the first review on 27 April 2016. The Act requires that a report of the review is laid before the Assembly on or before six months following commencement of the review. The Department proposes to lay the first report on or before 27 October 2016.

4.3. The main matters within the scope and remit of this sub-group are attached at **Annex A.**

## **5. Membership**

5.1. The sub-group will consist of not more than four members nominated by Management Side and four members nominated by Trade Union side, representing employees affected by the 2014 Act under the auspices of the composite Trade Union Side grouping of 'NIC-ICTU'.

5.2. The quorum for any meeting will be at least two representatives from each of Management Side and Trade Union Side.

5.3. Each side's representation in this sub-group should remain consistent through the course of the group's work. The Department of Finance and Personnel may maintain a list of representatives.

## **6. Remuneration and expenses**

6.1. No fees are payable in respect of work undertaken or meetings attended in connection with this sub-group.

6.2. Members of the Group, who are employed by one of the Northern Ireland Ministerial Departments, will be expected to claim any expenses incurred in the course of the business of this sub-group from their employer.

## **7. Contacts**

7.1. Central contacts for communications shall be:

7.1.1. Trade Unions Side: As nominated by NIC-ICTU

7.1.2. Management Side: Head of Pensions Division

## **8. Support**

8.1. Public Service Pensions Policy and Legislation Branch DFP will provide secretarial support. Responsibility to provide accommodation for meetings may alternate between Management Side and Trade Union Side.

## **9. Meetings**

9.1. Meetings will be jointly chaired by Bumper Graham, NIPSA and Grace Nesbitt, DFP, Head of Pensions Division. Meetings shall be held as considered necessary by the joint Chairs.

9.2. Minutes of proceedings will be prepared by Management Side, and forwarded to Management Side and Trade Union Side contacts for consideration. The minutes shall be formally tabled for agreement at the next meeting of the sub-group.

**Signed** Grace Nesbitt (**Management Side**)

**Date** 19 January 2016

**Signed** Bumper Graham (**Trade Union Side**)

**Date** 19 January 2016

**Matters within the scope of the Collective Consultation Biennial Review Sub-group**

**Post Public Service Pensions Act (Northern Ireland) 2014**

1. Statutory biennial review of provisions of the Public Service Pensions Act (Northern Ireland) 2014.
2. Emerging public service policy issues, and public service data, as mutually agreed by the Group to be within its remit for the purposes of the biennial review.

**Meetings under the governance provisions of the Act***Table 1: Pension Boards –*

<b>Pension Board (Section 5 of the Act)</b>	<b>Meetings held since 1 April 2015</b>	<b>Board recommendations made since 1 April 2015 which have resulted in a change to their scheme.</b>
Health and Social Care Pension Scheme	4	No
Local Government Pension Scheme (NI)	DfC designated NILGOSC as pension board for the LGPS(NI). NILGOSC meets every month, except for August.	No
NI Civil Service Pension Scheme	5	
NI Teachers Pension Scheme	5	No
NI Police Pension Scheme	5	No
NI Fire and Rescue Service Pension Scheme	4	No
NI Judicial Pension Scheme	6	No

Source: Information collated from NI public service representatives to the CCWG April – October 2016.

*Table 2: Scheme Advisory Boards – Meetings under the Act*

<b>Scheme Advisory Board (Section 7 of the Act)</b>	<b>Meetings held since 1 April 2015</b>	<b>Recommendations been made which have resulted in a change to their scheme.</b>
Health and Social Care Pension Scheme	2	No
Local Government Pension Scheme (NI)	3	No.
NI Civil Service Pension Scheme	1	No
NI Teachers Pension Scheme	4	No
NI Police Pension Scheme	3	No
NI Fire and Rescue Service Pension Scheme	3	No
NI Judicial Pension Scheme	3	No

Source: Information collated from NI public service representatives to the CCWG April – October 2016.

### Appendix 3

<b>Employee Contribution Rates in the NI Public Service Pension Schemes<sup>45</sup></b>				
<b>Scheme</b>	<b>Schemes as at 31 March 2015</b>		<b>CARE schemes at 1 April 2015</b>	
			<b>Salary banded rates</b>	<b>Average rate</b> (based on employee yield stated in most recent scheme valuation report)
Health and Social Care Pension Scheme	5 to 10.9%		5.0% to 14.5%	9.8%
Local Government Pension Scheme (NI)	5.5% to 7.5%		5.5% to 10.5%	6.4%
NI Civil Service Pension Scheme	<b>Classic</b>	<b>Premium, Nuvos, Classic Plus</b>	3% to 8.05%	5.6%
	1.5% to 6.85%	3.5% to 8.85%		
NI Teachers Pension Scheme	6.4% to 12.4%		7.4% to 11.7%	9.6%
NI Police Pension Scheme	<b>1988 Scheme</b>	<b>2006 Scheme</b>	12.44% to 13.78%	13.7%
	14.25% to 15.05%	11% to 12.75%		
NI Fire and Rescue Service Pension Scheme	<b>Fire Pension Scheme (1992)</b>			13.2%
	11% to 17%	8.5% to 12.5%		
NI Judicial Pension Scheme	N/A		4.6% to 8.05%	5.8%

<sup>45</sup> The rates applied differ across the multiple arrangements in place for each scheme. The contribution rates are tiered with reference to salary bands.

## GLOSSARY OF TERMS

To assist understanding, a glossary of terms is provided below. It explains certain terms and references used:

**Accrual:** The rate at which pension benefits build up for the member e.g. 1\80<sup>th</sup> times pensionable pay for each year of membership.

**Accrual rate:** The rate, as a proportion of pensionable earnings, at which pension builds up for each year of membership.

**Accrued pension:** The amount of pension built up in the final salary or career average scheme up to the current date. In the new 2015 scheme, this takes account of the pension earned in all scheme years to date, together with the index-linking that has been applied to date.

**Active scheme membership:** Members paying or due to pay ongoing contributions and accruing benefits in the scheme. For the purposes of index-linking, a member may be treated as having remained active if they return to pensionable service following a break of five years or less, and providing they have not drawn the benefits already accrued in full. For the purposes of protection and tapered protection, a member was an active scheme member on 1 April 2012 provided they were either: paying contributions and accruing benefits at that point; or had done so previously, had not drawn benefits in full, and return to paying contributions and accruing benefits within five years or less of having previously done so.

**Actuarial valuation:** A report of the financial position of a defined benefit pension scheme carried out by an actuary every three or four years. The report typically sets out: the scheme's assets and liabilities as at the date of the valuation; the rate at which the sponsoring employer must contribute to meet the liabilities accruing as they become due; and the additional rate at which the employer must contribute to eradicate any deficit (the excess of liabilities over assets) within a stated time period.

**Age profile:** The process of counting and comparing the numbers of people in different age bands.

**Average age of retirement:** The most common age at which an employee leaves one's job and ceases to work.

**Benefit Statements:** Document issued by the entity managing a pension or retirement plan to the plan's participants. Among other items of information, it informs the participant of his or her status in the plan, accumulated contributions including the interest, and the estimated value of the plan as at the statement date.

**Cap and Share:** This is an arrangement applying to the pension schemes for Health Service workers, Teachers, Civil Servants and Local Government Workers whereby increases or reductions in the costs of a scheme identified in a Pension Scheme actuarial valuation are shared between employees and employers up to the value of the cap. Above the cap the increases or reductions are borne by employees, either

by changing employee contributions or the cost of employee benefits or both. Below the cap, increases or reductions are shared between employers and employees.

**Career Average Revalued Earnings (CARE):** A defined benefit scheme in which pension benefits are based on a career average pay and length of membership in the Scheme and re-valued to retirement.

**Consumer Prices Index (CPI):** An index of inflation published by the Office for National Statistics. This is the current basis for determining cost of living increases for public sector pensions.

**Deferred pension:** A pension which is yet to be put into payment.

**Deferred pension age:** The age at which a deferred pension can be drawn.

**Defined benefit pension:** A pension where the pension is related to the members' salary or some other value fixed in advance. Final salary and career average are typical examples of such a scheme.

**Defined contribution pension:** A pension which is related to contributions made by the employee, employer or both.

**Directions:** A legislative instruction given by the Department of Finance.

**Employee contribution rates:** The percentage of their pensionable salary that employees pay as a contribution towards a pension.

**Employer contribution rates:** The percentage of the salary of employees that employers pay as a contribution towards the employees' pension

**Final salary scheme:** A defined benefit scheme that gives members a pension based on their final salary, the accrual rate and the period of service.

**High Flyer:** A term used by the Hutton Commission to describe a person who experiences rapid salary progression throughout their career.

**Ill health retirement:** An employee, who cannot work any longer due to sickness, may be able to take their pension benefits early through ill health retirement.

**Indexation:** The technique used to adjust income payments or the uprating of a pension fund in line with an index.

**Life expectancy:** Life expectancy at a given age,  $x$ , is the average number of years that male or female aged  $x$  will live thereafter.

**Low Flyer:** A term used by the Hutton Commission to describe a person who does not experience rapid salary progression throughout their career.

**Northern Ireland Statistics and Research Agency (NISRA):** NISRA is the principal source of official statistics and social research on Northern Ireland.



**Normal Pension Age (NPA):** The age at which benefits would come into payment in full, i.e. without actuarial adjustment. Normal Pension Age is linked to State Pension Age in the new 2015 scheme.

**Nuvos:** A career average civil service pension arrangement.

**Pensionable pay:** Pensionable pay is the earnings against which the scheme member and the employer will pay contributions and is the salary used to calculate the pension earned in any given year. For those in multiple employments, including those working more than full-time, the pensionable earnings from all employments can be taken into account in determining the members' benefits, subject to contributions being paid in respect of them.

**Pensionable service:** Pensionable service is the service against which the member's pension benefits will be calculated.

**Pensioner:** Members who are in receipt of a retirement pension. In addition, this will also include pensions payable to surviving adults and other dependants entitled to benefits in respect of deceased former members of the scheme.

**Public Sector Pension Schemes:** These comprise both public service pension schemes and other schemes in the wider public sector.

**Reformed schemes:** The new 2015 arrangements for the public service pension schemes in Northern Ireland whereby benefits will be determined on a career average basis, i.e. a percentage of the salary earned in each scheme year.

**Retail Prices Index (RPI):** An index of inflation published by the Office for National Statistics. This was the basis for determining cost of living increases for public sector pensions prior to the use of Consumer Prices Index (CPI).

**Revaluation:** Annual adjustment applied to amount of accrued pensions.

**Rule of 85:** A provision of the Local Government Pension Scheme (Northern Ireland) which allowed members, who retired early, to take their pension entitlements without penalty if the sum of their age and length of membership equalled 85 years or more. This rule was abolished on 1st October 2006 however members who joined before this have some protections.

**Scheme liabilities:** The scheme liabilities at a given date are an estimate of the total value of future payments that the scheme will have to make to all scheme members in respect of pension rights which have been earned before that date.

**Scheme member:** A person who has contributed to the scheme and is an active member, deferred member or pensioner.

**Scheme year:** The period 1 April to 31 March.

**Stakeholder:** A stakeholder is anybody who can affect or is affected by an organisation, strategy or project. They can be internal or external and they can be at senior or junior levels.

**State Pension Age (SPA):** The age at which the State Pension would normally become payable.

**Terms of reference:** A Terms of Reference describes the purpose and structure of a project, committee, meeting, negotiation, or any similar collections of people who have agreed to work together to accomplish a shared goal.

**Underpin:** These are protections that apply to members who are close to retirement to ensure that they receive a pension at least equal to that which they would have received had the Scheme not changed on 1 April 2015. The underpin date is the date a member reaches age 65, or the date they died in service or the date they left the scheme with an immediate entitlement to pension (including flexible and voluntary early retirement).

**Valuation:** A report, carried out by the scheme actuary, of the financial position of a defined benefit pension scheme, which informs the contribution rates needed going forward.

**Workforce:** Workforce defines the makeup of an organisation's personnel.

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