Independent
Financial
Review
Panel

INDEPENDENT FINANCIAL REVIEW PANEL

CONSULTATION ON ASSEMBLY MEMBERS' PENSION SCHEME

A copy of this consultation document can be accessed on the IFRP website (www.ifrp.org.uk), by email (info@ifrp.org.uk) or by writing to the IFRP at:

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Belfast
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The Consultation Document can be made available in large type on request.

18 February 2014

NORTHERN IRELAND ASSEMBLY MEMBERS' PENSION SCHEME

CONSULTATION DOCUMENT

FOREWORD

As you will be aware, the Independent Financial Review Panel was appointed to make Determinations in relation to the salaries and allowances payable to members of the Northern Ireland Assembly under section 47 of the Northern Ireland Act 1998, and also the pensions, gratuities and allowances payable under section 48 of that Act.

The Panel is currently undertaking research in preparation for its next Report and Determination which will take effect in the next mandate. We plan to engage in a series of consultation exercises in relation to the various elements which will be covered by the next Determination.

In our first Report, which was published in March 2012, we undertook to carry out a review of the Assembly Members' Pension Scheme and it is that which will be the subject of our first consultation exercise. We are of course aware of the need to take account of the uncertainty surrounding a career in politics in Northern Ireland and to ensure that Assembly Members have a fair pension scheme which is an attractive element of the remuneration package whilst at the same time does not impose a burden on the public purse.

It is essential that we share our proposals with those who will be directly and indirectly affected by our ultimate decisions. We would urge you therefore to respond to this consultation exercise and help us to ensure that the Assembly Members' Pension Scheme is one which will be attractive, fair and affordable.

PATRICK MCCARTAN CBE, Chairman, Independent Financial Review Panel

DR HENRIETTA CAMPBELL CB, Panel Member

ALAN MCQUILLAN OBE, Panel Member

INTRODUCTION

1 The Independent Financial Review Panel was established on 1 July 2011. It is responsible for setting the level of salaries, allowances and pensions of the members of the Northern Ireland Assembly. The Panel published its first Report and Determination in March 2012 which set the level of salaries, allowances and pensions for the remainder of the current mandate.

2 The Panel will publish its next Report and Determination approximately twelve months before the end of the current mandate. This will set the level of salaries, allowances and pensions for the next mandate. However the Panel may make a separate Determination in respect of pensions in advance of its next Report.

3 In its 2012 Report, the Panel indicated its intention to undertake a review of the Assembly Members' Pension Scheme in order to inform its decisions for the next mandate. This document is the first step in that process.

PURPOSE

4 The aim of this consultation document is to seek views on proposals which recognise that a fair and reasonable pension scheme is an essential part of the remuneration package of Assembly Members and which do not deter good and competent candidates from considering running for public office.

CURRENT POSITION

Public Service Pension Schemes

Great Britain

5 Public Sector pensions in the UK are undergoing radical reform. The Public Service Pension Act 2013 introduced new public service pension schemes the core provisions of which are:

- a move to Career Average Earnings (CARE) scheme model of pension saving instead of one based on final salary;
- a direct link to equalise schemes' Normal Pension Ages with the State Pension Age (except for the police and fire and rescue services);

- a Normal Pension Age of 60 (subject to regular review) for the police and fire and rescue services;
- protection for final salary based benefits already accrued;
- a scheme cost cap with a default mechanism to maintain costs within set cost floor and ceiling limits;
- transitional protection measures for scheme members who were within 10 years of their Normal Pension Age on 1 April 2012; and
- revised measures for scheme governance.

Northern Ireland

6 Details of the Pension Scheme for Members of the Northern Ireland Assembly are set out at: http://www.niassembly.gov.uk/Documents/Your_MLAs/Assembly-Members-Pension-Scheme-2012-22102012.PDF

7 Responsibility for public service employees is a devolved matter. However, a longstanding convention of parity of provision in this area that the main provisions of Northern Ireland Schemes are largely identical to the equivalent schemes in Great Britain. Devolved administrations which do not adhere consistently to the policy framework for all their public service schemes will have to bear the cost of any exceptions from the block grant allocated from Central Government.

8 The Department of Finance and Personnel consulted on reforms and proposed actions to amend public sector pensions in Northern Ireland. The Executive subsequently decided 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 schemes in line with their equivalent schemes in Great Britain and not to adopt different approaches for Northern Ireland.

9 A Public Service Pension Bill which reflects these principles completed its Final Stage in the Assembly on 4 February 2014 and is currently awaiting Royal Assent. It is a framework Bill and will therefore not contain details on individual scheme designs which will instead be set out in Regulations.

IPSA proposals for Members of Parliament

10 Following a consultation in relation the pay and pensions of Members of Parliament which took place between July and October 2013, the Independent Parliamentary Standards Authority (IPSA) agreed a new pension scheme, the main features of which are as follows:

- Defined benefit scheme based on career average revalued earnings (CARE).
- The aim of reducing the overall cost of pensions from 32% of MPs payroll to 22.9%
- Retirement age to be the same as the State Pension Age or 65 whichever is the higher.
- An accrual rate of 1/50th of pensionable salary each year.
- Revaluation rate equivalent to the increase in the Consumer Price Index.
- The aim for MPs to pay 40% of the cost of the scheme and the taxpayer 60% with a ceiling and floor arrangement to ensure stability in contribution rates and to protect the taxpayer from significant increases in cost.
- Death in service and survivor pension benefits reduced from the current level for MPs (four times the annual pensionable pay plus three months as well as 5/8ths of the annual pension) to the same level as the Ministers' scheme (twice the annual pension as well as 3/8ths of the final pension for each year the member was active).
- Transitional protection for MPs within 10 years of retirement age on 1 April 2012. They will stay in the existing scheme until they retire and will retain their current normal pension age. They will pay the increased contributions for their salary level. MPs between 10 and 13.5 years from retirement can choose to stay within the existing scheme for a period.

The Current Position in relation to Assembly Members

11 The Assembly Members' Pension Scheme provides a pension based on final salary ie the salary for the final year of service. It is a funded scheme which means that the pensions are paid from a fund containing the investment contributions of the taxpayer and Assembly Members. The contribution rates from the Assembly Members and the taxpayer are relatively high however the benefits provided by the scheme are generous by public sector standards. Currently 44 MLAs are contributing 7% and 60 are contributing 12.5%.

12 The Assembly act as final guarantor of the Scheme should a situation arise where it is unable to meet its liabilities. However the Scheme is

well funded and the Actuary's Reports indicate that such circumstances are very unlikely.

13 Details of the Scheme are available at: http://www.niassembly.gov.uk/Documents/Your_MLAs/Assembly-Members-Pension-Scheme-2012-22102012.PDF

14 In its March 2012 Report the Panel recognised that the nature of politics in Northern Ireland has often made it difficult for former MLAs to obtain employment elsewhere or even return to their formal professions. It was also aware of the imminent and substantial changes which UK public sector pensions were about to undergo. Because the scale and nature of the changes were unclear, the Panel decided to make a small number of immediate changes until the long term position was clearer. It concluded that:

- the accrual rates of $1/50^{th}$ and $1/40^{th}$ would be retained;
- the contribution rates for MLAs would be increased from 1 July 2012 by an additional 1% to 7% (for the $1/50^{th}$ scheme) and to 12.5% (for the $1/40^{th}$ scheme). This equates to £3360 and £6000 per annum respectively;
- the employer's contribution paid by the Assembly Commission should be kept under annual review to be adjusted as appropriate to provide for scheme planning to meet its liabilities within a reasonable timescale as recommended by the Trustees and actuarial valuations;
- all pensions in payment and deferment ceased to be increased in line with the Retail Price Index (RPI)) with effect from 31 March 2012 with future indexation being in line with the Consumer Price Index (CPI);
- the provisions in the Pension Scheme which provided for Favourable Early Retirement ceased with effect from 1 April 2012.

PROPOSALS FOR NEXT MANDATE

15 The Panel recognises that a fair and reasonable pension is an essential component of the pay and allowances support for all MLAs who choose to contribute, and for those who aspire to be MLAs. It notes that the current Pension Scheme is in good health and has received a favourable report from the Government Actuary.

16 The Panel is also mindful of the current economic climate including:

- the need to ensure that the pension scheme is not an unfair burden on the taxpayer;

- the increase in life expectancy and the consequential increased pressure on the pension fund;
- returns from investments have significantly reduced;
- the radical review of public sector pensions in GB and NI.

17 During its deliberations, the Panel considered the two types of pension schemes ie a defined benefits scheme and a defined contribution scheme. In a defined benefits scheme, the employee knows what benefit he /she will receive on retirement. Contribution rates may rise but the benefits are guaranteed by the employer. The risks of a lower investment return are borne by the employer. In a defined contribution scheme the risks are borne by the employee. If investment returns are lower than anticipated, the pension payments are likely to be lower. The Panel concluded that in line with the public service, the basis of the Members' Pension Scheme should remain unchanged ie a defined benefits scheme. At the same time the Panel was very conscious of the need to maintain broad parity in benefits with political institutions and the public sector in other areas of the UK and to limit the financial risks for the taxpayer inherent in the Members' Pension Scheme.

18 In line with the position in Great Britain and Northern Ireland and in the proposals for the public service, the Panel is recommending the following:

18.1 **Proposal 1**

A move to a Career Average Revalued Earnings (CARE) scheme model for all new contributors to the Pension Scheme after the date of the next NI Assembly election.

In a final salary scheme, a pension is typically calculated as a fraction of the final salary for each year of service. "Final Salary" is calculated at the level of pay during the member's last year of employment.

In a Career Average scheme, a member builds up a slice of pension based on their salary in that year. At the end of the year the "slice" is increased to reflect price or earnings increases. When the member finally leaves, their total pension is calculated by adding up the slices that they have accumulated.

Rationale for Proposal 1

The move to a CARE scheme is consistent with pension reform in the public sector in Great Britain and Northern Ireland and also the Independent Parliamentary Standards Authority's proposals for the MPs' Pension Scheme.

The reform of public sector pensions in Northern Ireland will take effect from April 2015 with the exception of the scheme for local government workers which will be introduced in April 2014.

It is the view of the Panel that a CARE scheme is fair both to Assembly Members and the taxpayer. It will help reduce costs for the Assembly and provide value for money for the public.

18.2 Proposal 2

The retirement age for MLAs should be the same as the State Pension Age or 65, whichever is the higher.

Rationale for Proposal 2

The increase in life expectancy has made the current pension scheme an expensive one for the taxpayer. Returns from investments have decreased in recent years as a result of market conditions. The link between the retirement age for MLAs and the State Pension Age recognises the increase in life expectancy as well as the cost to the taxpayer. It is also in line with reforms in public sector pensions in Great Britain and Northern Ireland and in the House of Commons.

18.3 Proposal 3

There should be transitional protection for Assembly Members within 10 years of retirement age on 1 April 2015.

Rationale for Proposal 3

Assembly Members who were within 10 years of their existing normal retirement age on 1 April 2015 will have the option to remain in the Scheme existing at that time and will retain their pension age. This is the practice in the public sector and the Panel is of the view that Assembly members should benefit from the same protection. This arrangement will allow Assembly Members to plan for retirement.

18.4 Proposal 4

The contribution rates for MLAs should be set at an appropriate percentage of their salary which will achieve an accrual rate of 1/50th of the final career average salary. It is the Panel's intention to ensure that contributions are based on Actuarial Reports and a target of 40% employee and 60% employer.

Rationale for Proposal 4

It is the Panel's intention to move to a single contribution rate for Assembly Members which will generate an accrual rate of 1/50th of the Member's career average salary.

18.5 **Proposal 5**

The Panel is proposing that Assembly Members' death in service benefits should be reduced from the current rate of 3 x annual pensionable pay to 2 x annual pensionable pay and that the survivor pension be reduced from 5/8ths of the annual pension to 3/8ths.

Rationale for Proposal 5

The Panel's proposals are in line with the Northern Ireland public sector and IPSA proposals for Members of Parliament.

LEAVING THE PENSION SCHEME

19. An Assembly Member who ceases to make contributions to the Pension Scheme and later re-joins will be treated as a new member of the Scheme.

CONSULTATION QUESTIONS

Should you wish to respond electronically, please download the consultation questions by clicking on the following link or by typing it into your browser http://nia1.me/1w9**.**

Alternatively you may send your response to:

Independent Financial Review Panel
Room 24, Parliament Buildings
Ballymiscaw
Stormont
Belfast BT4 3XX

The deadline for responses to this consultation is 5PM ON TUESDAY 8 APRIL 2014. Responses received after this date may not be considered.

You may wish to note that the names of respondees and in some cases, the full response, will be published unless you indicate when you submit your response that you do not wish this to happen.

NAME:…………………………………………………………….

ORGANISATION (IF APPLICABLE):……………………………

……………………………………………………………………..

ADDRESS:………………………………………………………….

…………………………………………………………………………….

It is not essential to include your details. You may respond anonymously if you prefer to do so.

QUESTION 1

Do you think the Scheme should be:

A defined benefits scheme . In a defined benefits scheme, the employee knows what benefit he /she will receive on retirement. Contribution rates may rise but the benefits are guaranteed by the employer. The risks of a lower investment return are borne by the employer

YES/NO

A defined contribution scheme. In a defined contribution scheme the risks are borne by the employee. If investment returns are lower than anticipated, the pension payments are likely to be lower.

YES/NO

Please state the reason for your choice

QUESTION 2

Do you agree with the Panel's proposal to move to a Career Average Scheme as set out in paragraphs 18.1?

YES/NO

If "no", please state why you disagree.

QUESTION 3

Do you agree with the Panel's proposal as set out in paragraphs 18.2 that the retirement age for MLAs should be in line with the State Pension Age?

YES/NO

If "no", please state why you disagree.

QUESTION 4

Do you agree with the Panel's proposal as set out in paragraphs 18.3 that there should be transitional protection for Assembly Members within 10 years of retirement on 1 April 2015?

YES/NO

If "no", please state why you disagree.

QUESTION 5

Do you agree with the Panel's proposal as set out in paragraph 18.4 to move to a single accrual rate of 1/50th of the Member's career average salary?

YES/NO

If "no", please state why you disagree.

QUESTION 6

Do you agree with the Panel's proposal in paragraph 18.5 that the death in service and survivors' benefits should be in line with those of the public sector?

YES/NO

If "no", please state why.

Please list below any proposals for alternative arrangements relating to the Pension Scheme which you believe the Panel should consider:

NEXT STEPS

The Independent Financial Review Panel invites your views on the questions listed above and any other additional comments which you wish to make. We will also consult with the Assembly Members Pension Scheme Trustees. The responses and comments will help inform our decisions for our next Determination.

CONSULTATION RESPONSES

The deadline for responses to this consultation is 5PM ON TUESDAY 8 APRIL 2014. Responses received after this date may not be considered.

You may wish to note that the names of respondees and in some cases, the full response, will be published unless you indicate when you submit your response that you do not wish this to happen.

DISCLOSURE OF INFORMATION

The Independent Financial Review Panel may publish or make available on request, any information provided to it in relation to this consultation exercise.

In line with the provisions of the Data Protection Act 1998, information coning personal data will not be disclosed.

You should be aware that your response, or an extract from it, may appear in a Report or may be included on a list of evidence submitted.

In the event of a request under the Freedom of Information Act 2000, it may be necessary to disclose information which you provide.

If you are providing any information, other than personal data, which you feel is not suitable for public disclosure, you should identify that information and provide a reasoned argument against its disclosure. The Independent Financial Review Panel will take this into account when publishing information or when responding to requests for information.

CONTACT DETAILS

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