EXPLANATORY MEMORANDUM TO THE PUBLIC SERVICE (CIVIL SERVANTS AND OTHERS) PENSIONS (AMENDMENT) REGULATIONS (NORTHERN IRELAND) 2025

S.R. 2025 No. 109

1. Introduction

1.1 This Explanatory Memorandum has been prepared by the Department of Finance to accompany the above named Statutory Rule which is laid before the Northern Ireland Assembly.

1.2 The Statutory Rule is being made under powers conferred by section 1(1) and 2(A), 2(1), 3(1), (2), (3), 22(1) paragraph 1 of Schedule 2 and Schedule 3 to the Public Service Pensions Act (Northern Ireland) 2014. The Public Service (Civil Servants and Others) Pensions (Amendment) Regulations (Northern Ireland) 2025 shall be subject to the negative resolution procedure.

2. Purpose of the rule

2.1 The Statutory Rule specifies adjustments to the employee contributions percentage rates to meet the required scheme yield. These changes will take effect from 01 July 2025.

3. Background

3.1 The Northern Ireland Civil Service Pension Scheme (NICSPS) is contributory, meaning members and their employers are required to pay towards the cost of benefits they build up in the scheme. An actuarial valuation is carried out every 4 years to ensure the level of contributions made by members and employers meets the cost of their pension rights as they accrue them.

3.2 NICSPS members are required to collectively contribute 5.6% of their pensionable earnings per annum across the whole scheme membership. This is known as the 'scheme yield'. Whilst the yield is a fixed percentage the 5.6% requirement is shared out across the workforce by charging a sliding scale of rates to members according to their pensionable earnings. The aggregate amount collected needs to add up to 5.6%. This is known as 'tiered contributions' and is the method adopted across most public service pension schemes in the UK.

3.3 The 2020 scheme valuation highlighted that in recent years the actual yield achieved has been at 5.4% per annum which is below the requirement of 5.6%. This shortfall is not sustainable and needs to be addressed. All public sector schemes are required to take the appropriate measures to ensure that their required yield is collected over the 2020 scheme valuation implementation period which runs from 01 April 2024 to 31 March 2027.

3.4 Although Public Service Pensions in Northern Ireland are devolved, in general the policy adopted reflects central government policy and funding

arrangements. The Treasury requires a commitment from schemes to achieve the scheme yield and therefore, adjustments are required to address the shortfall.

3.5 In 2023, the Department of Finance (the Department) commissioned the Government Actuary Department (GAD) to provide an analysis and measures that could be taken to rectify the shortfall in employee contributions. The Department also commissioned the NICS Scheme Advisory Board (SAB) to consider options and provide advice to the Department with a view to enacting the increases from 01 July 2025.

3.6 Several options were considered to achieve the required scheme yield. These included moving to a single 5.6% contribution rate across all salaries. This was however dismissed as it would have a disproportionate effect on the lowest paid. Other considerations included splitting salary band 2 in two bands with the upper band paying a higher rate, and a fixed increase to the contribution rates which apply to each salary band. It was decided that the fairer of these options was an increase to the percentage contributions rates which are applied to each band. However, as the Department remains committed to protecting the lowest paid employees as far as possible, it directed that GAD take this into account in their analysis and deliberations.

4. Consultation

4.1 In accordance with the provisions set out in Section 22 of The Public Service Pensions Act (Northern Ireland) 2014 (the Act) the Department undertook a 12-week consultation which ran from 13 January 2025 until 07 April 2025. The consultation document set out the Department's approach to meeting the required employee contribution scheme yield.

4.2 The consultation sought views on the proposed changes to employee contribution percentages. The consultation document set out three options for consideration. There were 360 responses in total from scheme members, Trade Unions and other stakeholders. The majority of respondents were broadly in agreement with the proposals, which the draft regulations gave effect to. The three options offered are summarised in the consultation paper available on the Department of Finance Website (see link below).

4.3 After careful consideration of the responses received the Department have decided that Alternative 1 is the most appropriate option of the three options offered. This option would meet the scheme yield whilst having minimal impact across the range of member grades, particularly the lower paid grades. The Department will now proceed with the making of the draft regulations to give effect to the changes to the employee contribution percentage rates. The Statutory Rule will be effective from 01 July 2025.

4.4 The Department has prepared a response to the consultation which addresses the points raised and which has been published alongside the consultation paper on the Department's website at: Northern Ireland Civil Service Pension Scheme: Consultation on Scheme Yield / Member Contributions

5. Equality Impact

5.1 The Department undertook an equality screening exercise on the draft regulations and found no differential adverse impact for s75 groups. A full EQIA is not considered necessary. The screening document is available at: Northern Ireland Civil Service Pension Scheme: Consultation on Scheme Yield / Member Contributions

6. Regulatory Impact

6.1 The Statutory Rule imposes no cost on business, charities, social economy enterprises or the voluntary sector. A regulatory impact assessment is not considered necessary.

7. Financial Implications

7.1 The Statutory Rule specifies changes to be made to the employee contribution percentage rates in order to meet the required employee scheme yield. This is required by Treasury as the shortfall is no longer sustainable There are no financial implications for the Department of Finance.

8. Section 24 of the Northern Ireland Act

8.1 It is the view of the Department that the Statutory Rule is compatible with section 24 of the Northern Ireland Act 1998.

9. EU implications

9.1 Not applicable.

10. Parity or Replicatory Measure

10.1 No changes have been made to the GB scheme as they have met their required employee scheme yield. The variance in yield performance for the NICSPS since 2019 is largely due to its member profile. In comparison to the Civil Service Scheme in GB where the required yield is being met, the scheme in NI has a higher proportion of members in lower paid grades, who pay scheme contributions at a lower percentage rate of pay. In contrast the scheme in Britain has a higher proportion of members in higher paid grades, who contribute to the scheme at a higher percentage rate of pay, thus increasing the yield.

11. Additional information

11.1 Not applicable.