EXECUTIVE COUNCIL

PUBLIC

Title:	Retirement Pensions Ordinance 1996 – Increasing the retirement age from 2020
Paper Number:	114/18
Date:	29 August 2018
Responsible Director:	Financial Secretary
Report Author:	Financial Secretary
Portfolio Holder:	MLA Roger Spink & MLA Roger Edwards
Reason for paper:	This paper is submitted to Executive Council: For policy decision (including budgetary policy)
Publication:	Recommended
Previous papers:	Executive Council paper 51/13 "Retirement Pensions Fund Actuarial Review 2011"
List of Documents:	Appendix A: Retirement Pensions (Amendment) Bill 2018 (draft) Appendix B: Retirement Pensions (Prescribed Rates) (Amendment) Regulations 2018 (draft)

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1. Recommendations

Honourable Members are recommended to:

(a) Note that the 2017/18 "FIG Budget Highlights" issued in May 2017 made a clear statement that: "the retirement age will increase by 1 year every 10 years starting 2020", and that this reflects the minutes of the Budget Select Committee of 30 May 2017 and the ExCo decision of 26 March 2013.

(b) Approve the amendment of the relevant provisions of the Retirement Pensions Ordinance 1996 to reflect an increase to the age at which a person becomes entitled to a retirement pension in accordance with Option 2 in section 5 below.

(c) Approve that people who are in receipt of pension as at 1 January 2020 (because they reached the age of 64 on or before 31 December 2019), are able to continue with their pension during the calendar year 2020 as a specific transitional measure.

(d) Approve that employer contributions increase to the new retirement age of 65 from 1 January 2020 (and associated amendments be made to the Ordinance and the Retirement Pensions (Prescribed Rates) Regulations 1996.

(e) Agree that minor (non-substantive) changes or corrections may be made to the attached draft Bill before it is published, or to the draft regulations before they are made; if the Attorney General believes that is required.

2. Additional Financial Implications

2.1 Increasing the age at which a person becomes entitled to a retirement pension is a component of the approach that FIG is taking to reduce the pension liability[1].

3. Executive Summary

3.1 The Retirement Pensions Ordinance 1996 makes provisions relating to pensions payable on retirement and for connected matters.

3.2 A full retirement pension is available for every person that has made 2,200 weekly contributions, and is paid from the age of 64 years, at present.

3.3 This paper recommends increasing the retirement pension age by one year every 10 years from 1 January 2020, consistent with the 2017/18 publicised budget decisions.

3.4 The start date will be taken as 1 January 2020, for when the age of being entitled to a pension increases from 64 to 65.

3.5 There will be on-going monitoring of the financial health of the Falkland Islands Pensions Equalisation Fund by regular actuarial reviews, with the next one to be based upon 31 December 2018.

4. Background

4.1 There was an actuarial review of the Falkland Island Government Retirement Pension Fund ("RPF") as at 31 December 2016, which was the first actuarial review for five years, in accordance with section 19 of the Retirement Pensions Ordinance 1996. The actuarial valuation reported a £82m deficit, based on assets of £60m and calculated liabilities of £142m.

4.2 Without decision and action, the RPF could become exhausted within the lifetime of some existing recipients of RPF, let alone younger contributors.

4.3 The current and previous Assemblies have been prudent in legislating for a number of measures, for example, increasing the rate at which employee and employer contributions increase, and this is reflected in the Finance Bill 2017 and Finance Bill

[1] Appendix 2: Actuarial Assumptions on page 55 of the "Falkland Island Government Retirement Pension Fund: Actuarial Review 31 December 2016" makes clear the assumption of retirement age increasing.

2018[2]. In addition, an annual lump sum payment by FIG in excess of £1.5m was agreed, and this will increase at a faster rate than pensions. The third component of change was to increase the age at which people can become eligible for RPC.

4.4 As part of the 2017/18 budget process a decision was made at a Budget Select Committee meeting on 30/05/17 to increase the retirement pension age from 64 to 65 in 2020, and by one year every ten years after that. This is consistent with the approved Recommendation in Executive Council paper 51/13 of 26 March 2013 "Retirement Pensions Fund Actuarial Valuation 2011" that approved a progressive increase in the retirement age of 1 year every 10 years from 2020.

4.5 This recommendation of the Budget Select Committee of 30 May 2017, and the Executive Council decision of 26 March 2013, is not yet enshrined in legislation, and this paper seeks Executive Council endorsement to proceed with the required changes.

4.6 The 2017/18 "FIG Budget Highlights" issued in May 2017 made a clear statement that: "the retirement age will increase by 1 year every 10 years starting 2020", and that this reflects the minutes of the Budget Select Committee of 30 May 2017. There is a need to ensure that pensions remain affordable to contributing employees, employers and FIG.

4.7 This paper deals only with the changes due in 2020. A further legislative change will need to be approved by a subsequent Legislative Assembly to effect the intended increase to 66 years from 1 January 2030.

4.8 During the 2017/18 Budget Select Committee process there was no documented change suggested for the qualifying age of receipt of a widow/widower pension, and this remains at 60 years.

4.9 In 2013 and 2017, there was no proposal to phase in the changes so that those affected from 1 January 2020, would receive a proportion of the payment in that year, had the age limit not been increased. Someone who is 64 on 31 December 2019 might be able to claim pension, but someone 64 on 1 January 2020 will not be able to claim until 1 January 2021.

4.10 The decisions made in 2013 and 2017 were communicated widely at the time. There is scope for specific communication to individuals that will be affected, where current contact details are held. The first group to be contacted will be those born on or after 1 January 1956.

4.11 There is one area of transition that does need to be covered and that is for individuals who turn 64 between 1st January 2019 and 31 December 2019. There are 45 individuals recorded as having at least 250 weekly contributions. It is proposed that there is a specific transitional provision to state that once they start being in receipt of a pension, that it does not stop[3].

[2] The retirement pension contribution rate (resident) will increase from £15.75 to £16.75 per week (matched by the employer); self-employed and voluntary contributions will rise to £33.50 per week

[3] For example, a person turns 64 on 30 June 2019, and starts to receive their weekly pension. They will still be 64 on 1 January 2020 when the pension age increases to 65. It is proposed in these cases that the pension is not stopped for the six months until 1 July 2020 when the person actually reaches 65.

4.12 Employer contributions are referred to in regulation 4 of the Retirement Pensions (Prescribed Rates) Regulations 1996. It is proposed that the employer contributions should be paid in line with the new retirement age.

5. Options and Reasons for Recommending Relevant Option

5.1 Options are:

5.2 Option 1: Do nothing.

5.3 Doing nothing will perpetuate the current mismatch between the legislation and the decision made by the Budget Select Committee in 2017. If the legislation is not updated, then the increase in age cannot happen, which could then have adverse consequences on the financial strength of the Falkland Islands Pensions Equalisation Fund.

5.4 Option 1 is not recommended because the issue of financial sustainability of the Pensions Equalisation Fund is not addressed.

5.5 Option 2: Increase the age at which a person is entitled to a pension from 64 to 65 from 1 January 2020.

5.6 The 2017/18 "FIG Budget Highlights" issued in May 2017 made a clear statement that: "the retirement age will increase by 1 year every 10 years starting 2020", and that this reflects the minutes of the Budget Select Committee of 30 May 2017.

5.7 Honourable Members are recommended to approve Option 2.

5.8 Option 3: Increase the pension age, but with a phasing in of the impact on those most affected

5.9 Under the changes, a person born on 31 December 1956 gets a pension at age 64; a person born on 1 January 1957 has to wait another year. There are around 45 people a year reaching 64 who would be eligible for a full or partial pension under current rules[4].The total value of the estimated accrued benefits for this cohort[5] would be around £170,000 for one year[6]. This issue then would be the length of time the transition would be in place for, and what proportion of full pension would be paid.

5.10 Note that there will be a transitional phase for those reaching 64 between 1 January 2019 and 31 December 2019.

5.11 Although the paper refers to a decision of the Budget Select Committee in 2017, there were pension consultation and awareness campaigns in the years before that. Public meetings were held in camp (east and west) and Stanley, with one to one sessions being

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[4] A person is eligible for a pension only if they have made at least 250 weekly contributions (sch 4 (2) (a) of Retirement pensions Ordinance 1996.

[5] Some people will be overseas, are not traceable and will not claim their pension. In additional there will be some pre-1997 entitlement that will need reviewing and add to the entitlement for some individuals.

[6] 47,000 contribution weeks divided by 2,200 equals 21 full pensions, multiplied by an annual pension of £8,112 (52 weeks X £156 per week).

made available (again there were a number of visits to individuals on both the east and west). The leaflets which were produced for employers, employees and self-employed all included information that the retirement age was to increase in 2020. These were distributed with the end of year tax forms to ensure that information was available to as many as possible. During Farmers Week in 2016 and 2017 Pensions held a session and discussed both FIPs and RPC and included information about the pension age increase.

5.12 Each retirement pension statement sent out by the pensions office includes date of retirement therefore anyone who contacted FIG for a statement of contributions would have had their date of retirement confirmed, which would have been adjusted to account for the increasing retirement age.

5.13 Option 3 is not recommended because there was communication about the retirement age increasing in the years before 2017.

6. Resource Implications

6.1 Financial Implications

6.2 Increasing the age at which a person becomes entitled to a pension is a component of the approach which FIG is taking to work towards a sustainable pension for eligible persons. The saving is that from 2020, pensions will not be payable to those who are not 65 years or over. The issue is not an in year saving, but rather the cumulative impact of reducing the current estimated pension deficit over a long period of time.

6.3 The Falkland Islands Pensions Equalisation Fund was £82.1m in deficit based on the actuarial valuation of 31 December 2016[7].

6.4 FIG has committed to paying in excess of £1.5m per annum as a lump sum contribution to the Pensions Equalisation Fund over the term of the five year medium term financial plan.

6.5 For the time being there will not be an adjustment to Winter Fuel Allowance, which is currently payable on application in respect of households accommodating retirement pensioners and persons in receipt of level 2 or 3 Attendance allowance during the period from June – September annually. Instead, this will form part of a wider review of welfare payments, which is planned to be completed before 2020.

6.6 Human Resource Implications

No direct implications, but there may be an impact in terms of employees working longer.

6.7 Other Resource Implications

None

[7] Table 13 on page 38 of the "Falkland Island Government Retirement Pension Fund: Actuarial Review 31 December 2016"

7. **Legal Implications**

8. The Retirement Pensions Ordinance 1996 and the Retirement Pensions (Prescribed Rates) Regulations 1996 will need to include provision for the changes agreed.

9. **Environmental & Sustainability Implications**

9.1 None

10. **Significant Risks**

11. Commitments made to persons who are entitled to a pension to be paid from The Falkland Islands Pensions Equalisation Fund under the Retirement Pensions Ordinance 1996 will remain a significant financial liability for a number of years into the future.

12. There is a risk that the financial liability may increase. FIG can mitigate the risk by tasking actions to work towards financial sustainability of the Falkland Islands Pensions Equalisation Fund, and to monitor the situation through regular (every three years at least) actuarial valuations.

13. **Consultation**

13.1 Consultation formed part of the 2017/18 budget process.

14. **Communication**

14.1 Treasury will work with the Head of Communications to identify the best way to put the message across. Treasury will identify appropriate ways to demonstrate that those affected in the near future (i.e. the increase from 64 to 65 from 1 January 2020) are aware of the pending changes.

Appendix A - 07.08.2018

Retirement Pensions (Amendment) Bill 2018

(No: of 2018)

ARRANGEMENT OF PROVISIONS

Clause

RETIREMENT PENSIONS (AMENDMENT) BILL 2018

(No: of 2018)

(assented to: .... 2018)
(commencement: 1 January 2020)
(published: .... 2018)

A BILL

for

AN ORDINANCE

To amend the Retirement Pensions Ordinance 1996 and to provide for connected matters.

BE IT ENACTED by the Legislature of the Falkland Islands —

1. Title
This Ordinance is the Retirement Pensions (Amendment) Ordinance 2018.

2. Commencement
This Ordinance comes into force on 1 January 2020.

3. Amendment of Retirement Pensions Ordinance
This Ordinance amends the Retirement Pensions Ordinance 1996.

4. Amendment of sections in Schedule
The sections of the Retirement Pensions Ordinance 1996 listed in the first column of the Schedule are amended to the extent shown in the second column of the Schedule.

5. Transitional provisions to Retirement Pensions (Amendment) Ordinance 2018
The amendment to section 4(1) of the Retirement Pensions Ordinance 1996 made by this Ordinance does not affect the entitlement on 1 January 2020 to claim and to receive a retirement pension by a person who reaches the age of 64 years between 1 January 2019 and 31 December 2019.

SCHEDULE

section 4

AMENDED SECTIONS AND EXTENT OF AMENDMENT

Section	**Extent of amendment**
4(1)(b)	Omit 64 and replace with 65
6(1) and (1A)	Omit 64 and replace with 65
7(2)(a)	Omit 64 and replace with 65
10(3)	Omit 64 wherever it appears and replace with 65
11(1)	Omit 64 and replace with 65
12(1)	Omit 64 and replace with 65
12(2)	Omit 64^{th} and replace with 65^{th}
13(1)(b)	Omit 64 and replace with 65

OBJECTS AND REASONS

This Bill amends the Retirement Pensions Ordinance 1996 so as to increase the age at which a person becomes entitled to a pension from 64 to 65 years. The amendment takes effect on 1 January 2020. The decision to increase the pensionable age is based on an actuarial valuation of the Pensions Equalisation Fund carried out in December 2016 and ExCo decisions of 2013 and 2017.

Clause 4 provides for a Schedule in which is listed the sections that are amended and the extent of the amendments.

Clause 5 is a transitional provision to cater for persons who turn 64 years between 1 January 2019 and 31 December 2019. Those people are entitled with effect from 1 January 2020 to claim and to receive their pension despite the amendments made by this Bill to section 4(1) of the Retirement Pensions Ordinance 1996.

SUBSIDIARY LEGISLATION

Retirement Pensions (Prescribed Rates) (Amendment) Regulations 2018

S. R. & O. No: of 2018

Made: 2018
Published: 2018
Coming into force: 1 January 2020

I make the following regulations under section 11 of the Retirement Pensions Ordinance 1996, on the advice of the Executive Council.

1. Title
These Regulations are the Retirement Pensions (Prescribed Rates) (Amendment) Regulations 2018.

2. Commencement
These Regulations come into force on 1 January 2020.

3. Regulation 4 amended: Contributions by employers
Regulation 4(1) of the Retirement Pensions (Prescribed Rates) Regulations 1996 is amended by omitting “64” and replacing it with “65”.

Made 2018

N. J. Phillips C.B.E.,
Governor.

EXPLANATORY NOTE
(not part of the regulations)

These regulations amend the Retirement Pensions (Prescribed Rates) Regulations in regulation 4 by increasing 64 to 65. This brings the regulations in line with the amendment made to the Ordinance whereby the age at which a person becomes eligible to a pension is increased from 64 to 65. This amendment to the regulations will require employers to continue contributing until an employee is 65 years old.