

UNISON Scotland

Pensions Delegate Meeting – 7 August 2013

LGPS 2015 Scheme

Introduction

This paper updates the pensions meeting on progress with the Scottish LGPS negotiations following detailed negotiations over the last two months and outlines the options for the next stage of negotiations. It also outlines initial discussions over new governance arrangements. There is a meeting of SLOGPAG on 6 August and therefore we will update the meeting on progress.

Base line scheme

The Government Actuaries Department (GAD) had been asked to cost a base line scheme based on the current Scottish LGPS scheme, the requirements of the Public Service Pensions Act and the Scottish Government's requirement that the cost envelope remains unchanged from the 2008 agreement. The aim of a base line scheme is that we can cost standard provision based on the primary benefit, the accrual rate, and then cost improvements. This leaves the option of improving benefits by increasing member contributions or reducing the accrual rate. However, we are working on the assumption that in the current period of pay restraint, increasing contributions is unlikely to be favoured by members.

The current accrual rate in the Scottish LGPS is 60ths. One of the advantages of a career average scheme is by spreading the benefits more evenly; it is possible to improve the value of pensions in payment through a better accrual rate. For most public sector pension schemes this means an accrual rate of around 50ths, in the case of the England & Wales LGPS, 49ths.

The SLOGPAG Technical Group has been working through a complex series of calculations to assess the best possible accrual rate for the Scottish LGPS. These are based on a series of assumptions informed by what is at best limited data. We start from some 'advantages' compared to England in that as our members die younger our scheme is cheaper. We also have a slightly higher cost ceiling. However, the down side of these higher post-retirement mortality assumptions is that ill-health retirement is higher, as is death in service. The Scottish LGPS also has better benefits and our membership profile is slightly older. All of these are more expensive.

The Technical Group is recommending to SLOGPAG that these pluses and minuses roughly balance out and therefore the base line scheme should be based on an accrual rate of 49ths.

Other benefits

If SLOGPAG accepts this recommendation the next step is to consider if we wish to amend the current scheme in addition to the changes forced by the Pensions Act i.e. career average and pension age. These are the main issues the meeting will need to consider:

- Pensionable pay in career average schemes are usually costed on total rather than contractual pay because there is no disadvantage in taking one off overtime into account as there is in a final salary scheme. However, members and employers will have to pay contributions on this income in return for a bigger pension.
- An early retirement scheme is feasible but not without cost. If we were to give all members the option of retiring one year early with an unreduced pension it would cost around a 0.6% increase in employee pension contribution or a reduction in the accrual rate of 1.9 i.e. 51 instead of 49ths. It also has equality impact considerations as better off, predominately male staff, are more likely to be able to take advantage of the scheme. On the other hand it may address the high mortality rates among male manual workers.
- Commutation rate. An increase from the current £1 for £12 to £1 to £15 would cost 1% in contributions or 3pts off the accrual rate. I believe that this is over priced as it doesn't take into account increased take up that saves the scheme money. However, we should be wary of making the option too attractive as members generally lose out due to pessimistic mortality assumptions.
- Partner's pensions currently have a fixed accrual rate of 160ths. To improve this to 50% of member's pension would cost 0.9% contribution increase or 2.4 points off the accrual rate.
- Improvement in revaluation rate. Each year the pension pot in a career average scheme has to be revalued to ensure it at least keeps up with inflation (CPI). We have the option to improve this by increasing by value by a % or by a flat rate. However, because this is a universal benefit it is expensive

equal to 2% on contributions or 6 points on the accrual rate. This would tend to benefit long service members.

- 50:50 'pay less, get less' option. If this option brings members not currently in the scheme (almost a quarter of the workforce) it is clearly a positive option. However, if existing members downgrade to save contributions it is a negative. This is a particular risk in 2016 when NI contributions increase. Without this option the scheme will become more costly at around 0.5% contribution and 1.5 accrual points.

Once we have an agreement on the base line scheme and benefits we can consider the contribution bands. The average contribution will remain at 6.3%, but as with the current bandings these will be progressive to reflect the higher benefits accrued by higher paid staff. We are working on the assumption that we will retain the Scottish approach to contribution bands that delivers a smoother contribution curve.

Workforce data

CoSLA has now collated detailed workforce data for local councils that will form part of the equality impact assessment of the scheme. We will make this available at the meeting. The overall gender split is 72% female to 28% male. In terms of membership of the Scottish LGPS, 26% of female members are not in the scheme compared with 21% of men. The difference is not as great as might be expected given the much larger proportion of part-time female members. For example, 40% of women not in the scheme work less than 10 hours. There is also a rough correlation between men and women in the scheme by age. The most significant outlier is young men aged 21-30 who are less likely to be in the scheme.

Governance

The SLOGPAG governance sub-committee has started its work and is identifying the primary issues that need to be covered by the Heads of Agreement and the detailed issues that will be addressed later. An initial trade union side position paper has been submitted. Some of the key issues at this stage include:

- Pension Board. The employer's side would prefer separate structures for the Scheme Manager and Pensions Board. They argue that one committee, as allowed for in regs, is not practical due to the scrutiny role. However, two boards have obvious logistical issues and will need two groups of councillors. It will need a change in the Local Government (S) Act 1973 if roles are combined.
- Fund Structure. There is an outstanding issue over the separation of pension funds from host councils and the number of funds (11) in Scotland. There is a separate consultation in E&W on this issue.
- Scheme Advisory Board. Essentially the new SLOGPAG. The E&W scheme is proposing a complex board with five sub committees. There is a consensus that something simpler would be preferable in Scotland. However, it should still cover the full remit.
- Cost control. There are draft Treasury directions out for consultation. Likely to specify the what (2% cost cap), but not the how, because the Treasury has no veto power over the Scottish LGPS.
- Scheme data. Likely to be fairly onerous data requirements on each fund and scheme. Given problems with the current arrangements some consistency would be welcome.
- Regulatory oversight. The role of the Pensions Regulator has yet to be clarified, but it appears to be fairly light touch.

The Heads of Agreement will only identify a process for addressing many of these issues, as they require detailed consideration. However, there is likely to be a difference between CoSLA and us on the timetable for discussions on broader reform.

Next steps

There are a number of detailed issues to be resolved by the Technical Group over the next few weeks in addition to the contribution bands. Assuming agreement can be reached on these issues it is likely that SLOGPAG will consider a draft Heads of Agreement at its scheduled meeting on 29 August. CoSLA leaders will consider their position on 30 August. That leaves us the option to hold another pensions meeting in early September. The Service Group Liaison Committee will need to take a final decision at its meeting on 12 September. A ballot of all members will follow.

A Scottish Pensions Bulletin will be issued after our August meeting and a more detailed member communication strategy will be prepared in the run up to the ballot.

Dave Watson
Scottish Organiser
31 July 2013