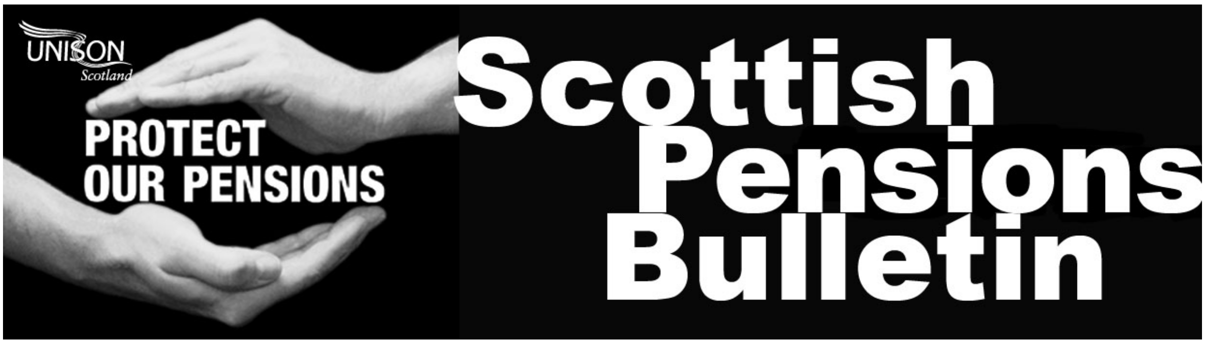

No.3 **November 2006**

Rule of 85 Transitional Protection Regulations

Regulations have been laid in the Scottish Parliament to implement transitional protection for existing members of the Scottish Local Government Pension Scheme as the Rule of 85 is removed. The Rule is being removed from the LGPS to comply with EC law (EC Directive 2000/78/EC) with effect from December 1, 2006. This legal position was confirmed by the judgement on the UNISON judicial review on the decision to remove the Rule of 85 from the Local Government Pension Scheme in England and Wales.

The Regulations **give full transitional protection to 2020** for existing members who would have reached age 60 and satisfied the Rule - that their combined age and length of service is 85 or more - by that date, and who decide to leave before 65. These regulations go beyond those in England and Wales, which offer full transitional protection to 2016 and tapered protection for those who will be 60 and satisfy the 85 year rule between 2016 and 2020. The total cost of implementing transitional protection in Scotland is estimated at £360 million.

Most importantly **all the savings from this enforced change to the Rule of 85 will be put back into the LGPS** and will be available as part of our ongoing discussions over a new LGPS for Scotland (see Scottish Pensions Bulletin No.1). This contrasts with the position in England where only 50% of the savings are being retained.

Minister for Finance and Public Service Reform Tom McCabe said:

"Removing the Rule of 85 will also release financial savings from the local government pension scheme. We are determined to ensure that every saving made from its removal will be put back into the LGPS. This will help ensure that the new scheme is fair, healthy and delivers for all its members."

The regulations also provide for the new Scottish Police Services Authority to be an LGPS employer - a provision covering those staff who transfer from police boards to the new authority by virtue of a staff transfer order.

Pensions Meeting

The next pensions delegate meeting will be held on **Friday 1 December at 11:30am** prior to the Local Government Service Group conference. This will include an update from the next tripartite meeting (SLOGPAG) now scheduled for 30 November.

Because the SLOGPAG meeting date has drifted the **pensions seminar planned for 22 November will <u>not</u> take place**. We plan to hold this seminar early in the new year when we will have a detailed discussion on the options for the new LGPS in the light of costing information that should be available by then.

Fund Valuation

An important factor in discussions over the future Scottish LGPS will be the strength of pension funds. Three yearly valuations of funds at 31 March 2005 were finalised in February and March 2006. They measure fund liabilities against the assets and check the solvency of funds. These valuations recognise the funding strategies adopted by each fund and use them to value liabilities and to set future contribution rates.

Pension Fund	Adminstering Authority	2002 Valuation (%)	2005 Valuation (%)
Aberdeen City Council Pension Fund	Aberdeen City Council	99	84
Dumfries & Galloway Pension Fund	Dumfries & Galloway Council	106	89
Falkirk Pension Fund	Falkirk Council	100	86
Fife Council Pension Fund	Fife Council	97	86
Highland Pension Fund	Highland Council	105	92
Lothian Pension Fund	City of Edinburgh Council	96	85
Orkney Islands Pension Fund	Orkney Islands Council	101	87
Scottish Borders Pension Fund	Scottish Borders Council	101	93
Shetland Islands Pension Fund	Shetland Islands Council	101	99
Strathclyde Pension Fund	Glasgow City Council	108	97
Tayside Pension Fund	Dundee City Council	97	91
Scottish Average		**101**	**89**

The valuations show a decline in funding levels from the valuations at 31 March 2002. However, in comparison with LGPS funds in England and Wales (and very many private sector funds) the Scottish LGPS funds are relatively healthy. In addition most funds anticipate a strengthening position by March 2007. For example the largest fund, Strathclyde, has a projected funding position of 104% next year.

It also has to be remembered that the funding valuations are merely a snapshot in time of the estimated liabilities and assets of each fund. The valuations also assume that all pension liabilities must be paid at the one time – in other words all members retiring on the date of valuation. It is unrealistic that everyone in the scheme will retire on the same day, live to the same age, and die on the same day, and this is the only way that the liabilities reported would become a real and meaningful figure.

Further details on LGPS funding will be published in P&I Briefing 146.

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Regulations and consultations can viewed in full on the SPPA website www.sppa.gov.uk.