



No. 35

February 2013

Framework for LGPS Negotiations

Branch LGPS Pension Champions gathered in Glasgow to give initial consideration to a framework for negotiations on a new Scottish Local Government Pension Scheme (LGPS), should the UK Public Service Pensions Bill be passed as currently drafted. In this bulletin we focus on some of the key issues members will need to consider as the negotiations develop.

The current LGPS scheme will close in April 2015 and the new scheme will be heavily prescribed by the provisions of the Public Service Pensions Bill. However, that still leaves scope for negotiation on a range of issues and the Scottish Government has made it clear that the only requirements are that the new scheme is lawful and affordable. We are currently, with the employers and Scottish Government, collecting a wide range of data that will influence our approach to many of the issues below.

CARE Scheme

The new scheme must be a defined benefit 'career average' (CARE) scheme as final salary schemes will be unlawful. CARE schemes are explained in this UNISON guide (<http://www.unison.org.uk/pensions/careschemes.asp>). Generally, final salary schemes benefit members who gain promotions later in their career. With CARE schemes the benefits are spread more evenly across the membership and are reasonably predictable but more complicated to calculate. There is a useful pictorial guide to CARE [here](#).

There may be further constraints on the type of CARE scheme we can negotiate in Treasury regulations. However, it will certainly require consideration of a new accrual rate and restructuring the employee contribution bands. The revaluation rate is likely to be set by Treasury regulation.

It is important to emphasise that the contribution 'tax' imposed on other public sector schemes still does not apply to the Scottish LGPS.

Retirement Age

The Normal Retirement Age (NRA) must be the same as the state retirement age. That is 66 from 2020, 67 from 2026-28 and after that linked to life expectancy estimates. This is likely to see the NRA rise to 70 and beyond. More on this [here](#).

In light of this we may wish to consider amending the flexible retirement provisions and review the actuarial reductions used for voluntary early retirement. However, any improvements will have cost implications for all scheme members. In the past we have taken the view that members who choose to retire early should not be subsidised by those who work to the NRA. The later retirement age has particular implications for the Scottish scheme given shorter life expectancy and the wide range of occupations covered by the scheme.

The state pension is likely to change with new proposals in a UK government White Paper. This could also result in an increase in members and employers National Insurance contributions. More on this [here](#).

Cost Sharing

The 2009 scheme introduced cost sharing provisions into the Scottish LGPS. However, the new scheme must set an employer cost cap expressed as a percentage of pensionable earnings. Again Treasury regulations may constrain negotiations further.

Other Issues

While these are the three main change requirements driven by the legislation we may wish to consider reviewing other aspects of the scheme including:

- **Ill health retirement.** There is an outstanding requirement from the agreement on the 2009 scheme to review the working of the three tier system. We will publish an assessment of this when the data is available.
- **Certificate of protection.** Given the later retirement age and public service reform we may wish to update these provisions.
- **Commutation of pension to lump sum.** Members have the option to commute pension on retirement into a lump sum. The prevalence of this impacts on scheme funding and we may wish to review the current £1 for £12 ratio.
- **Death in service arrangements.** We will look at the current data and consider the adequacy of current provision.
- **Contribution and benefit flexibility.** The new English scheme has a 50/50 option whereby members can pay half the contributions for half the benefits. It does allow members to temporarily reduce contributions at times of financial strain and stay in the scheme. On the other hand it risks creating elements of a two tier scheme.
- **Partner pensions.** In particular the fairly low 1/160th accrual rate.
- **Definition of pensionable pay.** In particular the inclusion of non-contractual overtime and other additional payments to reflect changing working patterns and contracts.
- **Protections.** The Rule of 85 transitional protections and the proposed protection of final salary and retirement age for those within 10 years of retirement at April 2012. These do have cost implications for other scheme members.
- **Vesting period.** This is the period after joining the scheme when a member is entitled to benefits. The current two year period is considered by some to be too long.

Next Steps

Consideration of many of these issues will depend on an assessment of the scheme and workforce data. A sub-group of SLOGPAG is collating this data and we will publish further details of the options as the negotiations develop. In the meantime branches are asked to begin consultations with members on these issues. UNISON's SLOGPAG representatives are available to attend branch meetings to facilitate such discussions.

There is a very tight timetable for these negotiations unless our amendments to the UK Bill are agreed. The main negotiations will take place over the next four to six months with formal consultation in August/September (including a ballot). The aim is to conclude a Heads of Agreement by the end of September 2013.

Governance

We have an outstanding action from the 2009 scheme agreement to review the revised governance arrangements. In addition, the Pensions Bill includes provisions for stronger scheme and fund governance, something UNISON has long argued for. This will therefore also be a feature of negotiations over the new scheme.

More information at:

Scottish Pension Web Pages: <http://www.unison-scotland.org.uk/pensions/index.html>

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