Scottish Pensions Bulletin

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LGPS Negotiations Update

In the last bulletin we set out the issues that were likely to feature in the renegotiation of the Scottish LGPS. The UK Public Service Pensions Bill is completing the final stages of the parliamentary process and the amendments have not altered the main changes that will be necessary to keep the Scottish LGPS compliant with UK law.

In the last month we have supplemented the bulletin with presentations at branch level to explain the likely changes to members. There have also been regular meetings of the pensions body SLOGPAG to agree a framework for the negotiations and collate data from the pension funds and local authorities. As expected data collection has been challenging and we are still some way from finalising this stage of the process.

Main changes

The main change is that the new scheme must be a defined benefit 'career average' (CARE) scheme as final salary schemes will be unlawful. 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. One of the issues we are considering is how the annual pensions 'pot' should be uprated to ensure it keeps its value at retirement. It may be possible to agree a better valuation than inflation, but this will have a cost.

The other main change is the Normal Retirement Age (NRA) that 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. We are costing flexible retirement provisions although again any improvements will have cost implications for all scheme members.

In addition it has been agreed at SLOGPAG to focus on other possible changes and cost the options on:

- **Certificate of protection**. While CARE schemes have an element of protection when there is a change in pay there is still a need to consider updating these provisions.
- **Commutation of pension to lump sum**. Members have the option to commute pension on retirement into a lump sum. At present there is a £1 for £12 ratio and we are costing improvements to this.
- **Contribution and benefit flexibility**. There appears to be a limited appetite for a 50/50 option whereby members can pay half the contributions for half the benefits as in the new English scheme. 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**. We are costing an improvement to the current 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. It increases the pension, but it means contributions are payable on all pay as well.
- **Protections.** The protection of the value of the current final salary scheme for all and an underpinning for those members within 10 years of retirement.
- **Ill health retirement.** Reviewing the working of the current scheme and options for improving.

Cost Envelope
The Scottish Government has confirmed that the negotiations should take place within the cost envelope agreed in 2008. That is a total cost of benefits contribution equivalent to 19.6% of pensionable pay. Average employee contributions are 6.3% with employer contributions making up the difference. There is no pensions contribution 'tax' as applies to colleagues in the Scottish NHS scheme.

There is a preference to keep the smoother Scottish 'tax band' approach to contribution bands, compared to the English 'cliff edge' approach. The actual contribution rates within each band will change as this is a CARE scheme and all parties understand the need to ensure that low paid workers in particular are not forced out of the scheme.

The final part of the cost process is the accrual rate, currently at $1/60^{th}$. For financial purposes this is left as the balancing item when other benefits have been costed. However, we would expect the benefits of a CARE scheme to result in a better accrual rate.

State Pension
In the UK Budget the Chancellor announced he was bringing forward the new flat rate state pension to 2016. One of the consequences of this is ending the National Insurance (NI) contracting out provisions. This means an increase in National Insurance contributions of 1.4% for scheme members. Employer contributions will increase by 3.4% and it is as yet unclear how this will be accounted for in English departmental budget allocations and therefore the Barnett formula.

Governance
We have an outstanding action from the 2009 scheme agreement to review the governance arrangements at fund level. There has also been an amendment to the UK Bill that states that pension boards must have equal numbers of employer and employee representatives. This is radically different from the current boards that are largely made up of councillors.

We also believe that pension funds could be used more effectively. For example 45% of the £24bn in the Scottish funds is invested overseas. We have recently published a plan to invest pension funds in housing that will benefit scheme members and the Scottish economy.

Timetable
There are three stages to the negotiation process:

1. Explaining to members the main changes to the scheme forced by the UK pensions bill and the framework for negotiations. This stage is coming to a close.

2. Collating the data on the current scheme and costing options for consultation. There have been some delays in this but we would hope to be able to consult on options by sometime in May.

3. A draft agreement in principle. The timetable for this is June/July followed by a ballot of members in August.

If agreement is reached the Scottish Parliament legislative process will begin followed by implementation in April 2015.

The next Pension Champions meeting will be held when the Stage 2 options are available. Representatives from all service groups will also be invited to that meeting.

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