Heads of Agreement New Local Government Pension Scheme (Scotland)

Agreed by:

Scottish Local Government Pensions Advisory Group (SLOGPAG):

For the Scottish Government ....
For COSLA ....
For the Trades Unions ....

January 2008

Contents

Foreword

This document sets out the final terms of the agreement reached by the Scottish Local Government Pensions Advisory Group (SLOGPAG)[1] on the content and operation of a new Local Government Pension Scheme (LGPS) for Scotland. Formed in November 2006, SLOGPAG has taken a collaborative approach towards developing this new scheme - a scheme that meets Scottish needs which has been forged in partnership. All parties have participated equally in an open and transparent process, which has been underpinned throughout by an ethos of mutual respect.

For local government, as elsewhere, the reform process has been about dealing with the increasing costs of scheme benefits - as a result of people living longer in retirement and drawing pension benefits for longer - and ensuring these costs are shared fairly. It has also focussed on modernising the scheme to recognise changing social factors, such as an increasing level of partners cohabiting, and changing working patterns such as an increase in the number of people working part-time. Throughout the reforms, the review partners have been clear that the LGPS needs to remain as attractive to prospective and current employees as possible and should, as far as is practicable, have a benefit structure that remains competitive with the other main comparator public service pension schemes. Consequently, the high level objectives for the reform of the LGPS were set as follows:

- to ensure that the scheme becomes affordable and sustainable over the longer term for employers, scheme members and tax payers;
- to be a fairer scheme for all stakeholders; and
- to provide quality benefits to scheme members.

The new LGPS (Scotland) will take effect from 1 April 2009, replacing the existing scheme from that date. As the new scheme commences all existing scheme members and new entrants will become members of the new LGPS (Scotland).

This agreement provides for a modernised scheme, reflective of the broader employment context of its members in the 21st century, which ensures benefits are fair and valued by all scheme members – full time and part time workers; managers, administrators and manual workers; and long and short serving employees alike. The new scheme represents a fair deal for Local Government workers, employers and for the taxpayer, ensuring that the scheme remains both affordable and sustainable.

[1] SLOGPAG is a partnership between COSLA, trade unions for Local Government in Scotland and the Scottish Government

Executive Summary

1. This agreement meets the high level objectives set for a new, reformed LGPS in Scotland. It delivers a scheme that provides valued benefits for scheme members, is fairer for all stakeholders and, crucially, is affordable and sustainable for the longer-term. Headline features of the new scheme include:

   a) Retention of the current final salary structure. This benefits many members of the scheme and will minimise the effect of changes on existing scheme members.

   b) Improvement in the accrual rate – from 1/80th pension and 3/80th lump sum to 1/60th pension (in line with the majority of other reformed public pension schemes)

   c) Introduction of a 5 point tiered employee contribution rate, which is 'banded'. This provides for fairer contribution rates for scheme members at the lower end of the pay scale. As contributions benefit from tax relief, a tiered arrangement of contributions, where scheme members pay a proportion of earnings up to each limit and then higher contributions on earnings above each limit, also improves the perceived fairness of contributions at different salary levels.

   d) Increased lump sum death in service benefit from two times to three times pay

   e) Pensions for partners who cohabit

   f) Better targeted ill-health pension provisions through a two-tier benefit scheme, with a third tier provided by a discretionary employer lump sum payment to operate alongside the scheme. These improvements provide better security for scheme members and their dependants in the event of death or inability to work due to serious ill-health.

   g) The scheme has been designed to help ensure it is both fair and affordable into the future, for example through a commitment towards cost sharing and the incorporation of an increase in the employee contribution rate. It should be noted that this affects a change in the take-home pay of existing scheme members. Improvements have also been made to a number of the benefits provided to scheme members.

2. Table 1 (overleaf) set out the key features in summary form, whilst Annex A provides an 'at a glance' comparison with the features of the existing LGPS.

3. It has been agreed that there will be a successor group to SLOGPAG, which will oversee further development of the LGPS, including:

   a) Cost-sharing: All parties recognise the importance of developing a mechanism that allows future changes in scheme costs to be shared equitably between employers and scheme members. Such a mechanism will be developed by 31 March 2010.

   b) Governance: SLOGPAG wishes to encourage good practice in LGPS governance arrangements, in particular including the best practice advisory, consultation and communication arrangements adopted by a number of Scottish funds. A review of such governance arrangements will be completed by 31 October 2008.

Role of SLOGPAG

4. SLOGPAG comprises representatives of COSLA (on behalf of councils and administering authorities), Local Government Unions and the Scottish Government. Group membership is set out in Annex B.

5. This group was tasked with developing a new Scottish LGPS in line with Scottish needs and with delivering a scheme which is fair to all, as well as being legal and affordable over the longer term. All parties agreed to work towards achievement of the high-level objectives. Specific responsibilities were agreed, as follows:

- The Scottish Government had responsibility for facilitating the work of the tripartite group, liaising with Ministers, and ensuring proposals aligned with strategic policy issues in relation to local government (including financial aspects).

- The Scottish Public Pension Agency supported the wider Scottish Executive role, whilst also providing advice on regulatory issues and the broader public service pension context (including consistency with other schemes), and validation of the legal, financial and evidential elements of options. SPPA was also responsible for working in conjunction with the Scottish Government Legal Directorate (SGLD) to develop the new scheme regulations.

- Supported by employers' representatives, COSLA's key role was to discuss with unions the options for, and terms of, the new scheme, preparation of the affordability case and provision of statistical and other evidence from local authorities. COSLA and employers' representatives also played the key role in liaising and consulting with local authorities, disseminating outcomes to local authorities, and supporting co-ordination of local authorities' dissemination of outcomes to scheme members.

- Unions had responsibility for discussing with COSLA the options for, and terms of, the new scheme. Unions also have a role to liaise and consult with trade union members.

- All partners took responsibility for obtaining their own legal and actuarial advice as necessary, and for liaising with appropriate UK bodies.

Features of the new LGPS (Scotland)

Table 1 – Scheme features at a glance

<table>
<tr><th>Feature</th><th>New LGPS(Scotland) provisions by 1 April 2009</th></tr>
<tr><td>Type of scheme</td><td>Defined benefit final salary scheme, with a normal retirement age of 65.
Rule of 85 transitional protection to 2020 retained.</td></tr>
<tr><td>Accrual rates</td><td>1/60th with option to commute up to 25% of fund value into lump sum.</td></tr>
<tr><td>Death in service arrangements</td><td>A lump sum death grant of 3 times final pay.
Increases in partners lump sum to be provided where active, deferred or pensioner member dies. Short term spouses’ benefits removed.</td></tr>
<tr><td>Ill health benefits</td><td>Two entry point ill health provision where scheme members who are permanently incapable of carrying out efficiently the duties of their job:
(i) have no reasonable prospect of undertaking gainful employment before scheme normal retirement age of 65; or
(ii) have a reasonable prospect of undertaking other gainful employment before age 65.
Transitional protection for existing scheme members whose service enhancement would be less than under current arrangements (to be reviewed after three years).
Third tier, outside the pension scheme, consisting of one-off lump sum payment by employer at their discretion. Calculated on one week’s pay per year of service and limited to maximum of 30 weeks’ pay. Covers those whose employment is terminated on capability grounds, who are not in receipt of ill-health benefits and who have a reasonable prospect of undertaking further gainful employment before age 65.
Implementation of certificate of protection to cover circumstance where member is required to take lower salary due to ill health.</td></tr>
<tr><td>Partner pensions</td><td>Dependants’ benefits payable in respect of widows, widowers, civil partners, plus unmarried partners who cohabit, at rate of 1/160th</td></tr>
<tr><td>Flexible arrangements in the run-up to retirement</td><td>Current provisions for flexible retirement to be retained as feature of the new Scottish LGPS.
Increased flexibility through being able to draw all or part of occupational pension benefits without having to retire completely.
In case of flexible retirement, employer consent required to reduce hours or lower grade, but employer consent to access benefits only required in respect of those under age 60.
A provision to buy additional pension benefit.</td></tr>
<tr><td>Minimum Pension Age</td><td>All new scheme members to have Minimum Pension Age of 55 years.
All current scheme members will have Minimum Pension Age of 55 from 6/4/2010, except for any member who was in the scheme on or before 5 April 2006 whose employment is terminated on grounds of redundancy or efficiency and is aged 50 or over at that point. Such members will have a protected pension age of 50.</td></tr>
<tr><td>Working beyond 65</td><td>The ability to accrue service in the LGPS beyond age 65 up to age 75. Cost-neutral uplift factors for benefits accrued up to beyond age 65.</td></tr>
<tr><td>Contribution rates for scheme members</td><td>Introduction of a five-tier employee contribution rate structure, delivering an average employee contribution rate of 6.3%. Tiers operate on a banding system, as follows:
<table>
<tr><th>Pensionable pay</th><th>Rate (%)</th></tr>
<tr><td>On earnings up to and including £18,000</td><td>5.5%</td></tr>
<tr><td>On earnings above £18,000 and up to £22,000</td><td>7.25%</td></tr>
<tr><td>On earnings above £22,000 and up to £30,000</td><td>8.5%</td></tr>
<tr><td>On earnings above £30,000 and up to £40,000</td><td>9.5%</td></tr>
<tr><td>On earnings above £40,000</td><td>12%</td></tr>
</table></td></tr>
<tr><td>Contribution rates for employers</td><td>Overall average new scheme costs estimated at 19.6% of payroll, with employee contributions at an average of 6.3% Employer contributions to make up the difference.
Commitment to establishing cost sharing mechanism to ensure sustainability of the scheme over the long term.</td></tr>
</table>

Type of scheme

6. The scheme remains a defined benefit final salary scheme. This is consistent with the Joint Statement of Pension Principles outlined by COSLA and the Unions, which stated at an early stage that work should progress in trying to maintain a defined benefit final salary scheme. This is also consistent with the scheme type adopted for the majority of public service pension schemes, including the NHS, Teachers, Police, Fire and LGPS in England and Wales.

7. The LGPS retains the final-salary nature of the Scheme, in which a pension per annum is paid to scheme members from the normal retirement age of 65 as follows:

   Pension p.a. = (accrual rate) x (no years membership) x (final salary)

8. Under Section 279(1) of the Finance Act 2004, the Minimum Pension Age (MPA) for occupational pension schemes will be increased to 55 from 6 April 2010. In the LGPS the intention is that MPA for new scheme members following the introduction of the new scheme will be 55, but for existing scheme members MPA will remain at 50 until April 2010.

9. Existing scheme members who meet the following criteria will have a protected pension age of 50:

   a) aged 50 or over and whose employment is terminated on grounds of redundancy or efficiency; and

   b) was in the scheme on or before 5 April 2006

10. Where a member opts to leave employment at or after MPA and before their 65^{th} birthday, where the benefits are payable those benefits will be reduced in accordance with guidance issued by the Government Actuary's Department, using factors based on UK figures. There is also expected to be a review of the Club Transfer basis in autumn 2008, which may have implications for actuarial factors.

Accrual rates

11. The accrual rate for the new LGPS will be $1/60^{th}$ which is an improved benefit consistent with other public service schemes. This offers the greatest benefit to employees in terms of benefits from the scheme.

12. Though there is no automatic tax free lump-sum on retirement, tax changes implemented in October 2006 now provides scheme members with an option to commute pension, taking up to 25% of the capital value of annual pension benefits (including AVC benefits) as a lump sum. The rate of conversion is £12 for each £1 of annual pension commuted.

Death in service arrangements

13. A death in service benefit of three times final salary has been agreed. This reflects practice in other public service schemes, such as the Scottish Teachers scheme and the new England and Wales LGPS.

14. In addition to the increase in the death in service provision mentioned above, there will be increases in other partner benefits:

a) in the case of death of deferred scheme members, the lump sum will be increased to 5 times pension; and

b) in the case of death of pensioner scheme members, the lump sum will be increased to 10 times pension, less any pension already paid, if a pensioner dies before age 75.

15. The short-term spouses' pension has been removed, but the new death benefit arrangements described above provide more generous terms. SLOGPAG agreed that the aim should be to streamline administrative arrangements associated with paying death in service lump sums to ensure speedy payment.

Ill health benefits

16. Establishment of a tiered ill-health benefit structure brings the new LGPS into line with other public sector pensions schemes. For the new LGPS, a two-tier system will exist within the scheme augmented by a third tier that will lie outside the scheme, paid by employers.

17. The two tier ill health benefit structure within the scheme will be provided for those whose employment is terminated on grounds of permanent ill-health, as follows:

(i) where there is no reasonable prospect of undertaking gainful employment before age 65 - accrued pension benefits plus service enhanced by 100% of prospective service to age 65.

(ii) where there is a reasonable prospect of undertaking gainful employment before age 65 - accrued pension benefits service enhanced by 25% of prospective service to age 65.

18. Transitional protection for existing scheme members whose service enhancement would be less than under current arrangements (to be reviewed after three years).

19. Ill-health retirement pensions will be payable for life for both the first and second tier.

20. Definitions have been developed to support implementation of these tiers. In each case, judgements should be made on balance of probabilities rather than beyond reasonable doubt and based on what is likely rather than what is possible.

Table 2 – Tiered ill-health provisions

New provisions	Definitions
Criteria: Permanently incapable of carrying out efficiently the duties of the employment and - **Tier 1.** No reasonable prospect of undertaking gainful employment before age 65. **Tier 2.** Reasonable prospect of undertaking gainful employment before age 65.	**Reasonable prospect:** On balance of probabilities taking into account: • illness / medical condition; • objective assessment of functional capability; • any reasonable adjustments in terms of Disability Discrimination Act (DDA); • age; • the employee is/is not capable of undertaking gainful employment (defined below) prior to reaching age 65. **Gainful employment:** Any type of paid employment for not less than 30 hours per week for a period of not less than 12 months.

21. A third tier ill-health payment could be available outside the pension scheme. This would come from a discretionary employer lump sum for a person who would be capable of undertaking further gainful employment. Permanent incapacity is not required to be eligible for this payment. This third tier will provide a benefit in the form of a lump sum payment made under the Local Government (Discretionary Payments and Injury Benefits) (Scotland) Regulations 1998. It will be calculated on one week's pay for each year of service up to a maximum of 30 weeks' pay. This payment will be made by the employer, at their discretion, rather than by the pension fund. Up to a maximum of £30,000 the payment would be tax free.

22. SLOGPAG also noted trade union reservations over the definitions in paragraph 20. Consequently, the group has agreed that the operation of ill-health arrangements, including definitions and transitional protection will be reviewed after the 2011 triennial valuation.

Certificate of Protection

23. A provision whereby scheme members who suffer a reduction in earnings through circumstances outwith their control can be issued with or apply for a certificate of protection for their accrued service at the previous higher salary. This has been extended to cover persons who step down to lower paid posts as a result of ill-health. This provision supports Scottish and UK government initiatives to encourage the long term sick back to work and reinforce the provisions of the Disability Discrimination Act.

Partner pensions

24. Spouses and civil partner pensions have been retained and will be paid at a rate of 1/160th. The introduction of pensions for partners who cohabit has also been established at a rate of 1/160th.

25. Pension provision should also be backdated to 6 April 1988. This provides a clear, fixed and easy to administer criterion which is broadly in line with other public service scheme practice. In addition, we have introduced a facility for scheme members to purchase pre-April 1988 service, at full cost to the scheme members.

26. The criteria to be used to determine a nominated cohabiting partner will include the following elements:

    a) The partners are able to marry, or form a civil partnership and have informed the pensions administrator of the partner's details;

    b) The partners are living together as if they were husband and wife or as if they were civil partners for a continuous period of at least 2 years;

    c) neither partner is living with a third person as if they were husband and wife or as if they were civil partners, and

    d) either one partner is financially dependent on the other or both partners are financially interdependent.

27. These criteria have been adopted by other public service schemes, including the civil service pension arrangements.

Flexible arrangements in the run up to retirement

28. Provisions for flexible retirement include:

a) Provisions from the existing LGPS, which allow scheme members to:

   i. retire before the scheme's normal retirement age of 65 from 60, or from 50 with employer consent (55 from April 2010). Their pension will be reduced according to a set of cost-neutral early retirement factors, to reflect the fact that the pension is coming into payment earlier than expected and is likely to be in payment for longer than expected, with the exception of where rule of 85 applies;

   ii. take *flexible retirement* from 50 (55 from April 2010) where the employer gives their consent to either a reduction in hours or grade, and, in the case of those under 60 the employing authority consents to the member accessing pension. This will mean that the employee takes payment of their reduced pension before 65, while remaining in employment; or

   iii. continue to accrue service in the LGPS beyond age 65. In such cases cost neutral uplift factors will be applied to benefits upon retirement. The pension must be drawn by the day before the member's 75th birthday.

b) New regulations introduced following the Finance Act 2004, which brought significant, well supported flexibilities into the scheme. These arrangements enable scheme members to exercise additional control over their choices about saving for their retirement as follows:

   i. One of the key benefits for scheme members is the option to invest in their pension provision to a higher level. For example, scheme members can invest up to 100% of their salary into their pension scheme, as well as being able to contribute towards concurrent pension arrangements in respect of the same employment.

   ii. There is increased flexibility in terms of scheme members accessing their pension early. Scheme members are also able to take up to 25 per cent of the capital value of their annual pension (including AVC benefits) as a tax free lump sum, as an alternative to taking their benefits in the form of annual pension.

   iii. In addition, where a member continues to work and accrue benefits beyond age 65 the value of those benefits will be *increased* by cost-neutral uplift factors.

29. The new scheme also extends the current flexible retirement option to allow scheme members to draw all or part of their occupational pension benefits from the age of 55 (50 until 2010 for existing scheme members) without having to retire completely from that employment. This opportunity to build on existing flexibilities should help to:

- improve work life balance;
- improve the retention of experienced staff with valuable skills; and
- extend working lives.

30. For workforce planning reasons, a member applying for flexible retirement is required to obtain employer consent to reduce hours or lower grade. Where such consent is given, however, only applicants who are under age 60 will also have to get their employer's consent to access their pension benefits. This is because releasing benefits early in cases such as this gives rise to a "strain on the fund".

31. Work is ongoing to develop guidance on the application of the flexible retirement arrangements to ensure best practice. New actuarial tables for early retirement will also be produced for the new scheme.

Additional Pensions

32. To encourage scheme members to have greater control over their retirement options, more flexible and appropriate arrangements for buying additional pension benefit compared to the existing past and current added years (PAY/CAY) provisions have been introduced. These enable scheme members, or their employers on their behalf, to buy additional annual pension benefit of up to £5,000.

Contribution rates for scheme members

33. To ensure a more equitable scheme and a fairer rate across all salary scales, the new LGPS has a five tier member contribution rate system based on whole time pensionable pay. This will operate in a similar way to the current tax banding system i.e. a certain percentage of pensionable pay is payable up to a particular salary band, with a separate contribution rate payable on any salary above this, etc. For part-time and term-time staff, allocation to tiers is according to whole time equivalent pay. Implementing the tiered contribution system in this way limits the impact on individual's take home pay for those moving between salary bands.

34. The introduction of a tiered employee contribution rate contributes towards ensuring a fairer rate of contributions across scheme members. For example, it means that individuals towards the lower end of the pay scale contribute proportionally less than higher earners.

35. The average contribution rate for scheme members from 1 April 2009 will be 6.3%. This will ensure that the new scheme remains affordable upon implementation. The new rates are:

Table 3 – Employee contribution rates

Pay Band (pensionable pay)	Rate (%)
On earnings up to and including £18,000	5.5%
On earnings above £18,000 and up to £22,000	7.25%
On earnings above £22,000 and up to £30,000	8.5%
On earnings above £30,000 and up to £40,000	9.5%
On earnings above £40,000	12%

36. Introduction of a tiered employee contribution rate is likely to affect the take-home pay for scheme members from the date of implementation for the new scheme. This may increase or decrease in comparison with the contribution rate they currently pay, depending on the salary of that period. An illustration of the impact of this change is provided in Table 4.

37. Pay bands will change in line with the Retail Price Index, as covered by the Pensions (Increase) Act 1971.

Table 4 – Overall employee contribution rates under the tiered system (illustrative)

Overall Equivalent Contribution Rate under a Tiered Approach	
FTE Salary	**Avg. Rate**
£6,753	5.50%
£15,194	5.50%
£18,008	5.50%
£20,822	5.74%
£23,636	6.00%
£26,449	6.27%
£29,263	6.48%
£32,077	6.73%
£34,891	6.95%
£37,705	7.14%
£40,518	7.34%
£43,332	7.64%
£46,146	7.90%

Contribution rates for employers

38. Given the overall cost of benefits under the new scheme and an average employee contribution rate of 6.3%, the underlying average employer contribution rate from 1 April 2009 will be 13.3%. Of course, other factors, such as fund investment returns, determine the actual employer contribution rate.

Cost sharing

39. SLOGPAG has agreed the need to adopt cost-sharing in future, so that subsequent changes in the cost of benefits are shared equitably between employers and scheme members. Importantly this means that investment risk remains with employers.

40. Because the scheme has been developed to be both affordable and sustainable, it is not expected that the total costs of benefits will increase significantly in the short term. However, to ensure the scheme is sustainable over the longer term, cost sharing will ensure that both employers and scheme members share the impact of changes in scheme cost.

41. There is a variety of approaches to cost-sharing. SLOGPAG has agreed that the complexities associated with developing an appropriate model for the LGPS in Scotland mean it is important to set aside enough time to test practical and political issues prior to implementation.

42. Through this agreement, SLOGPAG re-affirms its commitment to the development of a cost sharing approach that will allow the new LGPS to continue as a final salary scheme for a longer period of time. It also affirms its commitment to the establishment of a sub-group to develop an agreed solution by 31 March 2010. The sub-group will report to SLOGPAG or its successor group. This deadline has the following advantages:

    a) it provides sufficient lead time for the appropriate systems and processes required to implement the agreed mechanism to be put in place

b) it will allow the agreed mechanism to influence the assumptions underpinning the triennial valuation as at 31 March 2011

c) it provides time to take account of any broader changes in scheme governance

43. No matter what cost sharing mechanism is established, all parties recognise that cost sharing will not necessarily negate the requirement to consider increasing the scheme normal pension age in due course in line with the DWP pension white paper, which reflects changing demographics on a UK basis.

Governance

44. SLOGPAG encourages and supports good practice in open and transparent governance arrangements in the LGPS, including the best practice advisory, consultation and communication arrangements adopted by a number of Scottish funds. It is also recognises that, to complement the collaborative approach towards the LGPS, it will be beneficial to review the governance arrangements to ensure they support excellent scheme performance.

45. Indeed, SLOGPAG has agreed that the regulations governing the new scheme should include a provision requiring each fund administering authority to publish a governance compliance statement setting out:

a) whether it delegates its function, or part of its function, in relation to maintaining a pension fund, to a committee, a sub-committee or an officer of the authority;

b) if it does:

(i) the terms, structure and operational procedures of the delegation;

(ii) the frequency of any committee or sub-committee meetings;

(iii) whether such a committee or sub-committee includes representatives of employing authorities (including Admission Bodies) or scheme members, and, if so, whether those representatives have voting rights;

c) the extent to which a delegation, or the absence of a delegation, complies with guidance given by the Scottish Ministers and, to the extent that it does not comply, the reasons for not complying.

46. The statutory guidance referred to at 42 c) will be issued to all fund administering authorities setting out best practice in the governance of PGPS pension around decision making during the course of 2008. Subject to the agreement of Scottish Ministers, such guidance could change, from time to time.

47. Scheme regulations will require administering authorities to publish their first governance compliance statements on or before the date of coming into force of new scheme, 1 April 2009.

48. It has been agreed that there will be a successor group to SLOGPAG.

49. SLOGPAG has agreed that a governance sub-group should be set up in 2008 to develop proposals for statutory guidance by 31 October 2008. These proposals will be agreed with SLOGPAG or its successor group.

Affordability, sustainability and fairness

Scheme costs

50. In keeping with the objective of ensuring that the new scheme is affordable and sustainable a robust approach has been taken to costing the benefits of the new scheme. Each of the three partners (COSLA; trade unions and Scottish Government) commissioned advice from three sets of independent actuaries. Though some minor differences exist between actuaries around assumptions of the future operation of the scheme and behaviour of scheme members[2], actuaries agree that these did not impact significantly on overall costs and that the new scheme is affordable.

Table 5: Comparison of cost of new scheme benefits with existing costs

	Total Costs			Split of costs	
	Existing Members	**New Entrants**	**Average**	**Employee**	**Employer**
Current scheme	20.3%	19.3%	19.8%	5.9%	13.9%
New scheme	20.4%	18.8%	19.6%	6.3%	13.3%

51. This is shown in table 5, which is drawn from the work undertaken for COSLA by Barnett Waddingham, Consulting Actuaries. It shows how the cost of benefits in the new scheme compare with existing scheme costs. Scheme costs will change with the passage of time, for example, as scheme members with Rule of 85 transitional protection leave the scheme or retire the total cost of the scheme will reduce. This is reflected in the average cost of the new scheme, which is forecast to be 0.2% of payroll less expensive than the existing scheme. Employers' share of the cost of scheme benefits, excluding the cost of the third-tier ill health provisions which lie outside the scheme[3], is projected to fall from 13.9% to 13.3%. Employees share of the cost of an improved scheme will increase from 5.9% to an average of 6.3%.

Equalities

52. The design of the changes to pension arrangements has taken equality issues into account. In particular, the introduction of a tiered employee contribution rate will lead to fairer contribution rates for scheme members at the lower end of the pay scale and the widening of pensions for partners to include cohabitees means that the scheme is not only more equitable but meets the needs of a modern pension scheme. As part of the governance arrangements, equalities issues will be kept under review by SLOGPAG or its successor group.

[2] Trade unions views are that employers' actuaries have been conservative in their assumptions
[3] The cost of the ill-health third-tier has been estimated to be 0.1% of payroll.

Implementing the new scheme

Transition from current to new scheme

53. From 1 April 2009, the new LGPS (Scotland) will come into force. From that date, the current LGPS will effectively close and all existing and new LGPS members will become members of the new scheme. Whilst it is self-evident what this will mean for new entrants, existing scheme members:

    a) will automatically accrue pension in accordance with the new scheme for future service

    b) will have two pension calculations (for old and new scheme entitlement) when they retire

    c) who retain Rule of 85 transitional protection will accrue at the new rate, but will also be able to retire on an unreduced pension when the Rule is met [4]

54. These transitional arrangements will be reviewed by SLOGPAG or its successor group after the 2011 triennial valuation.

Next steps

55. The signing of this agreement by Local Government employers (COSLA), Trade Unions and Scottish Government officials marks a significant milestone in the process of putting in place a modernised LGPS. However, a number of tasks remain before the new scheme becomes fully operational. These, together with timescales for their completion are set out in Annex C.

SLOGPAG,
January 2008

[4] Three calculations may be necessary for members retiring before age 65 with service prior to March 2008 (i.e. prior to the removal of Rule of 85), between March 2008 and 2009, and service after 2009

Annex A

Comparing the current and new LGPS (Scotland)

Scheme Feature	Existing LGPS(S) pre December 2006	Agreed New LGPS(S) Proposals by 1 April 2009
Type of scheme	Defined benefit final salary scheme, with a normal retirement age of 65. Rule of 85 allowed scheme members to retire with unreduced benefits where age and years of service together exceeded 85.	Defined benefit final salary scheme, with a normal retirement age of 65. Rule of 85 transitional protection to 2020 retained.
Accrual rates	$1/80^{th}$ plus lump sum ($3/80^{ths}$)	$1/60^{th}$ with option to commute up to 25% of fund value into lump sum.
Death in service arrangements	A lump sum death grant of 2 times final pay.	A lump sum death grant of 3 times final pay. Increases in partner's lump sum to be provided where active, deferred or pensioner member dies. Short term spouses' benefits removed.
Ill health benefits	If member permanently incapable of discharging efficiently the duties of employment, benefits paid immediately. If member has 5 or more years' service they are also entitled to enhancement of the benefits.	Two entry point ill health provision where scheme members who are permanently incapable of carrying out efficiently the duties of their job: (i) have no reasonable prospect of undertaking gainful employment before scheme normal retirement age of 65; or (ii) have a reasonable prospect of undertaking other gainful employment before age 65. Transitional protection for existing scheme members whose service enhancement would be less than under current arrangements (to be reviewed after three years). Third tier, outside the pension scheme, consisting of one-off lump sum payment by employer at their discretion. Calculated on one week's pay per year of service and limited to maximum of 30 weeks' pay. Covers those whose employment is terminated on capability grounds, who are not in receipt of ill-health benefits and who have a reasonable prospect of undertaking further gainful employment before age 65. Implementation of certificate of protection to cover circumstance where member is required to take lower salary due to ill health.
Partner pensions	Dependants benefits payable in respect of widows, widowers and civil partners at a rate of $1/160^{th}$	Dependants' benefits payable in respect of widows, widowers, civil partners, plus unmarried partners who cohabit, at rate of $1/160^{th}$
Flexible arrangements in the run-up to retirement	From age 50 with consent, member can reduce hours or move to a lower grade and, with consent, elect to draw the pension benefits already built up whilst still drawing salary for reduced hours/grade. Members can continue paying into the scheme to build up further benefits in the scheme. No limit on the amount of contributions, however tax relief only given on contributions up to 100% of taxable earnings.	Current provisions for flexible retirement to be retained as feature of the new Scottish LGPS. Increased flexibility through being able to draw all or part of occupational pension benefits without having to retire completely. In case of flexible retirement, employer consent required to reduce hours or lower grade, but employer consent to access benefits only required in respect of those under age 60. A provision to buy additional pension benefit.

Annex A

Comparing the current and new LGPS (Scotland)

<table>
<tr><th>Scheme Feature</th><th>Existing LGPS(S)
pre December 2006</th><th>Agreed New LGPS(S)
Proposals by 1 April 2009</th></tr>
<tr><td>Minimum Pension Age (MPA)</td><td>In line with the Finance Act 2004, the MPA will change from 50 to 55 years on 6/4/2010.</td><td>All new scheme members to have Minimum Pension Age of 55 years.
All current scheme members will have Minimum Pension Age of 55 from 6/4/2010, except for any member who was in the scheme on or before 5 April 2006 whose employment is terminated on grounds of redundancy or efficiency and is aged 50 or over at that point. Such members will have a protected pension age of 50.</td></tr>
<tr><td>Working beyond 65</td><td>The ability to accrue service in the LGPS beyond age 65 up to age 75. Cost-neutral uplift factors for service up to age 65 <u>only</u>, where member accrues service beyond that age.</td><td>The ability to accrue service in the LGPS beyond age 65 up to age 75. Cost-neutral uplift factors for benefits accrued up to beyond age 65.</td></tr>
<tr><td>Contribution rates for scheme members</td><td>General contribution rate of 6% except some existing manual employees (5%).</td><td>Introduction of a five-tier employee contribution rate structure, delivering an average employee contribution rate of 6.3%. Tiers operate on a banding system, as follows:
<table>
<tr><th>Pensionable pay</th><th>Rate (%)</th></tr>
<tr><td>On earnings up to and including £18,000</td><td>5.5%</td></tr>
<tr><td>On earnings above £18,000 and up to £22,000</td><td>7.25%</td></tr>
<tr><td>On earnings above £22,000 and up to £30,000</td><td>8.5%</td></tr>
<tr><td>On earnings above £30,000 and up to £40,000</td><td>9.5%</td></tr>
<tr><td>On earnings above £40,000</td><td>12%</td></tr>
</table></td></tr>
<tr><td>Contribution rates for employers</td><td>Employer rate varies as determined by 3-year actuarial valuations.</td><td>Contributions rates for employers and scheme members move towards a cost-sharing balance ensuring the new scheme remains affordable.
Overall average new scheme costs estimated at 19.6%, with employee contributions at average of 6.3% Employer contributions to make up the difference.
Commitment to establishing cost sharing mechanism to ensure sustainability of the scheme over the long term.</td></tr>
</table>

Annex B

SLOGPAG Membership November 2006 to December 2007

David Archibald	Society of Personnel Directors Scotland representative (Dumfries & Galloway Council)
Martin Booth/ Brenda Campbell	Head of Finance, COSLA
Chad Dawtry	Policy Director, SPPA
Joe DiPaola	Head of the Employers Organisation, COSLA
Jimmy Farrelly	Senior RIO, T&G Section of UNITE the Union
Rab Fleming (Chair)	Head of Public Service Delivery, Finance & Sustainable Growth, Scottish Government
Alan Finlayson	Regional Officer, AMICUS Section of UNITE the Union
Harry Frew	Scottish Secretary, UCATT
Sarah Fortune/ Joanna Hamilton-Rigg	Policy Manager, COSLA
Joanne Gilles	Policy Manager, SPPA
Mike Kirby	Scottish Convenor, UNISON
David Lauder	Policy Manager, SPPA
Brian Lawrie	Executive Director, Finance and Resources, Fife Council (CIPFA Director of Finance representative)
Neville Mackay	Chief Executive, SPPA
Alex McLuckie	Senior Organiser, GMB Scotland
Clive Ross	Pensions Manager, Dundee City Council
Clare Scott	Investment Manager, Lothian Pension Fund, City of Edinburgh Council
Jean Steel	Policy Officer, SPPA
Marjory Stewart	Head of Finance, Dundee City Council (CIPFA Director of Finance representative)
John Terry	Policy Manager, COSLA
Dave Watson	Scottish Organiser, UNISON
Angela Wilson	Society of Personnel Directors Scotland Representative (South Ayrshire Council)

Annex C

Next Steps in Implementing the new scheme

Activity	Start	Finish
Conclude outstanding issues with Heads of Agreement	8 January 2008	17 January 2008
Union ratification through delegate meetings	18 January 2008	21 January 2008
COSLA ratification of Heads of Agreement	25 January 2008	29 January 2008
Submit Heads of Agreement for Ministerial approval	30 January 2008	30 January 2008
Ministerial decision on Heads of Agreement	1 February 2008	1 February 2008
SLOGPAG formal sign-off of Heads of Agreement	4 February 2008	9 February 2008
Union member ballots	3 March 2008	21 March 2008
Finalise draft regulations	8 January 2008	8 February 2008
Consult on draft regulations (6 weeks)	11 February 2008	21 March 2008
Revise regulations	24 March 2008	4 April 2008
Final legal checks	7 April 2008	5 May 2008
Parliamentary preparation of regulations	6 May 2008	22 May 2008
Regulations signed by Cabinet Secretary	23 May 2008	27 May 2008
Regulations laid in Scottish Parliament	29 May 2008	29 May 2008
Finalise implementation preparations (employers)	29 May 2008	31 March 2009
Decisions taken on future terms of reference for successor group to SLOGPAG	31 May 2008	31 May 2008
Governance sub group reports	31 October 2008	31 October 2008
Regulations in force and new LGPS takes effect	**1 April 2009**	**1 April 2009**
Cost sharing sub-group reports	31 March 2010	31 March 2010