

Pensions Committee

10am, Wednesday 13 March 2013

Reform of the Local Government Pension Scheme in Scotland and Regulatory Update

Item number 5.6

Report number

Wards All

Links

Coalition pledges

Council outcomes [CO26](#)

Single Outcome Agreement

Alastair Maclean

Director of Corporate Governance

Contact: John Burns, Pensions & Accounting Manager

E-mail: john.burns@edinburgh.gov.uk | Tel: 0131 469 3711

Executive summary

Reform of the Local Government Pension Scheme in Scotland and Regulatory Update

Summary

This report provides an update on pensions regulations, including:-

- The Public Service Pensions Bill (“the Bill”) is making its way through the UK Parliament. Should this Bill be enacted, this would compel reform of the design and structure of the Local Government Pension Scheme (LGPS) in Scotland. The implications for Lothian Pension Fund and Lothian Buses Pension Fund, therefore, are significant.
- Reform of the LGPS in England and Wales scheduled for April 2014.
- Progress towards scheme specific regulations, on behalf of Scottish Ministers, for a new LGPS in Scotland.
- Amendments made to future pensions taxation relief by the Chancellor in his Autumn Statement.
- A UK Government White Paper “The single-tier pension: a simple foundation for saving” which outlines proposals to reform the State Pension into a single-tier State Pension. The proposals would mean the end of contracted-out National Insurance and therefore a significant additional cost burden for LGPS employers and employees, effective from April 2017 at the earliest.

Recommendations

Pensions Committee should note the regulatory update in this report, the significant implications for Lothian Pension Fund and Lothian Buses Pension Fund of the Public Service Pensions Bill and the tight timescales for implementation of a new LGPS in Scotland.

Measures of success

This report is purely advisory at this stage.

Financial impact

There are no financial implications arising directly from this report. Future legislative change to the design of the Local Government Pension Scheme, however, will have financial consequences for Lothian Pension Fund and Lothian Buses Pension Fund, participating employers and members. These are currently unknown and will be addressed in future reports to the Pensions Committee.

Equalities impact

There are no adverse equalities impacts arising from this report. Changes to the design of the LGPS will be subject to an Equality Impact Assessment by the Scottish Government.

Sustainability impact

There are no adverse sustainability impacts arising from this report. The Public Service Pensions Bill aims to make pensions more sustainable.

Consultation and engagement

Lothian Pension Fund is committed, on an ongoing basis, to keeping its employers and members fully informed of all the key developments on reform of the LGPS in Scotland. Consultation will take place at appropriate times.

Background reading / external references

The Public Sector Pensions Bill and its progress through Parliament to eventual enactment can be viewed at <http://services.parliament.uk/bills/2012-13/publicservicepensions.html>.

Proposals for a new LGPS design in England and Wales can be viewed at <http://www.lgps.org.uk/lge/core/page.do?pagelId=15431012>.

Changes to taxation rules on pensions are summarised on the LPF web-site, http://www.lpf.org.uk/info/3/current_members/106/pension_tax_relief_changes/2

The White Paper “The single-tier pension: a simple foundation for saving” can be viewed on the DWP web-site <http://www.dwp.gov.uk/policy/pensions-reform/state-pension/>.

The Local Government Pension Scheme (Miscellaneous Amendments)(Scotland) Regulations 2013 should be available soon on the Scottish Public Pensions Agency, web-site <http://www.sppa.gov.uk/>.

Reform of the Local Government Pension Scheme in Scotland and Regulatory Update

1. Background

- 1.1 The Public Service Pensions Bill (“the Bill”) was published by the UK Government on 13 September 2012. Should this Bill be enacted, then there would be significant changes required to the design and governance of the Local Government Pension Scheme (LGPS) in Scotland.
- 1.2 Specifically, the Bill embodies the key recommendations of Lord Hutton’s Independent Public Sector Pensions Commission, published in March 2011, namely:
- The end of final salary benefit arrangements;
 - Retirement age linked to State Pension Age (SPA);
 - Cost control system to provide affordability and sustainability;
 - Measures to strengthen governance.
- 1.3 Pension savings are subject to limits and tax charges apply to any savings in excess of the limits. Legislation was amended with effect from 6 April 2011 which reduces the annual allowance to £50,000 (it was £255,000 in the 2010/11 tax year) and allows unused annual allowance to be carried forward for up to three years.

2. Main report

Public Service Pensions Bill – progress through Parliament

- 2.1 The Public Service Pensions Bill (“the Bill”) was published by the UK Government on 13 September 2012. On 21 January 2013, the Bill completed its passage through the House of Lords Committee stage, with the Report Stage and Third Reading following on 12 February 2013. Amendments following such “line by line examination of the Bill”, however, do not materially affect the fundamental principles of the Bill. The implications for the LGPS in Scotland remain unchanged from the previous report to Pensions Committee in December 2012. The Bill still appears on schedule to receive Royal Assent in May 2013.

Reform of the LGPS in England and Wales 2014

- 2.2 On 21 December 2012, the Department of Communities & Local Government (CLG) published its statutory consultation on draft Local Government Pension Scheme Regulations for the new scheme in England & Wales. This first set of draft Regulations covers membership, contributions and benefits and related administration issues and is due to come into force on 1 April 2014.
- 2.3 The high level features of the new scheme have been known for some time now, namely:
- Career Average Revalued Earnings (CARE) scheme with a 1/49th accrual.
 - Survivor benefits, on a similar CARE basis, based on a 1/160th accrual.
 - Average employee contribution remains at 6.5% of payroll.
 - Pensionable pay range to be increased in line with the Consumer Price Index each year.
 - 50/50 membership option enabling members to elect to pay half contributions for half the pension benefits (half the accrual rate).
- 2.4 The UK Government is still discussing other aspects of the scheme design with employers and trades unions. These cover governance, cost control (some potential features of a proposed cost control mechanism are set out in an Appendix to the consultation document) and remaining scheme administration issues. As a result further, separate, consultations are expected early in 2013 covering these outstanding items, together with provisions on transitional protections and compatibility with the Public Service Pensions Bill ('the Bill').

LGPS 2014 England and Wales - Shadow Pension Board

- 2.5 Stakeholders in the LGPS have taken the first steps toward creating a pension board (as required by the Public Service Pensions Bill) which will address issues that impact on all 89 funds in England and Wales. The creation of this board was a central proposal of the agreement reached by the Local Government Association and unions and also featured in the Hutton report on public sector pensions. The proposal has now also received backing from the Government and indeed the Public Service Pensions Bill now includes a recent amendment “requiring the board to include employer representatives and member representatives in equal numbers.”

- 2.6 A working group has been set up to create a shadow board by spring 2013 which in turn will be responsible for refining the details of the remit and membership of the formal board for April 2014. Initial discussion suggests that the board will seek to encourage best practice, increase transparency and coordinate technical and standards issues. It is also likely that it will have a liaison role with the Pensions Regulator.

LGPS 2014 England and Wales - Councillors' Pensions

- 2.7 On the 19 December 2012, the Parliamentary Under-Secretary of State for Communities and Local Government, Mr Brandon Lewis issued a Written Ministerial Statement in respect of councillors' pensions. The statement outlined that the current administration does not agree with the provision of the LGPS for councillors. Brandon Lewis MP said "we do not believe that an occupational pension scheme intended for employees, and paid for by taxpayers, is an appropriate vehicle for councillors". The statement goes on to outline that, subject to consultation, it is proposed to remove access to the LGPS for councillors from 1 April 2014 with no further accrual from this date and protection for accrued rights for those councillors who are already members of the scheme.

LGPS in Scotland 2015

- 2.8 Further meetings of the Scottish Local Government Pensions Advisory Group (SLOGPAG) have been held to consider the implications of the Public Service Pensions Bill and address future reform requirements.
- 2.9 The timeframe for implementation of a new scheme design by the deadline of April 2015 remains extremely tight. The Scottish Government has indicated that it is hopeful that the requisite negotiation, regulation writing and pre-implementation preparation phases could run concurrently to some degree.
- 2.10 Principles for LGPS reform have been agreed by representatives from CoSLA, trades unions and Scottish Government. These aim "to facilitate the delivery of a scheme that takes a balanced consideration of the unique Scottish position, continues to provide valued benefits for scheme members, and is affordable, sustainable and fair to employers, scheme members and tax payers".
- 2.11 SLOGPAG established a comprehensive set of governance principles during the last round of pension reforms which were then issued by the Scottish Government in 2011. It is expected that these should form the basis of the governance principles for the revised scheme in April 2015, to be updated where necessary to accord with specific new provisions of the Public Sector Pension Bill 2012.

- 2.12 CoSLA's political direction for the design and governance of the LGPS 2015 is being informed by its "Pensions Sounding Board". This provides advisory input to the CoSLA Resources & Capacity Executive Group and Strategic Human Resources Management Executive Group.

LGPS in Scotland 2015 - Councillors' Pensions

- 2.13 The Scottish Public Pensions Agency has affirmed that, unlike the position in England & Wales, there is no intention in Scotland to review the current entitlement of councillors to membership of the LGPS.

Pensions Tax Relief Amendments

- 2.14 The Chancellor gave his Autumn Statement on the 5 December 2012 and included details of a reduction to the lifetime allowance and annual allowance from the 2014/15 tax year. The lifetime allowance is being reduced from £1.5m to £1.25m and the annual allowance from £50,000 to £40,000. For those affected by the reduction to the lifetime allowance, further fixed protection (yet to be consulted on) will be available from April 2014.

Annual Allowance – 'Scheme Pays' Guidance

- 2.15 The annual allowance provides a threshold of the annual increase in value of a scheme members pension above which a tax charge may apply. A member who is subject to a tax charge of over £2,000 arising from an annual allowance excess, may elect that the charge is met by the pension scheme, subject to certain conditions, in return for a requisite reduction in scheme benefits. An election, known as the 'scheme pays' option, must be made before a member becomes entitled to pension benefits.
- 2.16 Guidance on the method and calculation of any reduction in benefits has now been received from the Government Actuary's Department (GAD) and is similar in operation to "pension debits" which are used in divorce settlements.
- 2.17 For information, no members of Lothian Pension Fund exceeded the £50,000 threshold for 2011/12, some because notional unused annual allowance from the previous three years were used to "off-set" an excess in the tax year being assessed. Details of members annual allowance position for 2011/12 are provided through the 'My pension' on-line service. Additionally, The Fund wrote to members who initially exceeded, or were within £5,000 of, the threshold. A small number of members of the Firefighters' Pension Scheme did exceed the threshold in 2011/12 and have been informed of the availability of the scheme pays option.

State Pension White Paper

- 2.18 On 14 January 2013, the Government (Department of Work and Pensions) published a White Paper "The single-tier pension: a simple foundation for saving" outlining proposals to reform the State Pension into a single-tier State Pension.

The current basic and additional State pensions will be replaced with a single-tier pension (StP) at some point during the next Parliament (i.e. following the general election), but not before 'April 2017 at the earliest.' The StP will be set above the basic level of means-tested support at the time of implementation (£142.70 per week currently) and increased at least in line with average earnings.

- 2.19 The proposals would mean the end of reduced National Insurance and therefore an additional cost burden for LGPS employers and employees. This is due to the ending of contracting-out, a key element of the reforms relating to State pensions. The increase for employers is 3.4% of relevant earnings. Employees in the LGPS would see their NI contributions increase by 1.4% of relevant earnings. CoSLA's response to the 2011 statutory consultation stated, "for Scottish Local Government, indications suggest that this could amount to as much as an additional £100m per annum".
- 2.20 The Work and Pensions Select Committee will make recommendations for any changes before the final Bill is introduced.
- 2.21 The Fund has highlighted the "White Paper on the Single Tier Pension" to its employers in the "Employers' Bulletin", issued on 29 January 2013.

Regulatory Update – General

- 2.22 Local Government Pension Scheme (Miscellaneous Amendments)(Scotland) Regulations 2013 were laid before the Scottish Parliament on 20 December 2012 and came into force on 1 February 2013. The Regulations incorporate the joint response made to the consultation by the Scottish Pension Liaison Group, as reported to the Pensions Committee at its meeting in December 2012.

3. Recommendations

- 3.1 Pensions Committee should note the regulatory update in this report, the significant implications for Lothian Pension Fund of the Public Service Pensions Bill and the tight timescales for implementation of a new LGPS in Scotland.

4. Background reading / external references

The Public Sector Pensions Bill can be viewed at

<http://services.parliament.uk/bills/2012-13/publicservicepensions.html>.

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Alastair Maclean

Director of Corporate Governance

Links

Coalition pledges	
Council outcomes	CO26 – The Council engages with stakeholders and works in partnerships to improve services and deliver agreed objectives.
Single Outcome Agreement	
Appendices	None