

Pensions Committee

2.30 p.m., Wednesday, 17 December 2014

Reform of the Local Government Pension Scheme in Scotland and Regulatory Update (excluding Governance)

Item number	5.6
Report number	
Executive/routine	
Wards	All

Executive summary

Good progress continues to be made towards implementation of a new Local Government Pension Scheme (LGPS) in Scotland from 1 April 2015.

Coverage of the LGPS in England and Wales and other pensions regulatory matters is included for reference.

Further regular updates will be provided to Pensions Committee.

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

Reform of the Local Government Pension Scheme in Scotland and Regulatory Update (excluding Governance)

Recommendations

- 1.1 Committee is requested to:
- Note the report;

Background

Reform of the LGPS in Scotland 2015

- 2.1 This report is the latest in a series of regular updates on public service pension reform and specifically the implications of fundamental change to the design and governance of the Local Government Pension Scheme in Scotland.
- 2.2 A separate report on Governance matters is provided elsewhere on the agenda.

Main report

LGPS 2015 - Payroll and Human Resources (HR) Guidance

- 3.1 In September the Payroll Guide for LGPS 2015 in Scotland was published on the LGPS Regulations website. An updated version was added on 30 October 2014. This guide sets out the requirements for payrolls in respect of the Local Government Pension Scheme (Scotland) 2015 (LGPS), effective from 1st April 2015. It is intended to inform payroll providers and employers of the minimum information needed to effectively manage the 2015 Scheme (and its interaction with the 2009 Scheme). The link to this website is shown later in this report under “Background reading / external references”.
- 3.2 In November 2014, a “walkthrough” seminar with LGPS employers to discuss HR management requirements was convened by CoSLA. It is anticipated that the HR Guide will be released in the coming weeks. It should be noted that suitable guidance on the application of pay protection for a member is being finalised by the Scottish Local Government Pensions Advisory Group (SLOGPAG) and it is expected that this will be issued as an appendix to the HR guide. In due course, administration guides (similar to those produced in England and Wales for LGPS 2014) will also be made available on the LGPS Regulations website.

LGPS 2015 - Communications

3.3 Work on member and employer communications material continues to be progressed by the SLOGPAG Communications Sub-Group. All information currently approved by SLOGPAG for public release is available through the website www.scotlgps2015.org. Within the suite of Scotland wide-communications resources, the following are now available for all Funds which we are using to complement the fund's own bespoke communications:

- Video for members
- Modeller showing estimate of benefits from April 2015 onwards
- Presentation for employer and member events
- Five in-depth topic briefings – available on the website
- Series of e-newsletters linked to topic briefings to be issued over the period to the change (newsletters can also be for use on noticeboards), including coverage of the complicated issue of pensionable pay and other protections
- Poster highlighting the changes, what is staying the same and also protections.
- Councillor briefing (for their scheme)

Lothian Pension Fund specific communications

3.4 The Fund is using the Scotland-wide material as a basis for communications directly to members and via employers in addition to Fund specific messages and events.

3.5 The Fund has provided regular updates to employers and members during the reform of the LGPS including updates on the Fund's website, newsletters and employer briefings. A four page newsletter was also issued to members in August 2014. E-newsletters publicising the Scheme changes, modeller and briefing series have also been circulated.

3.6 Also, LPF held its Annual Seminar for employers on 4 December 2014. The Fund's actuary provided a presentation and commentary on the actuarial valuation 2014, including coverage of the impact of the new LGPS 2015 on the overall level of funding.

3.7 On 21 November 2014, LPF provided a training workshop for its employers. This session was provided by a pensions specialist from the Local Government Pensions Committee (LGPC). The purpose was to facilitate understanding by employers of their obligations for LGPS2015 and was targeted at payroll and HR officers. The workshop proved very popular with over seventy employer representatives in attendance.

3.8 The following communications methods will be used in the coming months:

- Fund e-newsletters linking to briefings on the Scotland-wide site sent directly to individual member where e-mail address is held or via employer
- Video for use by employers at workplace or team meetings
- Presentation to be held at a central venue for all employers in March or April 2015
- Presentations at larger employer workplaces from January 2015
- Staff newsletter article /payroll message /team briefing presentation - for use by the employer
- Lothian Pension Fund website relaunch with updated information.

Staff training

3.9 Supplementing regular “in-house” briefings on the LGPS 2015, LPF has secured places for six staff to attend detailed workshop training for Administering Authority “pension practitioners” from January 2015. These workshops, which again are provided by specialists from LGPC, are solely aimed at administering authority staff, particularly those involved in the day-to-day administration of the LGPS. LPF staff attending these events will then provide suitable feedback and tuition to colleagues.

Software systems

3.10 An update of the Fund’s pensions administration system to reflect the changes to the scheme prior to April 2015 will be vital to ensure continued service to members.

3.11 As is customary, the supplier of the pension administration system intends to issue the updated modules in test format to selected administering authorities to provide validation prior to live implementation. Details of this programme are expected shortly. Training webinars on optimal usage of the administration system are also being provided by the supplier on a regular basis.

3.12 Similarly, the supplier of the secure data transmission portal has undertaken essential development work to ensure compliance with the requirements of the new scheme. A programme of testing is underway at present.

3.13 CoSLA initiated consultation with HR and payroll system providers some months ago in order to raise awareness of additional data demands and potential system re-configuring. It is expected that the production of detailed guidance and supplementary employer communication and engagement should prove beneficial in ensuring implementation readiness. Ultimately, however, compliance with the requirements of LGPS 2015 is a statutory responsibility of each individual employer.

Actuarial factors

- 3.14 The Government Actuary's Department (GAD) will be required to issue updated actuarial factors to ensure the new benefit structure of the LGPS 2015 is appropriately reflected in pension calculations by administering authorities. Examples include early and late retirements, transfer values and pension sharing. SLOGPAG has requested that this work is suitably prioritised by GAD to avoid service interruption.

Other Regulatory Updates

Automatic Enrolment Earnings Thresholds Review and Revision 2015/16

- 3.15 On the 25 November 2014, consultation by the Department for Work and Pensions (DWP) closed on revised proposals for the automatic enrolment thresholds for 2015/2016. "Automatic enrolment into a workplace pension scheme is designed to target moderate to low earners who are either not saving or not saving at least a minimum for their retirement. If the trigger is too high then people who should be saving, or should be saving more may lose out. Set it too low and people for whom it makes little sense to save for retirement because they probably cannot afford to save and are very likely to receive a high replacement rate from the state, may be driven to opt out."
- 3.16 The potential impact upon the LGPS cannot yet be determined and would obviously be influenced by the level of opting-out of membership and the uptake of the 50/50 option in the new scheme.

Taxation of Pensions Bill

- 3.17 Following the Government's recent consultation on "Freedom and Choice in Pensions", the Taxation of Pensions Bill, introducing the changes to tax legislation required to enable flexible access to pensions, was placed before Parliament. Some concerns were raised, including the potential that consumers would be exposed to heightened risk of pension liberation scams as a result of the new freedoms. As previously advised to Committee, the potential impact for the LGPS could result from transfers from the LGPS to defined contribution (DC) schemes.
- 3.18 The Department for Communities and Local Government have recently announced a series of amendments to the Pension Schemes Bill, three of which affect public service pension schemes :-
- The requirement to take independent financial advice when transferring from a defined benefit to a defined contribution scheme (as opposed to the "Guidance Guarantee" that will be offered to those in defined contribution arrangements as they approach retirement);
 - A ban on transfers out of unfunded public service schemes to a defined contribution scheme as previously announced by the government, and

- A new safeguard that will give Ministers a power to reduce CETVs in funded public service pension schemes, should it prove necessary to protect the taxpayer.

State Pension Scheme Communications

3.19 On 4 October 2014, the Department for Work and Pensions (DWP) launched a new campaign called "Your future, your pension". This is aimed at ensuring that today's workers understand the new State Pension Scheme being introduced in April 2016 and what the reforms mean. As part of this campaign, advertisements will be appearing later this year. In addition a new service giving people a personalised written statement of what they can expect to receive under the new system (based on their work history and National Insurance (NI) contributions to date) has been launched. At the moment it is available to approximately 2.5 million people who will reach State Pension age in the first five years of the new scheme (currently between April 2016 and August 2021). The service will be expanded gradually over the next 18 months, eventually becoming available to all working age people.

LGPS in England and Wales – Shadow Scheme Advisory Board – Annual Report 2013

3.20 Changes to public sector pensions will result in the set up of a Scheme Advisory Board for each Scheme. For the LGPS in England and Wales, a Shadow Scheme Advisory Board has been set up ahead of the formal adoption in April 2015.

3.21 On 4 November 2014, the Shadow Scheme Advisory Board published the first Annual Report 2013 for the LGPS in England & Wales. The aim is to provide information about the LGPS in England and Wales to its members, employers and other stakeholders. The aggregate information in the Report is based on the annual reports as at 31 March 2013 supplied by the 89 individual funds.

3.22 It is worth noting that the Chair explicitly draws attention to the £47bn funding deficit in the LGPS and says that the Board is 'actively developing proposals' to tackle this deficit to improve the sustainability of the LGPS and its future funding levels.

3.23 The 2013 Annual Report is a pilot for a more comprehensive 2014 Annual Report to be published in 2015. In a move to more transparent disclosure in the LGPS, the Board is developing a range of financial and non-financial 'health' indicators so that it can assess and benchmark the 'health' of the LGPS as a whole (relative to other large private and public sector funds) as well as the relative 'health' of individual LGPS funds. The financial analysis will be based on the 2013 triennial valuation results using consistent assumptions across all funds and will look at, amongst other things, current levels of deficit repayment, actual

historic returns compared with a fund's required future investment returns and deficit spread periods.

- 3.24 This update on the Shadow Scheme Advisory Board is provided to Committee purely for information as the regulatory regime is entirely separate from that pertaining to the LGPS in Scotland. Nevertheless, the issues arising may similarly prevail in Scotland and may well be the focus of attention of the Scottish Scheme Advisory Board, once this is established from 1 April 2015.

Measures of success

- 4.1 This report is purely advisory at this stage.

Financial impact

- 5.1 There are no financial implications arising directly from this report. However, changes to the LGPS in Scotland will have financial consequences for Lothian Pension Fund and Lothian Buses Pension Fund, participating employers and members. These will be addressed in future reports to Pensions Committee.

Risk, policy, compliance and governance impact

- 6.1 This report is purely advisory at this stage. There is a risk, however, that taxation changes for defined contribution pension schemes may have an impact on the cash-flow, investment and funding of the pension funds.

Equalities impact

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

Sustainability impact

- 8.1 There are no adverse sustainability impacts arising from this report. The public Service Pensions Act 2013 aims to make pensions more sustainable.

Consultation and engagement

- 9.1 The Consultative Panel for the Lothian Pension Funds, comprising employer and member representatives, is integral to the governance of the Funds. 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.

Background reading / external references

The Payroll Guide for LGPS 2015 in Scotland can be viewed at:

<http://www.lgpsregs.org/index.php/scotland/scot-hr-payroll-guides/lgps2015-payroll-guide>.

Scotland wide communications for the LGPS 2015 is provided at:

www.scotlpgs2015.org.

The DWP consultation on Automatic Enrolment Earnings Thresholds Review and Revision 2015/16 can be found at:

www.gov.uk/government/uploads/system/uploads/attachment_data/file/363705/automatic-enrolment-earnings-thresholds-2015-2016.pdf.

The Shadow Scheme Advisory Board's Annual Report 2013 for the LGPS in England & Wales is available [here](#).

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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