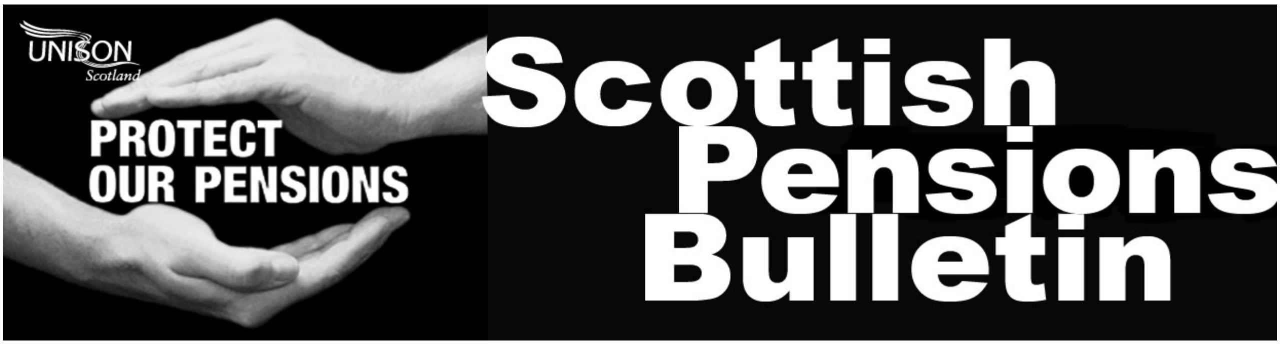

No.7 **August 2007**

Introduction

The Scottish Government, COSLA and the trade unions (including UNISON Scotland) have jointly launched a consultation paper on proposals for a new Local Government Pension Scheme (LGPS) in Scotland. This bulletin summarises the main changes while providing more information on some of the key issues involved. It should be borne in mind that the proposals in this paper represent the current position and there are some areas still under discussion.

Summary of changes

The consultation paper can be viewed at:
www.sppa.gov.uk/pension_reform/documents/NewLGPSConsultationDocandQuestionnaire.pdf.
The proposals for the new scheme are summarised in the table below:

Scheme Feature	**Current LGPS** as of 6 Oct 2006	**New LGPS** by 1 Apr 2009
Type of scheme	Defined benefit final salary, with a normal retirement age of 65.	Defined benefit final salary scheme, with a normal retirement age of 65
Accrual rates	1/80th plus lump sum (3/80ths). This is the equivalent of an accrual rate of around 1/64th .	1/60th with option to commute up to 25% of fund value into lump sum
Death in service	A lump sum death grant of 2 times final pay	A lump sum of 3 times final pay. Short term spouses benefits removed but increases in partners lump sum to be provided where active, deferred or pensioner member dies.
Ill health benefits	If member permanently incapable of discharging efficiently the duties of their employment, benefits paid immediately. If member has 5 or more years service they are also entitled to enhancement of the benefits	Two or three entry point ill health provision proposed, where members – (i) have no reasonable prospect of working before normal scheme retirement of 65; or (ii) are likely to undertake gainful employment before age 65 within a reasonable period Possible third tier consisting of employer grant, covering those who are likely to be capable of undertaking gainful employment within a reasonable period short of (ii) above. Implementation of certificate of protection to cover circumstance where member takes lower salary due to ill health.
Partner pensions	Dependents benefits payable in respect of widows, widowers and civil partners at a rate of 1/160th	Dependents benefits payable in respect of widows, widowers, civil partners plus unmarried partners who cohabit, at a rate of 1/160th

Flexible arrangements in the run-up to retirement	From age 50 with consent, members 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. There is no limit on the amount of contributions you can pay. However, tax relief will only be given on contributions up to 100% of taxable earnings.	Current provision for flexible retirement to be retained as feature of 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 benefits. Cost-neutral uplift factors for benefits accrued beyond age 65, at no cost to the employer.
Minimum pension age (MPA)	Finance Act 2004 changed this from 50 to 55 from 6/4/2010	All new members to have MPA of 55 years. All current members will have MPA of 55 from 6/4/2010
Contributions – members	General contribution rate of 6% except for some existing manual employees (5%)	Working assumption is an increase in the employee contribution rate to an average of 6.3%. Employee contribution rate set at tiered variable rates, linked to pensionable pay. Potential options outlined, including a range of bands and contribution rates.
Contributions – employers	Employer rate varies as determined by 3 year actuarial valuation	Contribution rates for employers and scheme members to move towards a 2:1 ratio to ensure new scheme affordable. Overall average new scheme costs estimated at 19.6% with employee contributions on average of 6.3%. Employer contributions to make up the difference. Commitment to principle of cost sharing to ensure continuity of scheme over the long term. Together will new arrangements for the governance of the scheme.

Ill Health Benefits

Discussions are still ongoing on this issue, principally over the definitions used and as to whether or not there should be two or three tiers of ill health.

Under the current proposals where there is no reasonable prospect of undertaking gainful employment before the age of 65 members would be entitled to immediate payment of their accrued pension benefits, plus their service would be enhanced by 100% of prospective service to the age of 65. In other words, they would retire on the full pension they would have expected had they been fit to remain in work until the age of 65. This is similar to the current provision with the exception that it applies to all gainful employment not just the job (or comparable) the member is currently doing and enhanced service is usually limited to 6 2/3rds years.

The second tier is for those where it is unlikely that they would be able to undertake gainful employment for a reasonable period (probably at least 3-5 years) but likely to be able to do so before the age of 65. In this case they would immediately receive a pension based on the accrued service enhanced by (25% in consultation paper but we believe that should read 50%) of prospective service to the age of 65. This is a new provision that will benefit a number of members who currently fail the very strict definition of ‘permanently unfit’ following a medical assessment.

A third tier is under discussion. This would be for those who would be able to undertake a new job within a reasonable period of time but don't qualify for the second tier. In this case, the proposal is that the employer not the pension scheme would provide a grant (equivalent in value to a pension based upon accrued service but no enhancements). This is likely to be time limited and would cease on the person obtaining gainful employment.

One of the problems with the current scheme is the application of ill health provisions. This will be strengthened in the new scheme with clearer definitions of key phrases such as 'reasonable prospect', 'gainful employment' and 'reasonable period', together with stronger scheme governance and dispute resolution.

The current scheme regulations contain a provision whereby members who suffer a reduction in salary through circumstances outwith their control can apply for a certificate of protection for their accrued service at the previous higher salary. We believe this provision should be extended to cover persons who step down to lower paid posts as a result of ill-health, reflecting modern occupational health practice and the requirements of the Disability Discrimination Act.

Employee Contributions

The working assumption within the proposals is that the average contribution rate for members would be 6.3%.

The proposals envisage a tiered contribution rate, which would operate similar to the tax banding system. The implementation of a tiered contribution system in this way would limit the 'cliff edge' possibilities within a straightforward banding system, where any employee moving between salary bands may be faced with a considerable increase in pension contribution rates. It would also mean that lower paid employees would pay proportionately less than higher earners reflecting the relative benefits of the scheme and those contributions are paid net of tax.

More work needs to be done to ensure that the bands are both equitable, taking into account the tax relief on contributions, and affordable. There are three illustrative examples in the consultation paper, looking at the options for 3, 5 or 7 tiers. These examples highlight not only the average contribution rate but also the average rate net of tax.

UNISON does not have a preferred option at this stage although in general we favour more bands to provide a more graduated contribution to the scheme. We are not convinced over arguments that more bands would be too complex to administer.

Cost Sharing & Governance

There is a general understanding over moving to the principle of adopting a cost sharing ratio. Historically this has been around 2:1 where employers pay twice the amount employees pay.
However, this rests on the condition that any scheme deficits arising prior to the implementation of the new scheme, as well as the cost of investment risk, should continue to fall on the employer. There are significant complexities in adopting any cost sharing ratio with 11 different funds etc. However, it should be possible to establish arrangements for a joint review of contributions should the current actuarial assumptions shift significantly.

UNISON Scotland has highlighted that any introduction of cost sharing changes the whole basis of the governance of the LGPS. At present there is no direct member representation on the funds (like Trustees in private sector schemes) because the liability to ensure the scheme is funded rests with the local authorities. If scheme members have to make increased contributions to meet future costs, then they should be entitled to a greater say in the running of the funds and we have tabled proposals to achieve this.

Transitional Arrangements

There are two potential transfer options for members when the new scheme is implemented in April 2009.

The first option transfers all existing members across to the new scheme giving the same benefits and would be easier to understand and administer. However, due to the improved accrual rate in the new scheme, this would mean that existing members may be 'due' slightly fewer years of accrued benefit then they currently have (as one year of accrued benefit would be worth more in retirement in the new scheme). This may have presentational difficulties and, on the surface, some individuals may feel they were worse off with this approach.

The second option would entail drawing a line under the old scheme when the new scheme starts. Existing members would accrue pension in accordance with the new scheme for future service and have two pension calculations (for old and new scheme entitlement respectively) at the same time when they retire. Individuals who retain Rule of 85 protections would accrue at the new rate, but be able to retire on an unreduced pension when the Rule is met.

Neither option impacts on member entitlement, under the recent Finance Act changes, to commute up to 25% of the capital value of annual pension benefits as a lump sum. The difference between the options is largely administrative and presentational.

The Next Steps

The consultation paper sets out a range of proposals for the new LGPS in Scotland and is not an agreed final position. Discussions are still ongoing on a number of issues as highlighted in this bulletin. However, it should be recognised that 'picking and mixing' the provision of specific benefits directly impacts on the affordability of the whole scheme. If any one aspect of the scheme is changed, this may require changes in another area to balance costs.

The table below highlights the next steps in the implementation of the new scheme:

July – Oct 2007	Consultation Exercise
31 Oct 2007	Deadline for responses to this consultation exercise
November 2007	Consideration of comments received from consultation exercise and decisions to be made on new scheme outline
Dec 2007 – Feb 08	Consultation on draft regulations for the new scheme
April 2008	Regulations to be laid in the Scottish Parliament
April 2009	Regulations governing the new scheme takes full effect

In view of this timetable the ballot of UNISON members will take place when the outstanding issues are resolved. This is likely to be early in 2008.

Action for Branches

This bulletin is intended to outline the proposals and some of the key issues for the new Local Government Pension Scheme in Scotland. Branches should consult members on these proposals. A PowerPoint presentation has been circulated to branches and speakers will be available to attend branch meetings.

The next pensions meeting will be held on **Wednesday 10th October 2007** starting at 1pm in Glasgow to consider the UNISON Scotland response to the consultation paper.

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