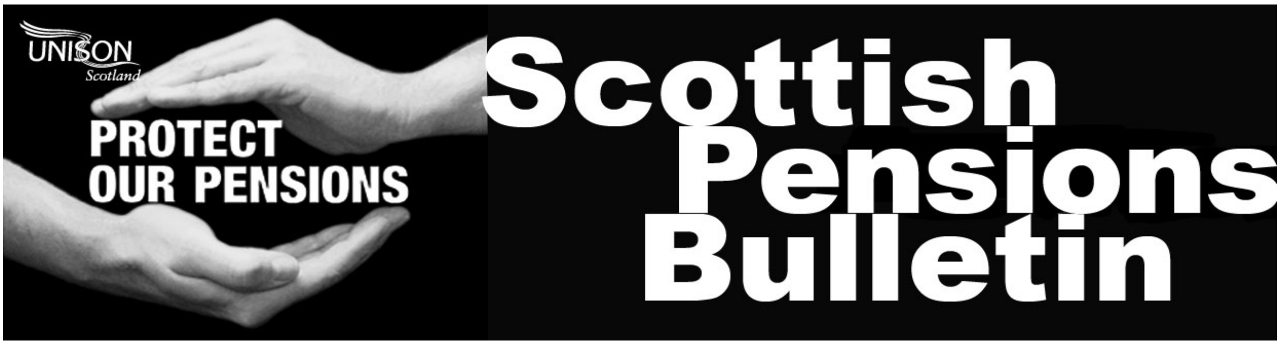

No.8 **November 2007**

Introduction

In Scottish Pensions Bulletin 7 we outlined the key issues in the Scottish Government consultation paper on proposals for a new Local Government Pension Scheme (LGPS) in Scotland. A series of meetings have been held across Scotland to discuss these proposals culminating in a delegate meeting in Glasgow on 10 October. UNISON Scotland's formal response can be viewed on the website and discussions on the key issues have continued through SLOGPAG. This bulletin provides an update on those discussions with a focus on the main outstanding areas to be resolved.

Ill Health Benefits

This has proved to be the most difficult issue to resolve with differences over the definition of Levels 1 & 2 and our claim for an additional provision at Level 3 as set out in Bulletin 7.

The most intractable difficulty has been the requirement in the UK Finance Act that ill health retirement benefits in all pension schemes have to meet the 'permanent incapacity' test. This limits our scope for real improvement at all levels of the new scheme. As there is no legal way of avoiding this provision there was a risk that under the new proposals some members who currently qualify for benefits, because they are permanently incapable of performing the post they are employed in (or comparable), would lose their entitlement.

We have therefore addressed this issue by rewording the proposed Level 2 to include all staff that meet the 'permanent incapacity' test but don't qualify for Level 1. The 'reasonable period' (3-5 years) requirement has been dropped. As a consequence all members who currently qualify for ill health retirement will come under the new scheme.

The new scheme will target enhancements to service on those who are most unlikely to be able to return to gainful employment. Level 1 covers those who are unlikely to be able to work before age 65 and they will get the maximum enhancement of 100% of service. The remainder who qualify for Level 2 will get their service enhanced by 25% of prospective service to age 65. Because the enhanced service provision at the new Level 1 is better than the existing provisions and Level 2 could be worse, we have agreed transitional protection of the current scheme enhancements for any member who would be worse off under the new arrangements.

As all members (who can be under UK law) are now covered in the new scheme the discussion around 'Level 3' changes significantly. To avoid the 'permanent incapacity' test any provision would have to be outside the LGPS. The employers favour discretionary regulations based on a one off payment of a weeks pay for every year of service. We have reservations over discretionary regulations in principle as they require agreement at authority level. However, if discretionary the payments would not be subject to tax (up to £30k). Because these payments are outside the LGPS they would also cover all staff not just those who are in the LGPS.

Agreement has also been reached on extending the certificate of protection for accrued service at the previous higher salary for persons who step down to lower paid posts as a result of ill-health.

Ill health benefits are important to the overall cost of the new scheme because the benefits are paid out of scheme funds. The cost of the new proposals is difficult to quantify and therefore we will review the provisions, including the transitional protections, at each valuation i.e. three years.

Employee Contributions

The working assumption within the proposals remains that the average contribution rate for members would be 6.3% with actual contributions paid on a tiered contribution rate, which would operate similar to the tax banding system. This avoids the problem of employees moving between salary bands facing a considerable increase in pension contribution rates. It also means that lower paid employees would pay proportionately less than higher earners reflecting the relative benefits of the scheme and that contribution is paid net of tax.

The consultation paper set out some illustrative examples of how this might work. We have now reached an understanding on a preferred option as follows:

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%

Overall Equivalent Contribution Rate under a Tiered Approach

FTE Salary	Avg. Rate
£6,753	5.50%
£9,567	5.50%
£12,381	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%

The above means that because half of local government staff earns less than £18k p.a. they will pay a lower contribution, for improved benefits, than the current scheme. This extends to staff earning up to £23,600 who will pay less. The breakeven point at which staff will pay on average above 6.3% is around £27k p.a.

These are gross payments. Actual contributions are paid net of tax so increases are actually much less than this. For example, a 5.5% contribution equates to 4.4% net of tax and 8% equates to around 4.8%.

Cost Sharing & Governance

On governance the Scottish Government's legal position is that whilst they accept the EU IORP Directive applies, they do not accept this means that funds must have member nominated representatives with full voting rights. As this is unlikely to be resolved until lengthy legal action is completed we have discussed statutory guidance under the Local Government (Scotland) Act to enshrine current best practice. Whilst discussions on this point continue, this is likely to include some form of representation on the main fund committee and a lower level consultative panel.

National governance arrangements are agreed on a similar basis as the present tripartite SLOGPAG structure. Cost sharing will form part of the SLOGPAG agenda on a basis yet to be finalised.

Transitional Arrangements

The consultation paper set out two potential transfer options for members when the new scheme is implemented in April 2009.

Agreement has been reached on the second option that entails 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. This would be reviewed every six years by the new SLOGPAG.

The Next Steps

Whilst a broad understanding has been reached on most of the outstanding issues there remains a significant amount of detailed work to complete. The next stage is to draw up a heads of agreement document that will form the basis for the draft regulations that should be completed by the end of the year.

The Cabinet Secretary will be asked to approve the regulations in January and there will be a statutory consultation period to be completed by 21 March 2008. The final regulations will then be laid in the Scottish parliament by the end of May 2008. The regulations will come into force in April 2009.

The next pensions delegate meeting will be held on **Friday 18 January 2008** in Glasgow starting at 11am to consider the draft regulations and the arrangements for the ballot of members.

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