Scottish Pensions Bulletin

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Hutton Interim Report

Lord Hutton, Chair the Independent Public Service Pensions Commission has published his interim report. The commission is tasked to undertake a fundamental structural review of public service pension provision.

His interim report can be viewed at:
http://www.hm-treasury.gov.uk/d/hutton_pensionsinterim_071010.pdf

The report is a detailed review of public service pension schemes and the challenges facing them over the coming years. He highlights the importance of pensions and specifically rules out a race to the bottom in pension provision. He sets out a number of principles for reform and some short and long term options.

The main purpose of the interim report was to recommend short term options to the UK Government and the Chancellor covered how he proposed to deal with the Hutton Review in his Comprehensive Spending Review announcement on 20 October. The key points are:

- Await the final report before deciding on changes to benefits and contribution structures.
- Public consultation on the discount rate and two tier workforce agreements.
- Progressive changes to employee contributions equivalent to a 3% increase between April 2012 and 2015.
- Engagement with stakeholders including trade unions.

Pensions regulation is a devolved matter for the Scottish Government and it is not clear how the UK Government proposes to implement these plans. The proposals constitute a very significant increase in contributions at a time of pay restraint. In addition the state retirement age is to rise from 65 to 66 by 2020 and that will have implications for public service pension schemes.

The long term options in the report point towards a move away from final salary schemes towards a career average scheme, together with further changes to cost sharing. However, these will be covered in the final report due by March 2011and there will be further consultation with the Commission. Lord Hutton gave a commitment to return to Scotland and we will have a further opportunity to make representations to him on these points. Pension forums in Scotland will also be giving consideration to the interim report and CSR announcement over the coming months.

LGPS Cost Sharing & Governance

Progress on the outstanding cost sharing and governance projects have been delayed, at least partly because of the Hutton Review.

Work on the governance arrangements for local pension funds has proceeded and SLOGPAG agreed a draft consultation paper at its last meeting. This should be out for public consultation later this month. Whilst the proposals fall short of our view of the legal requirements, it does set out best practice on governance. If every fund adopted these proposals there would be an improvement in the involvement of pension scheme members in the governance of their pension fund. The requirement on each fund will be to issue a statement showing how they have complied with the guidance or explain why they have not met the new standards.

The consultation will be available on the SPPA website at:
http://www.sppa.gov.uk/local_gov/consult.htm

Taxation of Pension Benefits

The UK Government has announced changes to the tax relief on pensions following a short consultation. The aim of this exercise is to raise additional revenue by reducing the tax relief.

The changes are targeted at higher pension savers. However, UNISON expressed concerns in our consultation response that the figures suggested could hit members on middle incomes and those retiring on the grounds of ill health or redundancy. This is because redesigning or withdrawing benefit elements that cause ‘spikes’ in accrual, for example, enhanced early retirement terms, could bring them into the new taxation arrangements.

The initial announcement implies that most ill health retirements will not be impacted by the new arrangements. However, early retirement including redundancy will. To protect against ‘spikes’ the annual allowance can be carried forward up to three years in some circumstances and this should lessen the impact. The arrangements for Compensatory Added Years in Scotland are different to the arrangements in England and are currently exempt from the tax annual allowance. It therefore appears that the tax changes will not impact on the majority of members, but we will need to await the regulations that implement the new arrangements in April 2011.

Third Sector and the LGPS

A number of voluntary organisations are currently admitted bodies to the LGPS in funds across Scotland. A number of these organisations have highlighted to the Scottish Government and the Hutton Review the impact of LGPS funding on their organisations. In UNISON’s view this is primarily a procurement, not a pensions problem. Most of these difficulties are caused by local authorities failing to fully apply the s52 provisions in contracts with the sector. The Scottish Government has now asked for a factual report on the issue.

Indexing of Pension Benefits

The UK Government has announced that it will change the indexing of pension increases each year from the Retail Price Index (RPI) to the Consumer Price Index (CPI). This will apply to all pension schemes, including public sector schemes in Scotland, because this is a reserved power to Westminster.

The effect of the change is likely to result to a cut in pension benefits because the CPI is historically lower than the RPI. The Hutton review calculated that this change could cut benefits from between 15% to 25%. The secondary legislation introducing the change is due in December and may be subject to legal challenge.

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