

THE HIGHLAND COUNCIL

RESOURCES COMMITTEE

1st October 2008

Agenda Item	
Report No	

Changes to the Local Government (Scotland) Pension Scheme

Report by Depute Chief Executive and Director of Finance

SUMMARY

The purpose of this report is to outline the main changes to the Local Government (Scotland) Pension Scheme (LGPS) as a result of new legislation effective from April 2009.

1. Introduction

- 1.1 The development of a new Local Government Pension scheme for Scotland is part of a wider reform programme across all public sector pension schemes.
- 1.2 Over a 6 month period, a tripartite group, comprising the Scottish Government, COSLA and Trades Unions developed a set of proposals for the new scheme. These were issued on 30th July 2007 with relevant parties being invited to participate in a consultation exercise and respond to the proposals by 31st October 2007.
- 1.3 Highland Council Resources Committee agreed a response as part of the consultation exercise on 3rd October 2007.
- 1.4 The new regulations were laid in the Scottish Parliament on 6th June 2008 and come into force on 1st April 2009.

2. The Need for Reform

- 2.1 Ensuring that the LGPS is sustainable and viable over the long term is the driving force behind the reform programme.
- 2.2 The high level objectives for reform are as follows:-
 - To ensure that the scheme becomes affordable and sustainable over the longer term for employers, scheme members and tax payers
 - To be a fairer scheme for all stakeholders
 - To provide quality benefits to scheme members

3. New Scheme Changes

- 3.1 The new regulations include a number of significant changes to scheme benefits. The main changes and their effect are outlined in Appendix A of this report.

4. Actions Required

- 4.1 Implementation of the new regulations will be a major complicated and time consuming exercise. In order to deal with the burden of work associated with such a degree of change the Scottish Pensions Liaison Group have decided to share the development workload between them. Highland Council staff will be playing a full part in this work. A brief description of the main actions are set out in the following paragraphs:-

4.2 System Development

- 4.2.1 The new scheme in Scotland closely resembles the scheme introduced in England and Wales in 2008, and early indications are that further modification to both pension and payroll systems will be minimal. However, specific testing will be required to ensure that changes unique to the Scottish scheme have been incorporated in the systems.

4.3 Training

- 4.3.1 Training requirements for pension administrators will be significant with the entire Pension team requiring to be trained on the new scheme.
- 4.3.2 It is hoped that the cost of training can be shared with other Administering Authorities and discussions will be entered into to minimise these costs.
- 4.3.3 Specific guidance on tiered contribution for payroll administrators of Admitted bodies will be necessary. This will be provided by the Highland Council Payroll and Pension Manager.

4.4 Communication

- 4.4.1 Appropriate managers of the Highland Council and admitted bodies will require to understand the changes and implications. A seminar involving members of the Highland Council pension team and Barnett Waddingham, the Councils Actuaries took place on 23rd September in the Council Chamber.
- 4.4.2 The changes will also require to be communicated effectively to all scheme members. Pension Managers from Administering Authorities are working towards producing standard documentation and newsletters for distribution. The feasibility of producing an informative dvd is also being explored.

4.5 New/Amended Policies

- 4.5.1 Current Council Policy in respect of Ill Health retirement and Redundancy is currently being updated and will be reported to a future Committee along with a

Policy for Flexible Retirement.

4.6 Discretionary Policies

4.6.1 Discretionary Policies which are due for review in 2008 will require to be amended as a result of the new regulations. A report will be submitted to the next Resources Committee.

5. Financial implications

5.1 Costs incurred as a result of the training and communication exercise will be chargeable to the Pension Fund. The total costs associated with this work is not expected to exceed £5,000.

6. Resource Implications

6.1 The biggest cost is staff time. The limited resource within the Pension team will be put under considerable pressure during both the implementation stage introduction of the new scheme.

6.2 Larger pension funds have dedicated teams working on the change. It is intended to amend and use literature produced by these larger Authorities in Highland.

RECOMMENDATION

The Committee is asked to note the changes to the scheme and the scale of the implementation process.

Signature:

Designation: Depute Chief Executive and Director of Finance

Date: 8th September 2008

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Appendix A

Scheme Feature	Existing LGPS	New LGPS From 1 April 2009	Change/Effect	Action
Type of Scheme	Defined benefit final salary scheme with a Normal Retirement age of 65.	Defined benefit final salary scheme, with a normal retirement age of 65. Rule of 85 transitional protection to 2020 retained.	No change	
Accrual Rate	1/80 th <i>PLUS</i> Automatic 3/80 th lump sum with option to additional pension up to total value of 25% fund value	1/60 th with option to commute up to 25% of fund value into lump sum	The new accrual rate will benefit scheme members. Benefits on service to 31 March 2009 will be continue to be calculated on basis of 1/80 th .	Pension system will require to be modified to cater for the change
Contribution rate for scheme members	Majority 6% Some manual staff preserved on 5%	Rates will be based on tiered Full time equivalent pensionable earnings as at 31 st March. See table in Annex B	The majority of scheme members will see a change to their contribution rate	Payroll systems will require to be modified to cater for the change
Death in Service arrangements	Lump sum death grant of 2 times final pay Short term pension of 3 months final pay of deceased scheme member.	A lump sum death grant of 3 times final pay. Increases in partners lump sum to be provided where active, deferred or pensioner member dies. Short term spouses' benefits removed.	Overall this will result in an increase in benefit to dependents but it will be important that scheme members complete a Death Nomination Form to ensure that death grants are payable immediately	Ensure that regular reminders are issued in respect of nomination forms
Ill health benefits	Single tier ill health provision Immediate payment of enhanced benefits where scheme member has at least 5 years scheme membership	Two entry point ill health provision where scheme members who are permanently incapable of carrying out efficiently the duties of their job: (i) have no reasonable prospect of undertaking gainful employment before scheme normal retirement age of 65; or (ii) have a reasonable prospect of undertaking other gainful employment before age 65.	Overall this is a greatly enhanced provision for scheme members deemed to be permanently incapable due to ill health	

		Consultation on a possible third tier consisting of employer grant covering those who are likely to be capable of undertaking gainful employment within a reasonable period is expected shortly		
Partners Pensions	Dependants benefits payable to widows, widowers, and civil partners at rate of 1/160th	Dependants benefits payable to widows, widowers, civil partners plus <i>nominated unmarried partners who cohabit</i> at rate of 1/160 th subject to specific conditions and the completion of a nomination form	Scheme members wishing to nominate unmarried partners will require to complete a nomination form	
Flexible retirement arrangements	From age 50 with employers consent a scheme member can reduce their hours or move to a lower graded post and draw their pension Scheme members can continue paying into the scheme to build up additional benefits	Current provisions for flexible retirement to be retained as feature of the new Scottish LGPS. Increased flexibility through being able to draw all or part of occupational pension benefits without having to retire completely after attaining age 55. 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 policy for scheme members wishing to request flexible retirement is being developed	
Minimum Pension Age (MPA)	Age 50 increasing to 55 on 6/4/2010 in line with Finance Act 2004	All new scheme members to have Minimum Pension Age of 55 years. All current scheme members will have Minimum Pension Age of 55 from 6/4/2010, except for any member who was in the scheme on or before 5 April 2006 whose employment is terminated on grounds of redundancy or efficiency and is aged 50 or over at that point. Such members will have a protected pension age of 50.	The Council's policy on redundancy will require to be updated	

Appendix B

Contribution rate	FTE Pay Min	FTE Pay Max	Contribution rate	FTE Pay Min	FTE Pay Max
5.5	up to	18,529	8.3	50,400	51,780
5.6	18,530	19,687	8.4	51,781	53,239
5.7	19,688	20,999	8.5	53,240	54,782
5.8	21,000	22,264	8.6	54,783	56,417
5.9	22,265	23,137	8.7	56,418	58,153
6.0	23,138	24,081	8.8	58,154	59,999
6.1	24,082	25,106	8.9	60,000	61,967
6.2	25,107	26,222	9.0	61,968	64,067
6.3	26,223	27,441	9.1	64,068	66,315
6.4	27,442	28,780	9.2	66,316	68,727
6.5	28,781	30,169	9.3	68,728	71,320
6.6	30,170	31,228	9.4	71,321	74,117
6.7	31,229	32,363	9.5	74,118	77,142
6.8	32,364	33,584	9.6	77,143	80,425
6.9	33,585	34,901	9.7	80,426	83,999
7.0	34,902	36,326	9.8	84,000	87,906
7.1	36,327	37,872	9.9	87,907	92,195
7.2	37,873	39,555	10.0	92,196	96,923
7.3	39,556	40,645	10.1	96,924	102,162
7.4	40,646	41,538	10.2	102,163	107,999
7.5	41,539	42,471	10.3	108,000	114,545
7.6	42,472	43,448	10.4	114,546	121,935
7.7	43,449	44,470	10.5	121,936	130,344
7.8	44,471	45,542	10.6	130,345	139,999
7.9	45,543	46,666	10.7	140,000	151,199
8.0	46,667	47,848	10.8	151,200	157,000
8.1	47,849	49,090			
8.2	49,091	50,399			