

REPORT BY
THE SCOTTISH PUBLIC PENSIONS AGENCY
ON THE CONSULTATION ON
PROPOSALS FOR A NEW
LOCAL GOVERNMENT PENSION SCHEME (LGPS)
IN SCOTLAND

Consultation Period 30 July 2007 to 31 October 2007

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SECTION ONE - INTRODUCTION

Purpose

1. This document sets out a summary of responses received by the Scottish Public Pensions Agency (SSPA) on the July 2007 consultation on proposals for a new Local Government Pension Scheme (LGPS).

Background

2. On 30 July 2007 the Scottish Public Pensions Agency (SPPA) issued a consultation document requesting views on a “Proposal for a new Local Government Pension Scheme in Scotland”. The proposals and questions that consultation document incorporated had been developed, in partnership, by SLOGPAG⁽¹⁾ – a tripartite review group comprising officials from the Scottish Government, COSLA⁽²⁾ and local government Trade Unions. The consultation closed on 31 October 2007.
3. This, the third consultation⁽³⁾ on the new LGPS, posed a total of 30 questions aimed at soliciting views about the potential structure and package of benefits to be provided by the new scheme. These included questions on the appropriate balance between costs and benefits. The consultation document was approved by SLOGPAG and formally submitted to 104 organisations and individuals. It was also accessible via the SPPA’s website (www.sppa.gov.uk).
4. In total, 102 responses were received from a combination of individuals and organisations. Consequently, specific responses can represent the views of only one person or, in the case of trade unions or other representative bodies, the official views of that organisation’s members. When collating and reporting these responses no attempt has been made to weight them to take that point into account because there would be no satisfactory way of achieving that. However, it is an important fact to note when considering the statistics provided in this summary.
5. Responses included a mixture of “tick box” replies to specific questions (typically Yes/No questions) together with more detailed comments. Some individuals and organisations who provided comments requested that their identity should be kept confidential. In respecting this wish the SPPA, has, where necessary, maintained individual’s or organisation’s anonymity.

Treatment of responses

6. The responses received were reported to, and considered by, SLOGPAG and were taken into account when finalising the design of the new scheme. Many of the comments received covered points and issues that the review group was already familiar with. A few comments covered entirely new points or a new take on an existing issue.
7. Section Two provides a question-by-question summary of the responses we received and, where appropriate, also shows the distribution of specific views – for example where Yes/No questions were answered. It also refers to the final decisions taken in respect of the various

¹ Scottish Local Government Pensions Advisory Group

² Convention of Scottish Local Authorities

³ The two previous consultations both took place during 2004.

questions. For more detail on the new scheme, please refer to the Heads of Agreement document, which is available via www.sppa.gov.uk.

8. Finally, Annex A sets out in greater detail the specific comments we received during the course of the consultation. Where we received a number of similar comments we have used the most representative form of wording to ensure that the point(s) being made have been captured.

SECTION TWO – OVERALL SUMMARY OF RESPONSES RECEIVED

Question 1 – Any Other Benefits

Q1(a) Are there other benefits that you would like to see included as part of the new scheme proposals?	N.A. ⁴ 10	YES 34	NO 58
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Two-thirds of those who expressed a view did not think any other benefits should be considered (57%). A further 10% of respondents had no comment to make. Other views ranged from a request for a 1/50th accrual rate, through the potential to introduce ‘winding down’ arrangements (such as those available in the Scottish Teachers’ Superannuation Scheme (STSS)) to the need for more flexible arrangements for carers to freeze their pension whilst taking time off to care for sick/elderly relatives.

Question 2 - Prioritising Benefits

From the 102 responses received, an average of 87 respondents prioritised the scheme features, as follows:

Scheme Feature	Rating									
	1	2	3	4	5	6	7	8	9	10
Final salary scheme*	62	10	5	2	1	0	1	1	0	1
Accrual rate	5	24	22	13	5	1	7	6	2	1
Death in Service	1	1	4	3	16	17	19	14	9	2
Ill Health benefits	0	5	5	17	15	21	12	8	2	1
Partner Pensions	0	2	9	3	8	12	18	13	15	6
Flexible Arrangements in run-up to retirement	2	6	6	12	9	6	10	16	18	1
Contribution Rates for Employers*	11	23	10	7	5	2	5	10	9	5
Contribution Rates for Scheme Members	2	10	21	23	12	7	6	1	4	0
Transfer Options (current to new scheme)	2	8	4	5	15	15	8	9	15	5
Other	11	3	0	2	3	3	1	0	0	7

87 respondents answered this question. Based on the cumulative score where respondents rated the feature as their first, second or third priority, the top 3 features were identified as:

- 1) Final Salary Scheme (this has been retained as the basis for the new scheme)
- 2) 1/60th Accrual Rate (this has been confirmed for the new scheme)
- 3) Contribution Rate for Employers (these have been reduced in the new scheme)

Of the 11 respondents who placed “other” as their No. 1 priority, preferences included long-term financial sustainability (addressed under question 26) and consideration of a CARE (Career

⁴ NA = no answer

Average Revalued Earnings) scheme. While SLOGPAG had already considered whether it was appropriate to move the LGPS to a CARE scheme, it was agreed that it should remain a Final Salary scheme. This keeps the LGPS in Scotland in line with the new LGPS in England and Wales and the majority of recently reformed public pension schemes (see also question 3).

Question 3 – Type of Scheme

Q3(a) Do you agree with the proposal that the new LGPS should remain a Defined Benefit Final Salary scheme?	N.A. 7	YES 86	NO 9
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There was an overwhelming response (90%) in favour of the scheme remaining a Defined Benefit Final Salary Scheme. A few respondents thought a CARE scheme would be more appropriate for the majority of members.

Question 4 – Accrual Rates

Q4(a) Do you agree with the proposal that the accrual rate should be increased to 1/60 th ?	N.A. 8	YES 81	NO 13
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The vast majority (over 80%) were in favour of an accrual rate of 1/60th. Other suggestions included the establishment of a 1/50th accrual rate. Moving to a lower rate would have had a significant impact on scheme costs.

Question 5 - Death in Service Arrangements

Q5(a) Do you agree that the death in service benefit should be increased to 3 x final pay?	N.A. 9	YES 82	NO 11
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Over 80% of respondents agreed that the Death in Service benefit should be increased to 3 x final salary and this has been incorporated in the new scheme.

Question 6 – Changes to Spouses Pensions

Q6(a) Do you agree with the proposed changes to spouses' pensions?	N.A. 11	YES 59	NO 42
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Of those who answered, 60% agreed with changes. Of the remainder, some were of the opinion that the short-term spouses (or now partners) pension should remain. The view expressed was that this would leave individuals without an income during a period of stress and grief.

Having considered this view, it was agreed to remove the short-term spouses pension, but that the aim should be to streamline administrative arrangements associated with paying death in service lump sums to ensure speedy payment.

Question 7 – Ill-health benefits: number of tiers

Q7(a) Would you prefer a two or three tier ill health arrangement?	N.A. 13	Other 19	2 Tier 54	3 Tier 16
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Of those who answered this question the majority (61%) were in favour of a two-tier ill-health benefit system, 18% favoured a three-tier system and 21% believed another model should be provided. The final decision was to establish a three-tier system, with the first two tiers being within the scheme and a third tier, providing for a potential lump-sum benefit, at the discretion of employers, being provided via discretionary regulations. As such this potential third tier benefit is not restricted to LGPS members.

Question 8 – Need for permanence in ill-health

Q 8(a) Would any of the 3 tiers require a criteria to be inserted to reflect permanence until age 65?	Tier 1			Tier 2			Tier 3		
	Y 47	N 9	N.A. 46	Y 37	N 15	N.A. 50	Y 18	N 14	N.A. 70

During the course of the consultation it was confirmed that interpretation of the Finance Act 2004 requires permanency where ill-health benefits form part of an occupational pension scheme. Consequently, the responses received, though of interest, proved to be immaterial.

Question 9 - Ill Health Definitions

Q9(a) Do you agree with the proposed definitions of ‘reasonable prospect’, ‘gainful employment’ and ‘reasonable period’?	N.A. 19	YES 45	NO 38
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There was a broad spread of opinion, but a small majority of those who did respond agreed with the definitions outlined in the consultation document. Twenty percent had nothing to say. In finalising ill-health arrangements for the new scheme, SLOGPAG noted trade unions’ continuing concern over the definitions and agreed that the operation of ill-health arrangements, including definitions and transitional protection will be reviewed after the 2011 triennial valuation

Question 10 - Certificate of Protection

Q10(a) Do you agree that implementation of certificate of protection provision should cover persons who step down to lower paid posts as a result of ill-health?	N.A. 16	YES 84	NO 2
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Around 84% of respondents agreed that the scheme should implement a certificate of protection provision to cover members who step down to lower paid posts as a result of ill-health. This has been adopted in the new scheme. Only 2 respondents answered “No” to this question.

Question 11 – Partner Pensions

Q11(a) Do you agree to the proposal to provide partner pensions to spouses, civil partners and cohabiting partners at a rate of 1/160 th ?	N.A. 7	YES 57	NO 38
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Of those who responded 60% were in favour. Others expressed the view that the accrual rate for partners benefits in the new scheme, which has an accrual rate of 1/60 (pension only, but with option to commute up to 25% of the capital value of benefits to lump sum) should be 1/120 rather than the proposed 1/160, on the grounds that currently partners get a pension of half the member's pension. It was decided to establish the rate at 1/160th however, the review group noted that the value of this benefit was perhaps not fully understood and agreed the need for improved communication around this feature.

Question 12 - Criteria for Co-habiting Partners

Q12(a) Do you agree with the proposed criteria for defining partners who cohabit?	N.A. 13	YES 68	NO 21
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Around 80% of respondents either agreed or didn't disagree with the criteria set out. SLOGPAG noted that the criteria are understood to replicate established practice in other pension schemes.

Question 13 - Flexible retirement

Q13(a) Do you agree that current flexible retirement provisions should be retained?	N.A. 8	YES 1	NO 3
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Over 90% of respondents agreed that the current flexible retirement provisions should be retained in the new scheme. Only 3 respondents were against this.

Question 14 – Flexible retirement (increased flexibility)

Q14(a) Do you agree that increased flexibility should be provided through being able to draw all or part of occupational pension benefits without having to retire completely?	N.A. 10	YES 86	NO 6
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Nearly all (96%) respondents agreed or didn't disagree with the proposal to enable members to draw all or part of their pension without having to retire completely.

Question 15 – Additional Pension Benefit

Q15(a) Do you agree with the provision to buy additional pension benefit, and cost-neutral uplift factors for benefits accrued beyond age 65?	N.A. 11	YES 91	NO 0
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The overwhelming majority of respondents were in favour of this feature and no negative responses were received. This benefit has been incorporated in the new scheme.

Question 16 – Employee Contribution Rates

Q16(a) Do you agree that the proposed employee contribution rate is fair, given the level of benefits proposed?	N.A. 11	YES 65	NO 26
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Three quarters of respondents either agreed that the average rate set out in the consultation document was fair (64%) or did not answer (11%). Of the 25% who thought the average rate was unfair, a number thought it should be higher, whilst some thought it should take account of previous employer contribution holidays. This level of support for an increase in employee contribution rates was encouraging.

Question 17 – Employee Tiered Contribution System

Q17(a) Do you agree that the LGPS should incorporate a tiered contribution rate system	N.A. 7	YES 38	NO 57
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Taking into account the fact that some consultees did not comment, the result is closely balanced, though more were against tiered contributions than in favour of them. Comments against centred on:

- potential discrimination claims (treatment of part-time vs. full-time staff) – with steps to address such difficulties posing potentially significant admin problems;
- lowest rate of 5.5% too close to current rate, so unlikely to attract lower paid employees to join scheme;
- may be a barrier to successful planning on the grounds that, on promotion, a member may end up paying higher pension contributions in higher tier which might mean net pay is less;
- non acceptance that inequality of a final salary scheme will be redressed by tiered contributions (preference for CARE scheme);
- likely to cause significant administrative burden for employers, and incur significant redevelopment costs for payroll systems.

Comments in favour included:

- agree that lower paid members should pay proportionately less than high earners;
- tax banding approach preferable to the alternative “cliff edge” approach;
- there should not be any insurmountable administrative hurdles to introduction of such a system.

Despite the proportion of negative responses the review group’s view was that a tiered contribution system should be introduced. With a final salary scheme, a tiered contribution rate means lower paid workers pay less for their benefits and higher paid workers more. The introduction of a banded approach (similar to the tax system) means that the impact on member’s take-home pay of moving between contribution bands has been minimised.

Question 18 – Employee Tiered Contributions – Number of Tiers

Q18(a) Which of the illustrative tiered contribution rate options do you feel is preferable?	N.A. 25	OPTION			
		1 17	2 15	3 9	Other 36

As might have been expected, there was no real consensus on the number of tiers that should apply. However, following consideration of the starting point for the tiers it was agreed that a five-tier, banded system should be incorporated in the new scheme.

Question 19 - Employer Contribution Rates

Q19(a) Do you agree with the move towards a 2:1 ratio between employer and member contributions rate?	N.A. 11	YES 82	NO 9
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The majority of respondents (over 80%) agreed with the move towards a 2:1 ratio between employer and member contributions rate. Less than 10% indicated that they did not agree with this proposal.

SLOGPAG is committed to the development of a cost sharing approach that will allow the new LGPS to continue as a final salary scheme for a longer period of time. An agreed approach will be in place by 31 March 2010.

Question 20 – Transfer Options: Current to New Scheme

Q20(a) Which transfer option do you prefer?	N.A. 15	OPTION		
		Other 16	1 48	2 23

Of those who expressed a view, the majority preferred the option whereby all existing members of the LGPS transfer their current benefits across to the new scheme. Following considerable discussion, including the consultation views, SLOGPAG decided that the most appropriate approach would be to adopt option two – the closing of the existing scheme when the new scheme starts. This was felt to be the most practical approach.

Question 21 - Governance

Q21(a) Do you agree that the LGPS scheme governance arrangements should be reviewed?	N.A. 19	YES 66	NO 17
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Of the respondents who answered this question, 85% agreed that there was a need to review LGPS governance arrangements. The review group has agreed to set up a governance sub-group to develop proposals for statutory guidance on the governance of the LGPS around decision making by 31 October 2008

Question 22 - Equality Impact Assessment

Q22(a) Are you aware of any equality issues that arise from the new scheme proposals?	N.A. 12	YES 34	NO 56
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Around one-third of respondents made comments on various issues. These comments will be taken into account during the process of a full assessment and can be found in Annex A.

Question 23 - Actuarial Assumptions

Q23(a) Do you agree with the assumptions used to underpin the development of the new scheme proposals?	N.A. 27	YES 61	NO 14
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Of the responses received the vast majority agreed with the assumptions used to underpin the development of a new scheme. However, perhaps unsurprisingly, around 25% of respondents did not answer this question.

Question 24 - Employer Contribution Rates

Q24(a) Do you agree that the proposed employer contribution rate is fair, given the level of benefits proposed?	N.A. 20	YES 69	NO 13
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Most replies either agreed or did not disagree that the proposed employer contribution rate is fair, given the level of benefits proposed. The agreed reduction in the average employer contribution rates will have a key bearing on the longer-term sustainability of the scheme.

Question 25 - Are Contributions Affordable in Long Term

Q25(a) Do you think the contributions are affordable in the long term?	N.A. 32	YES 54	NO 16
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The majority of respondents thought contributions were affordable in the long term, or had nothing to say on this issue.

Question 26 - Ensuring Sustainability Over the Longer Term

Q26(a) Do you agree that a cost sharing mechanism is sensible?	N.A. 16	YES 79	NO 7
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Almost 80% of replies included agreement that a cost sharing mechanism is sensible (see also questions 19 and 24).

Question 27 - Cost Sharing on Benefits only or Benefits and Investments

Q27(a) Do you agree that cost sharing should be based on the cost of benefit provision, or both this and fund investment elements?	N.A. 33	Benefits only 38	Benefits & Investment 31
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A third of respondents chose not to answer this question. Of those who did, more than half thought that cost sharing should concentrate on benefits only, however, the results were finely balanced.

Question 28 - Cap on Employer Contribution Rates

Q28 Please give your views on whether a 'cap' should be placed on employer contribution rates to improve sustainability of the LGPS over the longer term.	N.A. 21	YES 35	NO 34
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A fifth of respondents had no views on this issue. There was an even split from those who did comment, and comments are attached in Annex A.

Question 29 - How principle of cost sharing could be implemented

A number of comments were received on this issue. These are set out in Annex A.

Question 30 - Any other comments

As expected, a variety of general comments were received. These, too, are reported in Annex A.

SPPA
January 2008