

**PROPOSALS FOR A NEW
LOCAL GOVERNMENT PENSION SCHEME
IN SCOTLAND**

CONSULTATION RESPONSE FORM

The closing date for this consultation is 31st October 2007. Your comments must reach us by that date

Please ensure that you also complete the Respondent Information Form to ensure we handle your response according to your wishes.

Responses can be returned either by post to:

**Jean Steel
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Scottish Public Pensions Agency
7 Tweedside Park
Tweedbank
Galashiels
TD1 3TE**

or e-mail to: locgovpensionsreform@scotland.gsi.gov.uk

This questionnaire can be downloaded as a ‘word’ document from the Local Government Scheme Reforms page in the Pensions Reforms & Taxation area at www.sppa.gov.uk to enable respondents to complete and return their responses electronically.

The Scottish Executive Consultation Process

Consultation is an essential and important aspect of Scottish Executive working methods. Given the wide-ranging areas of work of the Scottish Executive, there are many varied types of consultation. However, in general, Scottish Executive consultation exercises aim to provide opportunities for all those who wish to express their opinions on a proposed area of work to do so in ways which will inform and enhance that work.

The Scottish Executive encourages consultation that is thorough, effective and appropriate to the issue under consideration and the nature of the target audience. Consultation exercises take account of a wide range of factors, and no two exercises are likely to be the same.

Typically Scottish Executive consultations involve a written paper inviting answers to specific questions or more general views about the material presented. Written papers are distributed to organisations and individuals with an interest in the issue, and they are also placed on the Scottish Executive web site enabling a wider audience to access the paper and submit their responses (in this instance the document is available through the SPPA website). Consultation exercises may also involve seeking views in a number of different ways, such as through public meetings, focus groups or questionnaire exercises. Copies of all the written responses received to a consultation exercise (except those where the individual or organisation requested confidentiality) are placed in the Scottish Executive library at Saughton House, Edinburgh (Y Spur, Saughton House, Broomhouse Drive, Edinburgh, EH11 3XD, telephone 0131 244 4565).

All consultation papers and related publications (eg, analysis of response reports) can be accessed on the Scottish Public Pensions Agency website in the [Pension Reforms and Taxation](#) area

The views and suggestions detailed in consultation responses are analysed and used as part of the decision making process, along with a range of other available information and evidence. Depending on the nature of the consultation exercise the responses received may:

- indicate the need for policy development or review
- inform the development of a particular policy
- help decisions to be made between alternative policy proposals
- be used to finalise legislation before it is implemented

Final decisions on the issues under consideration will also take account of a range of other factors, including other available information and research evidence.

While details of particular circumstances described in a response to a consultation exercise may usefully inform the policy process, consultation exercises cannot address individual concerns and comments, which should be directed to the relevant public body.

RESPONDENT INFORMATION FORM: NEW LOCAL GOVERNMENT PENSION SCHEME IN SCOTLAND

Please complete the details below and return it with your response. This will help ensure we handle your response appropriately. Thank you for your help.

NAME: Alastair McGirr ORGANISATION NAME: (if appropriate) Falkirk Council	POSTAL ADDRESS Pensions Section, PO Box 14882, Falkirk Council, Municipal Buildings, Falkirk, FK1 5ZF
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1. Are you responding: (please insert a 'x' in one box)

(a) as an individual		go to Q2a/b and then Q4
(b) on behalf of a group / organisation	X	go to Q3 and then Q4

INDIVIDUALS

2a. Do you agree to your response being made available to the public (in the Scottish Executive library)

Yes (go to 2b below)		
No, not at all		We will treat your response as confidential

2b. Where confidentiality is not requested, we will make your response available to the public on the following basis.

Yes, make my response, name and address all available	
Yes, make my response available, but not my name or address	
Yes, make my response and name available, but not my address	

ON BEHALF OF GROUPS OR ORGANISATIONS

3. The name and address of your organisation will be made available to the public (in the Scottish Executive library). Are you also content for your response to be made available?

Yes	X	No		We will treat your response as confidential
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SHARING RESPONSES / FUTURE ENGAGEMENT

4. We will share your response internally with other Scottish Executive policy teams who may be addressing the issues you discuss. They may wish to contact you again in the future, but we require your permission to do so. Are you content for the Scottish Executive to contact you again in the future in relation to this consultation response?

Yes	X	No	
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We would be grateful if you would use this consultation questionnaire for your comments as this will aid our analysis of the responses received.

Please insert an ‘X’ in either of the ‘Yes’ / ‘No’ or other choice boxes throughout the document.

NB: The space allocated to each section for your comments may seem limited, but if you are completing this electronically the space will expand as you insert text.

<p>Q 1(a) Are there other benefits that you would like to see included as part of the new scheme proposals?</p>	<p>YES X</p>	<p>NO</p>
<p>Q 1(b) If you have answered ‘YES’ please give details below</p> <p>Retention of short term pensions for 3 months after death on pension</p> <p>There is no mention in the consultation paper about the early payment of unreduced scheme benefits on redundancy or efficiency grounds. These are benefits we would wish to see retained.</p> <p>In the event that there are to be different accrual rates for pre and post April, 2009 membership, then in respect of members whose membership is currently only protected to April, 2008, it would be much less confusing for them (and a welcome administrative easement) if their membership could be protected to April, 2009 to coincide with the introduction of the new accrual rate.</p> <p>Many private sector schemes let members take actuarially reduced benefits from age 50 without requiring employee consent. Such a provision would be fairer than the existing rule which militates against longer serving scheme members. The current anomaly arises because longer serving members have invariably achieved their rule of 85 by the time of seeking early payment. This means there is no opportunity for their benefits to be actuarially reduced. No actuarial reduction means that there is a strain on the Fund and that, in turn, generally means that the application is harder to accept.</p> <p>Consideration should be given to the introduction of a winding down arrangement similar to that in the teachers scheme.</p>		

If it is agreed, following consultation, that certain elements of the scheme outline should be altered, this may lead to an increase in costs that would impact on the overall affordability of the proposal. What changes would you propose in this situation? For example, the member contribution rate could be increased or the level of other scheme benefits could be reduced. It would be helpful to know your views, therefore, about the level of importance that you would place on each given feature within the new scheme

proposals, in order to ensure that benefits that are most important to stakeholders would be retained.

Q 2 Please order the following features of the proposals according to the level of importance that you would place on their provision, by inserting the numbers 1 to 10 in the box beside each feature, where '1' is 'most important' and '10' is 'least important'.	
Scheme Feature	Priority No.
Type of Scheme - Final salary scheme	2
Accrual rate	3
Death in Service Arrangements	9
Ill Health benefits	7
Partner Pensions	10
Flexible Arrangements in run-up to retirement	8
Contribution Rates for Employers	1
Contribution Rates for Scheme Members	4
Transfer Options between current and new scheme	6
Other – please give details Existing R85 protections should be echoed in new scheme	5

TYPE OF SCHEME

Q 3(a) Do you agree with the proposal that the new LGPS should remain a Defined Benefit Final Salary scheme?	YES X	NO
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Q 3(b) If you have answered 'NO', what type of scheme would you prefer and why?

ACCRUAL RATES

Q 4(a) Do you agree with the proposal that the accrual rate should be increased to 1/60th?	YES X	NO
Q 4(b) If you have answered 'NO' what rate of accrual would you prefer and why?		
Q 4(c) If your preferred rate of accrual is greater than 1/60th, what changes should be implemented to ensure the scheme remains affordable?		

DEATH IN SERVICE ARRANGEMENTS

Q 5(a) Do you agree that the death in service benefit should be increased to 3 x final pay?	YES X	NO
Q 5(b) If you have answered 'NO', what level of death in service benefit would you prefer and why? Yes, but see below. There is still perhaps a need to address the issue of single members paying the same contributions as "married" members but receiving a lesser benefit package.		

Q 6(a) Do you agree with the proposed changes to spouses' pensions?	YES	NO X
<p>Q 6(b) If you have answered 'NO', what changes to the spouses' benefit would you prefer and why?</p> <p>Prefer to retain the short term pensions for deaths on pension. The short term pension is a valued payment which provides continuity and stability of income at a time when a spouse or child is coming to terms with bereavement. The same argument could be applied following a death in service, however in that instance a very substantial death grant is likely to be paid to the next of kin.</p>		

ILL HEALTH BENEFITS

Q 7(a) Would you prefer a two or three tier ill health arrangement?	Other X	2 Tier	3 Tier
<p>Q 7(b) If you have chosen 2 or 3 tier, please explain why you have made this choice</p> <p>Our concerns to the consultation proposals are:</p> <p>(1) the level of enhancement being proposed is expensive for the scheme,</p> <p>(2) there should be a separate category for terminally ill persons</p> <p>(3) there is no ill health entitlement for the person who is permanently unfit for their actual post but fit to undertake other gainful employment either immediately or within 2 or 3 years</p>			
<p>Q 7(c) If neither of these options are preferable, please outline what an alternative arrangement might look like.</p> <p>There should be a facility to retire an employee and grant ill health benefits where an employee is certified as being terminally ill. In this situation, enhancement of 100% of prospective service to age 65 would be appropriate.</p> <p>In relation to the proposed upper tier, we are unsure about the granting of 100% enhancement – this may be age discriminatory as younger persons would get substantially more service than older members. An alternative may be for there to be enhancement of 50% of prospective service subject to a maximum of 10 years.</p> <p>In relation to the proposed lower tier, the enhancement would appear to be expensive whilst by contrast the qualification criterion seems rather narrow. A simpler alternative for the lower tier might be to sanction ill health benefits with no enhancement if the employee is permanently unfit in his or her post or available comparable post. This approach has the merit of:</p> <ol style="list-style-type: none"> 1. Removing the reference to “reasonable period” and with it the likelihood of increased disputes/appeals on that point; 			

2. Placing the ill health provisions on a par with the Teachers Scheme in Scotland
3. Providing a minimum benefit for all those who are permanently unfit for their local government post irrespective of whether they can or cannot immediately take up other employment.

As regards providing payments for those not meeting the above criteria, it should be borne in mind that local authority conditions of service already make provision for sick pay of up to 1 year.

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	N	Y	N	Y	N
Q 8(b) Please explain why you have come to this conclusion.						
<p>Ill health benefits should only be available where the member is permanently unfit for his or her actual post or available comparable post. To operate ill health provisions on the basis of anything less than this base position would be costly.</p>						

Q 9(a) Do you agree with the proposed definitions of ‘reasonable prospect’, ‘gainful employment’ and ‘reasonable period’?	YES X	NO
Q 9(b) If you have answered ‘NO’, can you please comment on each definition?		
<p>But “reasonable period” is unnecessary if our proposal in Q7c is taken forward</p>		

Q 10(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?	YES X	NO
Q 10(b) If you have answered ‘NO’, can you please explain why?		

PARTNER PENSIONS

Q 11(a) Do you agree to the proposal to provide partner pensions to spouses, civil partners and cohabiting partners at a rate of 1/160th?	YES X	NO
Q 11(b) If you have answered 'NO', what rate(s) would you prefer and why?		

Q 12(a) Do you agree with the proposed criteria for defining partners who cohabit?	YES X	NO
Q 12(b) If you have answered 'NO', what criteria would you prefer and why?		

FLEXIBLE ARRANGEMENTS IN THE RUN-UP TO RETIREMENT

Q 13(a) Do you agree that current flexible retirement provisions should be retained?	YES X	NO
Q 13(b) If you have answered 'NO', which provisions should be removed, and why?		

Q 14(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?	YES X	NO
<p>Q 14(b) If you have answered ‘NO’, please explain why</p> <p>We are broadly in favour of this proposal, although it should be noted there has been virtually no demand from any members to take <i>all</i> their benefits never mind only partial benefits.</p> <p>We would point out that not all employees wishing to take flexible retirement are being given an equal chance. Longer serving employees who are close to or have achieved their R85 date may find their applications denied because of the need to make strain payments. One approach to resolving this anomaly would be to allow authorities to ignore strain payments where there is retirement under Regulation 34.</p>		

Q 15(a) Do you agree with the provision to buy additional pension benefit, and cost-neutral uplift factors for benefits accrued beyond age 65?	YES X	NO
<p>Q 15(b) If you have answered ‘NO’, please explain why</p> <p>Agree with 15(a) but wonder how existing added years contracts will be addressed in the new scheme.</p>		
<p>Q 15(c) What other cost neutral provisions would you like to see made available to support flexible retirement?</p> <p>Abolition of abatement in all circumstances</p> <p>Option to fund strain payment through longer term employer contributions (return to Pre 1998 position)</p>		

CONTRIBUTION RATES FOR SCHEME MEMBERS

Q 16(a) Do you agree that the proposed employee contribution rate is fair, given the level of benefits proposed?	YES	NO
X		
<p>Q 16(b) If you have answered ‘NO’ please explain why and what your preference would be?</p> <p>But there are possible gender equality issues if rate is not uniform.</p>		

Q 17(a) Do you agree that the LGPS should incorporate a tiered contribution rate system	YES	NO
	X	X
<p>Q 17(b) If you have answered ‘NO’ please explain why?</p> <ol style="list-style-type: none"> 1. The lowest proposed contribution rate is 5.5% - close to the current rate. There is too small a variation from the current scheme to attract lower paid employees to join. 2. There is anecdotal evidence that no matter how low you make the contribution rate, a stratum of employees will still not participate as their “raison d’etre” is to maximise immediate income. The introduction of Pension Savings Accounts may help address the concern that there is not enough pensions saving amongst the lower paid. 3. At the other extreme, an average rate of above 8.5% appears high. Nor should it be the role of the pension scheme to attempt to re-distribute tax breaks given to higher earners 4. With tiered contributions, the rate of pension contribution may become a significant factor for individuals deciding whether or not accept a higher paid position and may impact on workforce mobility. 5. The vast majority of employees may find it difficult to check if their contributions are being correctly calculated. 6. Employers will face additional costs in having to update and maintain payroll systems with what will be a non standard type of pension contribution. Some smaller employers may be unable to get payroll suppliers to alter their programs. Some very small employers may be reduced to manual calculations. All employers will invariably undertake manual adjustments from time to time and these will be now be extremely cumbersome and time consuming. 7. The production of benefit statements relies largely on an estimation of the pensionable pay derived by dividing the actual annual contributions by 6%. This will no longer be possible to derive with tiered rates, leading again to time consuming exercises gathering payroll data. 8. The introduction of tiered rates means that pension sections will lose the ability to do a simple check that the correct amount of contributions has been deducted (at present Pay x 6% 		

should equal contributions).

9. There are likely to be anomalies in collecting contributions where individuals have multiple employments with one employer versus multiple employments spread over different employers.

10. Actuaries will no longer be able to derive the total pensionable pay-bill from paid contributions. This has implications for Valuations and FRS17 exercises.

11. If cost sharing is to be implemented, it will be far simpler if there is but a single contribution rate.

12. If tiered contributions are to be introduced, it must be on a cash basis (i.e. with contributions being deducted on actual earnings rather than, as is a possibility in the case of part timers, on notional full time equivalent earnings). There are a great many operational questions to be answered such as whether contributions would be based on the actual pay in a single pay period or on the cumulative earnings in that tax year. Either way, if an employee earns close to the earnings bands, there is likely to be volatility in the contributions they pay from week to week.

13. The precise methodology to be applied will have to be set out in a guidance booklet (both for software developers and administrators) possibly with deduction tables for those having to undertake manual calculations.

14. There will be significant payroll software costs

Q 18(a) Which of the illustrative tiered contribution rate options do you feel is preferable?	OPTION			
	1	2	3	Other X

Q 18(b) If you have chosen Option 1, 2 or 3, please explain why you prefer this option?

Q 18(c) If none of these options seem suitable, please provide details of an alternative mechanism.

There would appear to be significant advantages in retaining a single contribution rate.

Q 18(d) What implementation costs and issues do we need to be aware of, and what solutions are there to operationally implementing a tiered contribution system. For example, how should contributions be determined where a member has more than one salaried job within the local government workforce?

This has been answered at Question 17b.

CONTRIBUTION RATES FOR EMPLOYERS

Q 19(a) Do you agree with the move towards a 2:1 ratio between employer and member contributions rate?	YES	NO
	X	

Q 19(b) If not, what would you prefer and why?

TRANSFER OPTIONS BETWEEN THE CURRENT AND NEW SCHEME

Q 20(a) Which transfer option do you prefer?	OPTION		
	Other X	1	2
Q 20(b) Why have you chosen this option? Although it represents a challenge in terms of communication and administration, we consider the only fair option is to give members the choice between Option 1 and 2. We note that as yet there is no time limit suggested for members having to make the decision			
Q 20(c) If neither, please give details of your preferred alternative approach. 			
Q 20(d) If Option 1 is preferred, please give your views on whether you would wish the actual level of member benefits to be transferred, or for an enhanced transfer rate to be applied. If an enhanced transfer rate is to be applied, and this results in the scheme becoming unaffordable, what changes should be implemented to ensure the scheme remains affordable? For example, other benefits could be reduced or member contribution rates could be increased. Transfers should be on a cost neutral basis			

GOVERNANCE

Q 21(a) Do you agree that the LGPS scheme governance arrangements should be reviewed?	YES X	NO
<p>Q 21(b) Why have you chosen this option?</p> <p>Some time has elapsed since the last review of governance arrangements. There are periodically requests from Trade Unions and Participating Employers for greater input into the decision making process. These arguments need to be re-considered to see what improvements can be made without undermining the executive responsibility that rests with the administering authority</p>		
<p>Q 21(c) If you have answered ‘YES’ who should undertake this review and what should the specific focus of the review be?</p> <p>It is suggested that the Review be carried out by COSLA/Directors of Finance. The main focus of the review should concentrate in the first instance on establishing the current arrangements in place across the 11 LGPS Funds in Scotland. Also, information from a sample of other UK LGPS Funds could be surveyed with a minimum best practice threshold being established to meet the practical needs of individual funds.</p>		
<p>Q 21(d) Please give any views on the value and/or practicalities of the potential actions which may be implemented to strengthen governance and consultative processes across the LGPS, for example member nominated representative participation on scheme committees, development and implementation of equality proofing good practice, and a national tripartite group to oversee the LGPS.</p> <p>The idea of member nominated representatives attending Committee is worthy of further consideration. What is less clear is the capacity in which they would act. If reps were given decision making powers this would clearly conflict with the executive responsibility that rests with the administering authority. Consideration would also have to be given to the practicalities of stakeholder observer status such as how Unions from all employers would be represented; how the number and diversity of employers, admitted bodies, pensioners etc would be accommodated.</p>		
<p>Q 21(e) Please detail any other suggestions and comments you have on LGPS governance arrangements.</p>		

EQUALITY IMPACT ASSESSMENT

Q 22(a) Are you aware of any equality issues that arise from the new scheme proposals?	YES X	NO
Q 22(b) If you have answered ‘YES’ please give details below. <p>There may be a gender equality issue with tiered contributions.</p> <p>See also comments in Q14 b whereby longer serving employees may be discriminated against when making applications under Regulations 30 and 34 due to the level of strain cost demanded.</p>		

ACTUARIAL ASSUMPTIONS

Q 23(a) Do you agree with the assumptions used to underpin the development of the new scheme proposals?	YES X	NO
Q 23(b) If you have answered ‘NO’, please give evidence to support alternative assumptions.		

Q 24(a) Do you agree that the proposed employer contribution rate is fair, given the level of benefits proposed?	YES X	NO
Q 24(b) If you have answered ‘NO’, please explain why and what your preference would be.		

Q 25(a) Do you think the contributions are affordable in the long term?	YES X	NO
Q 25(b) Please explain why you have reached this conclusion.		
<p>Table 6 on Page 38 implies an average employer contribution of 13.3%. This is marginally less than the anticipated future service cost in 2008/09 (i.e. around 13.8%). Long term affordability will ultimately depend on the level of local government settlements and the extent to which investment targets are achieved.</p>		

ENSURING SUSTAINABILITY OVER THE LONGER TERM

Q 26(a) Do you agree that a cost sharing mechanism is sensible?	YES X	NO
Q 26(b) If you have answered 'NO' Please explain why.		
<p></p>		

Q 27(a) Do you agree that cost sharing should be based on the cost of benefit provision, or both this and fund investment elements?	BENEFITS ONLY	BENEFITS AND INVESTMENT
Q 27(b) Please explain which option you prefer and why?		
<p>It is agreed that cost sharing should be introduced but based only on the cost of providing benefits only. To link the cost sharing to benefits <i>and investments</i> could lead to unnecessary volatility with cost sharing thresholds being triggered far too frequently.</p>		

Q 28 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.

It is considered that a cap would be appropriate.

This could be around 14% as proposed for the teachers scheme. Even with an employee contribution of 6.5% and a 2:1 cost sharing ratio, this would still leave a margin for scheme costs to increase before the cap was triggered.

The cost-sharing proposal would be further simplified by the adoption of a single contribution rate.

Q 29 Please give your views on how the principle of cost sharing could be implemented in the LGPS and any other cost sharing issues that would need to be taken into account.

Reviewing at an interval of every second valuation would seem reasonable

ANY OTHER COMMENTS

Q 30 Please outline any other comments you have to make, either on specific scheme benefits or the proposed benefit package generally.

We recognise that there is limited time for SPPA to consider the responses before having to make draft regulations. As such, there is a concern that responses will not be capable of being fully evaluated. Given these circumstances and bearing in mind that some lead in work can take place prior to final regulations being available, we would not be averse to SPPA having a further 3-4 months, say in order to refine the draft. This should still leave administrators around 8-9 months in which to prepare for the new arrangements.

Employees with contracts of less than 3 months (or casuals) should be excluded from the Scheme

What is the position relating to deferred pensioners and pensioners?

What is the position of admitted agreements?

Will the new scheme have to be registered with HMRC as a separate entity from the old scheme? Will the new scheme need to take a reference scheme test for contracting out?

Thank you for taking the time to let us have your views.

We do not intend to acknowledge individual responses unless you place an 'X' in the box below.

Please acknowledge this reply	
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