

ABERDEEN CITY COUNCIL

COMMITTEE: PENSIONS COMMITTEE
DATE: 24 NOVEMBER 2014
REPORT BY: HEAD OF FINANCE
TITLE OF REPORT: NEW LOCAL GOVERNMENT PENSIONS SCHEME
(SCOTLAND)(2015)
REPORT NUMBER: PC/NOV14/LGPS

1. PURPOSE OF REPORT

A report was presented to the November 2013 meeting of the Pensions Committee setting out the key features of the New Local Government Pension Scheme (Scotland) 2015 and outlining the work to be undertaken by the Pension Fund Section in creating a project plan to meet the implementation deadline date of 1 April 2015. This report provides an update on the progress in implementing the new scheme.

2. RECOMMENDATION(S)

It is recommended that the Committee note this report.

3. FINANCIAL IMPLICATIONS

All costs related to the introduction of the new scheme will be met either by the Pension Fund or, employers within the Fund, if they are required by legislation to do so.

Project management, compliance and risk, communications, training, technical support will all be met from with NESPF existing budget, with additional costs monitored.

4. OTHER IMPLICATIONS

None

5. NEW LOCAL GOVERNMENT PENSION SCHEME (SCOTLAND) 2015

5.1 Background

The reform of the Local Government Pension Scheme (LGPS) in Scotland, as with all the main public sector pension schemes, follows Lord Hutton of Furness' report of March 2011 and the resulting Public Service Pensions Act 2013.

The Scottish Local Government Pensions Advisory Group (SLOGPAG) has been appointed to deliver on the content and operation of a new Local Government Pension Scheme (LGPS) 2015 for Scotland.

The primary aim of SLOGPAG is to facilitate the delivery of a scheme that takes a balanced consideration of the unique Scottish position, which continues to provide valued benefits for scheme members, and is affordable, sustainable and fair to employers, scheme members and tax payers.

Consequently, the high level objectives for the reform of the LGPS are set as follows:

- To ensure the sustainability of the scheme, the design of the new scheme should be such that existing members remain in the scheme and non-members are encouraged to join
- Levels of contribution rates which ensure protection of the lowest paid within the workforce
- Provide quality benefits to scheme members.

The new LGPS (Scotland) will take effect from 1 April 2015 replacing the existing scheme from that date.

As the new scheme commences all existing scheme members and new entrants will become members of the new LGPS (Scotland).

The scheme design provides for a reformed scheme, which meets the legislative requirements of the Public Service Pensions Act 2013 (the Act), and delivers a scheme which is fair and valued by all scheme members – full time and part time workers; managers, administrators and manual workers; and long and short serving employees alike. The new scheme represents a fair deal for Local Government workers, employers and for the taxpayer, ensuring that the scheme remains both affordable and sustainable.

5.2 Heads of Agreement

5.2.1 The Heads of Agreement on the LGPS (Scotland) 2015 were signed and published on 12th December 2013, with the final regulations laid before the Scottish Parliament on 9 June 2014.

5.2.2 Headline Features of the new scheme include:

- Change to Career Average Revaluation - this change reflects a requirement within the PSP Act. This type of scheme is particularly beneficial for lower paid members, individuals for whom promotion opportunities are limited or those where their earnings may reduce towards the end of their career.
- Change in the accrual rate from 1/60th to 1/49th
- Retention of the 5 point tiered employee contribution rate, which is 'banded'. This provides for fairer contribution rates for scheme members at the lower end of the pay scale. As contributions benefit from tax relief, a tiered arrangement of contributions, where scheme members pay a proportion of earnings up to each limit and then higher contributions on earnings above each limit, also improves the perceived fairness of contributions at different salary levels.
- Lump sum death in service benefit remains at three times pay
- Pensions for partners who cohabit and civil partners equal to those benefits afforded to married couples.
- Retention of the ill-health pension provisions through a two-tier benefit scheme, with a third tier provided by a discretionary employer lump sum payment to operate alongside the scheme.
- The 50:50 Option – this is a new scheme design feature which allows employees eligible for LGPS membership or scheme members to elect to pay 50% of normal contributions, and in return accrue only 50% of their pension during that time. Benefits such as death in service lump sum would still be retained. This feature is not designed to replace long term membership of the full scheme.
- The scheme has been designed to help ensure it is both fair and affordable into the future. The Act also requires that costs are managed through a cost control mechanism which requires the scheme to set a cap, the 'employer cost cap'. This cap is used when measuring changes in the cost of the scheme as assessed at

valuations and will ensure that action is taken if the cost of the scheme increases or decreases outside of the margins set around the 'employer cost cap'.

An 'at a glance' guide to the features of the proposals post 2015 LGPS is available on the Pension Fund website www.nespf.org.uk with further information available at <http://www.scotlgps2015.org>.

5.3 New Scheme Implementation Project

Implementation of the new scheme is a major project undertaking for the Pension Fund section and as such work commenced on the project planning to meet the delivery deadline of 1 April 2015 in late 2013.

Project initiation document and a project plan have been approved and are being implemented by the Pensions Section with regular reporting to the Head of Finance and the Pensions Committee.

The key objectives of the project plan are:

- To ensure the effective implementation of the new LGPS on 1 April 2015
- Identify our key stakeholders and work with them to ensure that their individual needs are met for the delivery of the new scheme
- Identify and communicate the key features of the new LGPS
- Develop a training programme that supports both internal and external needs
- Have the technical capability in place to deliver the new scheme through partnership with our software provider Heywood's
- Ensure that all key documentation is revised and issued to our stakeholders
- Fully liaise with SLOGPAG to ensure full engagement in the consultation and follow-through in implementing the new scheme
- Fully liaise with our Scottish counterparts through the Scottish Pensions Liaison Group and Scottish Pensions and Governance Group to ensure a consistent approach to implementation
- Take advantage of any lessons learned through liaison with our English and Welsh counterparts as their new scheme was effective from April 2014
- Report regularly to the Pensions Committee of Aberdeen City Council

5.4 Project Plan Update

5.4.1 The Local Government Pension Scheme (Transitional Provisions and Savings) (Scotland) Regulations 2014, following the consultation period which ended on 7th August 2014, were published on the 27th August 2014.

The Regulations provide for the preserved transitional protection for certain groups and to ensure that active members within 10 years of their Normal Pension Age under the 2009 Scheme on 1 April 2012 are able to draw benefits which are no less than they would have been able to draw under the 2009 Scheme.

5.4.2 Two training sessions were recently held:-

- The Local Government Association (LGA) held an Employer training session on 23rd September 2014 at the Copthorne Hotel, Aberdeen. This session was open to all LGPS (Scotland) Employers and 3 NESPF staff members attended.
- NESPF also held an Employer training session on 23rd October 2014 at the AECC. Each Employer was offered two spaces on the course with a recommendation that a representative from both Payroll and HR attend. In total 59 Employer delegates attended the training, representing 32 different Employers. In addition to the Employer delegates, 14 pension staff also attended the session.

Attendee feedback has been very positive with requests from several employers for further staff training.

5.4.3 Further training sessions are due to take place:-

- The official LGE practitioner training will be held in Edinburgh on the 20th and 27th January 2015. In-house training session for NESPF staff has been requested with a date to be confirmed.
- Individual Employer training is to take place from December 2014 and will be delivered by the Employer Relationship Team.

5.4.4 Ongoing project work

- Annual Benefit Statements were issued at the end of September 2014 and included information on protections for existing members, change to Normal Pension Age and examples of benefits calculations under the new Scheme
- A national website on the new Scheme is now available at <http://scotlgps2015.org/>. The Pension Fund has promoted the website to Scheme members both in the annual benefit statements

and on the NESPF website.

- An information video is in production
- A Payroll Guide was issued to Employers on 26th September 2014
- The Altair IT system (calculates members benefits) – A provisional date of November 2014 for release update to Altair 5.1 from software provider Heywood's. Once this is in place internal testing of the system will begin in line with the test plan – scheduled for December/January 2015.

5.5 Governance Arrangements

5.5.1 The Public Services Pension Act 2013 sets out new governance requirements for pension funds across the UK, implementing the Hutton recommendations. The Draft LGPS Governance Regulations was open for consultation from 30th September to 11th November 2014.

5.5.2 A copy of the Funds' response to the consultation exercise is attached at Appendix I

A copy of the Heads of Agreement on the new Governance arrangement has previously been issued to the Pensions Committee.

- Scheme Advisory Board – the Act requires the new Scheme regulations to provide for the establishment of a board with responsibility for providing advice to Scottish Ministers, at their request, on the desirability of changes to the Scheme. In addition for locally administered schemes, like the Local Government Pension Scheme in Scotland, where there is more than one scheme manager, the board can also provide advice (on request or otherwise) to the Scheme managers or the Scheme's pension boards, in relation to the effective and efficient administration and management of the Scheme or any pension fund of the Scheme.
- Pension Board - the Act will require Scheme regulations to provide for the establishment of a board with responsibility for assisting the scheme manager, or each scheme manager, in:-
 - securing compliance with the scheme regulations and other legislation relating to the governance and administration of the scheme and any statutory pension scheme connected with it;

- securing compliance with requirements imposed in relation to the scheme and any connected scheme by the Pensions Regulator, and
- such other matters as the scheme regulations may specify

5.5.3 Status of the Pension Board

- The Pension Board is not a decision making Body
- The Pension Board is not a scrutiny function
- The Pension Board will be collectively and individually accountable to the Pensions Committee

5.5.4 The Pension Board will determine the areas they wish to consider including amongst others:-

- reports produced for the Pensions Committee
- requisition reports from the scheme managers on any aspect of the fund
- monitor investments and the investment principles/strategy/guidance
- the fund annual report
- external voting and engagement provisions
- fund administrative performance
- actuarial reports and valuations
- funding policy
- any other matters that the Pensions Board deem appropriate

5.5.5 The Heads of Agreement provide further details on the Pension Board in relation to:

- Membership of the boards
- Management of conflict of interest
- Role in supporting the Scheme Employer
- Requirement to publish a separate annual statement of their work

5.5.6 A timetable has been set out by the Scottish Public Pensions Agency (SPPA) for the creation of new governance arrangements and this was previously issued to the Pensions Committee

5.5.7 Scottish Ministers have now issued a Model Constitution for the Board which sets out a recommendation for the minimum of:

4 union representative one from each of the following:

- UNISON
- UCAT
- GMB
- UNITE

Each trade union has been contacted by the Pension Fund section and nominations from each organisation will be sought by 31 December 2014.

4 Employer representatives, from:

Councils
Schedule Bodies
Admitted Bodies

The Council representatives are proposed as elected members. The Fund will seek an elected member representative from each of the three Councils, Aberdeen City Council, Aberdeenshire Council and Moray Council. Nominations will be sought from all remaining scheme employers for the remaining Board position. Nominations to be sought by 30 November 2014.

5.58 Initial training for Pension Board members will take place during spring 2015.

5.6 Risk Register

The risk register remains the key management document with regard to internal controls in delivering the new scheme arrangements.

A copy of the risk register is appended in Appendix II.

The risk register sets out the key risks which have been identified in implementing the new Scheme. These include:-

- resources with the pension section
- staff knowledge
- employer knowledge
- documentation
- costs
- system updates

The risk register sets out risk control measures, assesses whether these are operating effectively and actions proposed. Each identified risk is scored based on likelihood and impact.

It will be updated on an ongoing basis and reported to the Pensions Committee on a quarterly basis.

6. IMPACT

- 6.1 The implementation date of 1 April 2015 will only be the starting point for ongoing change for the Pension Fund, Not only the nature of benefit administration is changing from a 'final salary scheme to a career average scheme but also the closer monitoring of scheme costs through the cost cap and the revisions to scheme governance. The Pension Fund welcomes these changes and will participate actively in the transformation process.

7. BACKGROUND PAPERS

Heads of Agreement, New Local Government Pension Scheme (Scotland) – Summary

The Local Government Pension Scheme (Scotland) Regulations 2014.

The Local Government Pension Scheme (Transitional Provisions and Savings) (Scotland) Regulations 2014

Local Government Pension Scheme (Governance) (Scotland) Regulations 2014 (Draft regulations for consultation)

8. REPORT AUTHOR DETAILS

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