

ABERDEEN CITY COUNCIL

COMMITTEE: PENSIONS COMMITTEE

DATE: 15 JUNE 2015

REPORT BY: HEAD OF FINANCE

TITLE OF REPORT NEW LOCAL GOVERNMENT PENSION SCHEME
(SCOTLAND) 2015

REPORT NUMBER: PC/JUN15/LGPS

1. PURPOSE OF REPORT

A report was presented to the November 2013 meeting of the Pension Panel/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 a final update to the Pension Committee on the implementation of the new scheme from 1 April 2015.

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 were met either by the Pension Fund or, employers within the Fund, if they were required by legislation to do so.

An analysis of the internal costs associated with introduction of the New Scheme will be undertaken by the Pension Committee as part of the overall review of the implementation of the New Scheme.

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, followed Lord Hutton of Furness' report of March 2011 and the resulting Public Service Pensions Act 2013.

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

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

Consequently, the high level objectives for the reform of the LGPS were 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
- Set a level of contribution rates which ensure protection of the lowest paid within the workforce
- Provide quality benefits to scheme members.

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

From 1 April 2015 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 delivered 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 9th 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 remaining 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'.

Information on the changes to the scheme from 1 April 2015 is available on the Pension Fund website www.nespf.org.uk with further information available at <http://scotlgps2015.org/>.

5.3 New Scheme Implementation Project

Implementation of the new scheme was 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.

The project initiation document and project plan were approved and implemented by the Pensions Section with regular reporting to the Head of Finance and the Pension Panel/Committee.

The key objectives of the project plan were:

- 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 were met for the delivery of the new scheme
- Identify and communicate the key features of the new LGPS
- Develop a training programme that supported 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 was 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 Pension Panel/Committee

5.4 Final Project Plan Update

Completed Project Work:-

5.4.1 Employers

Final employer briefings were held in March 2015 by the Employer Relationship Team. In total 18 employer briefing sessions were held at 15 different employers between January and March. A follow up bulletin was issued to employers in April 2015.

The Pension Fund plans to hold an administration forum for employers around June 2015 to target HR and Payroll staff. This forum will focus on any areas of administering the new scheme post implementation that employers need further guidance on e.g. discretions, strain on the fund etc.

5.4.2 Scheme members

Final member presentations were held in April 2015. These sessions were designed to provide members with details on the new scheme and provide an opportunity to discuss any queries with senior Pension Fund staff members. From the feedback they were positively received by staff. In total 43 presentations were held between December and April.

A booklet on the changes to the Pension Scheme was prepared and issued to all active members in early May 2015. Annual benefit statements will be issued to active members by end of August 2015.

Benefit statements for deferred members will be issued by the end of June 2015. By issuing the benefit statements for active and deferred members earlier this year we will ensure the Pension Fund meets its disclosure requirements under the 2015 scheme.

5.4.3 Staff Training

Fortnightly In-house staff training sessions was held from February by the Senior Pensions Officer – Training & Development. Pensions Officers found these very beneficial in preparing for day-to-day administration of the new scheme. Regular staff meetings will continue from April to allow Pensions Officers the opportunity to discuss any issues post implementation.

5.4.4 Website/Documentation

The NESPF website (www.nespf.org.uk) was updated from 1 April 2015, including new 2015 scheme guides and revised forms for use by employers

and employees. A guide on the amendments was issued to employers on 13th April 2015 with copies of the new forms.

A review of the documentation available on Altair (IT system) was carried out and the majority of the documentation has now been updated. Work is ongoing to complete the remaining documentation.

5.4.5 Altair System (calculated member benefits)

Following a period of very thorough testing by Pension Fund staff, the Altair IT system received the CARE update into the live system on 6th March 2015.

Due to the late sign off of GAD factors i.e. early retirement, trivial commutation, AVC annuity, pension credit and debits, there was a slight delay in updating these factors on the Altair IT system. Heywood's was able to provide these in a suitable format for upload on 17th April 2015 and calculations are now using up to date factors.

Amendments to the late retirement factors will be included in the 2015.0.2 release due around May 2015.

5.4.6 Administering Authority and Employer Discretions

Under the Local Government Pension Scheme (Scotland) Regulations 2014, both the Administering Authority of the North East Scotland Pension Fund and Scheme employers has the right to exercise a number of discretions in respect of the scheme regulations.

Scheme employers have been advised of their obligation under the regulations (No 58) to prepare and publish their policy on discretions by 1 July 2015. Support is being provided to scheme employers in drafting their policy statements by the Employer Relationship Team.

A separate report will be presented to the 15 June 2015 meeting of the Pension Committee regarding the determination of Administering Authority discretions.

5.5 **Governance Arrangements**

The Public Services Pension Act 2013 set out new governance requirements for pension funds across the UK, implementing the Hutton recommendations.

The proposals recommended the introduction of:

- A Scheme Advisory Board

- Pension Boards for each Fund
- A role for the Pensions Regulator

The consultation period on the draft LGPS Governance Regulations ended on 11th November 2014 and the final Governance Regulations were laid before the Scottish Parliament on 19th February 2015.

5.5.1 Heads of Agreement

A copy of the Heads of Agreement on the new Governance arrangement was previously issued to the Pension Committee. The key points are set out below.

- 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 requires 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

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

5.5.2 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.

5.5.3 Pension Board Remit

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

- reports produced for the Pension 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 Pension Board deem appropriate

5.5.4 Model Constitution & Pension Board

Scottish Ministers issued a Model Constitution for the Pensions Board which set out a recommendation for the minimum of 4 union representatives (from UNISON, UNITE, GMB AND UCATT) and 4 employer representatives.

An elected member representative was nominated from each of the three Councils, Aberdeen City Council, Aberdeenshire Council and The Moray Council. The remaining scheme employers nominated and voted on a member for the final employer representative position on the Board.

UNISON, UNITE and GMB each nominated a member for the Board. However to date no nomination has been received from UCATT.

The Pensions Board for the North East Scotland Pension Fund will be made up as follows:

- Councillor John Cowe (The Moray Council)
- Councillor William Howatson (Aberdeenshire Council)
- Councillor Len Ironside CBE (Aberdeen City Council)
- David Briggs (The Robert Gordon University)

- Alan Walker (UNITE)
- James Mulholland (UNISON)
- Robert Henderson (GMB)

Initial training for Pension Board and Pension Committee members was carried out 20th February 2015 at the AECC.

5.5.5 Pensions Board Meeting 23 April 2015

The first meeting of the Pension Board was held on 23 April 2015. The meeting agenda included:

- Election of Board Chairman – James Mulholland (Unison)
- Adoption of the Pension Board constitution (copy attached)
- Appointment of Head of Finance of Aberdeen City Council as advisor to the Board
- Approval of the Pension Board Training Plan

5.5.6 Joint Meeting of the Pension Committee and Pension Board

The first joint meeting of the Pension Committee and Pension Board will be held on 15 June 2015.

5.5.7 Pensions Regulator

The Pensions Regulator will going forward take a role in the oversight of the Local Government Pension Scheme. It's role will be to ensure Fund compliance in the following areas:

- Reporting duties
- Internal controls and managing risks
- Record keeping
- Communication to members
- Publishing scheme information
- Maintaining contributions
- Pension board conflicts of interest and representation
- Resolving internal disputes
- Reporting breaches of the law

The Pension Fund section has commenced a review of its compliance with the Regulator requirements and a report on compliance will be brought forward to a future meeting of the Pension Committee.

5.6 **Post 1 April 2015**

The Pension Fund section will continue to work with, and support scheme employers of the coming months to ensure the effective implementation of the new scheme for both them and scheme members.

Internal staff training will continue within the Pension Fund section to ensure that all staff have the tools and knowledge to continue to provide the highest quality service to stakeholders within the Fund.

6. IMPACT

- 6.1 The introduction of the new scheme from 1 April 2015 is only the starting point of 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
The Local Government Pension Scheme (Scotland) Amendment Regulations 2015
The Local Government Pension Scheme (Governance) (Scotland) Regulations 2015
Pension Board Constitution (Appendix I)

8. REPORT AUTHOR DETAILS

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