EXECUTIVE NOTE

THE LOCAL GOVERNMENT PENSION SCHEME (BENEFITS, MEMBERSHIP AND CONTRIBUTIONS) (SCOTLAND) REGULATIONS 2008 – SSI 2008/230

The above instrument is made in exercise of the powers conferred by sections 7 and 12 of and schedule 3 to the Superannuation Act 1972. These powers have been executively devolved to the Scottish Ministers by virtue of the Scotland Act 1998 (Transfer of Functions of the Scottish Ministers etc) Order 1999 (SI 1999/1750). The Instrument is subject to negative resolution procedure.

Background

In 2002, the UK Government published a Green Paper entitled “Simplicity, security and choice: Working and saving for retirement” which set out the need modernise public sector pension schemes and to contain the costs at a sustainable level in the light of major demographic changes, including rising longevity. The UK Government announced in 2003 that it intended to proceed with its reform of public service pension schemes and, in 2004, the Scottish Public Pensions Agency (SPPA) consulted with stakeholders on proposed changes to the LGPS in Scotland, in a consultation document called ‘Facing the Future’, which was aimed at securing changes to the scheme to address affordability issues and its future sustainability.

In 2005, Scottish Ministers announced their intention to remove the Rule of 85 because it breached the terms of the EC Directive on equality in the workplace. This led to a joint statement by COSLA and the Unions on the overarching principles for both dealing with the removal of the Rule of 85 and the future development of the local government scheme. Discussions around the removal of the Rule of 85 were protracted and consideration of the new scheme was delayed until these were completed.

A tripartite group, called SLOGPAG[1], was established in November 2006 to jointly develop the “new” LGPS for Scotland. The group consisted of representatives of COSLA (on behalf of councils and administering authorities), Unions and the Scottish Government.

In July 2007, SLOGPAG issued a joint consultation paper on proposals for the new LGPS. This included certain areas where agreement had not been reached within the group. In finalising proposals for the new scheme, the group took account of consultation responses and worked to resolve the few remaining outstanding issues. On 18 January, 2008, the group agreed proposals for a new LGPS and these are set out in the Heads of Agreement, which can be viewed on the SPPA’s website. .

[1] SLOGPAG stands for Scottish Local Government Pensions Advisory Group

Policy Objectives

The overall aim has been to reform the LGPS to ensure that it is cost effective, viable and sustainable over the longer term. The new LGPS is also required to meet the needs of the modern workforce, through the provision of a valued set of benefits to members and a useful tool for employers to aid recruitment and workforce change. The new scheme will provide equal access for all local government employees to a set of scheme benefits that are both fair and affordable.

The Local Government Pension Scheme (Scotland) Regulations 1998 (S.I.1998/366) ("the 1998 Regulations") as amended, constitute the occupational pension scheme ("the 1998 Scheme") for local government employees in Scotland, other than teachers, police officers and firefighters until 31st March 2009. On 1st April 2009 this instrument and the Local Government Pension Scheme (Administration) (Scotland) Regulations 2008 ("the Administration Regulations") come into force and make provision for the Scheme for the future.

This instrument sets out the benefits, membership and contribution structure of the new Local Government Pension Scheme in Scotland ("the Scheme)..

The main provisions include:

- A pension only scheme with an accrual rate of 1/60th of salary but with the option to commute up to 25% of the capitalised value of the pension into a lump sum, replacing the previous accrual rate of 1/80th pension and 3/80th lump sum;
- Improved death in service benefits, from twice to three times pensionable pay;
- Better targeted ill health provisions with two levels of benefit enhancement;
- Extended access to flexible retirement, with either the whole or part of accrued rights coming into payment;
- Extension of survivor benefits to nominated co-habiting partners;
- Tiered contribution rates to address equity issues across the whole membership;
- Increases in partners lump sum to be provided where active, deferred or pensioner member dies. Short term spouses' benefits removed;
- The ability to accrue service in the LGPS beyond age 65 up to age 75. Cost-neutral uplift factors for benefits accrued up to beyond age 65;
- Introduction of a five-tier employee contribution rate structure, delivering an average employee contribution rate of 6.3%. Tiers operate on a banding system, as follows:

Pensionable pay	Rate (%)
On earnings up to and including £18,000	5.5%
On earnings above £18,000 and up to £22,000	7.25%
On earnings above £22,000 and up to £30,000	8.5%
On earnings above £30,000 and up to £40,000	9.5%
On earnings above £40,000	12%

- Commitment to establishing cost sharing mechanism to ensure sustainability of the scheme over the long term;
- Option to buy additional pension benefit.

Consultation

Two consultation exercises were carried out in relation to the new Local Government Pension Scheme in Scotland. The first consultation held between 31st July 2007 and 31st October 2007 was on a consultation paper on proposals developed during the tripartite discussions within SLOGPAG.

Comments received were considered by SLOGPAG and discussions continued until final agreement was reached and a Heads of Agreement document, signed by all parties involved in discussions was signed. The Press Release which announced that agreement had been reached and the Heads of Agreement documents can be accessed on the SPPA website (Pensions Reform and Taxation – Local Government)..

A second, technical, consultation exercise was carried out on the 3 sets of draft Regulations between 14th February 2008 and 27th March 2008.

Financial effects

The aim of pensions reform has been to reduce costs for employers and pension funds. The new scheme provisions give a commitment to introducing a cost-sharing mechanism into the scheme from 2010 to ensure a more equitable sharing of the costs of providing the scheme benefits between employers and employees.

A full regulatory impact assessment has not been produced for this instrument as it has no impact on the costs of businesses, charities or voluntary bodies and does not have a significant financial impact on any public bodies.

Scottish Public Pensions Agency
6 June 2007