

COSLA / Union Joint statement on the Future of the Local Government Pension Scheme

Introduction

Background

1. At the end of 2004, the SPPA issued a consultation document on the future of the local government pension scheme called 'Facing the Future' which was aimed at securing changes to the scheme which addressed the affordability issues in the scheme and its future sustainability.

2. In 2005, the announcement to remove the Rule of 85 from the scheme due to it breaching age discrimination legislation, led to a joint statement of principles between COSLA and the Unions on the overarching principles for both dealing with the removal of the rule of 85 and the future local government scheme.

3. The discussions and debate around the removal of the rule of 85 took place over a number of months and the prolonged discussions on this meant that discussions on the new scheme did not commence until these were completed and a position agreed.

4. During the rule of 85 discussions, COSLA and the Unions held a similar view and worked together in trying to secure a Scottish solution. This was successful and in moving forward in the broader discussions on the new local government pension scheme, COSLA and the Unions have worked closely together in developing the proposals in this paper. SPPA have continued to be involved to ensure that a full tri-partite arrangement has been in place with COSLA and the Unions meeting more frequently and separately to discuss the detail.

Proposals

5. The proposals in this paper represent the current position and there are some areas still under discussion. This paper does not provide the definitive detail on the various elements, rather it provides an in principle view on the direction of each of the elements.

6. In working up these proposals, there has been detailed discussion and debate and a body of actuarial work undertaken by COSLA. Unions are currently undertaking some further actuarial work based on the discussions to date.

7. In terms of affordability, the overall affordability and cost envelope will depend on the detailed package of benefits to be put in place. COSLA and the Unions will need to revisit this with the SPPA before any finalisation of proposals and the drafting of regulations.

8. Detailed work has been undertaken and this will be submitted separately as supporting information to the SPPA to assist in the preparation of the consultation document.

Elements of the Scheme

Type of Scheme

9. The scheme should be a defined benefit final salary scheme, and this is consistent with the scheme adopted for most of the other public sector pension schemes, including the Teachers, Police, Fire and LGPS in England and Wales. In developing the proposals, both COSLA and the Unions had an agreed position at an early stage, that work should progress in trying to maintain a defined benefit final salary scheme, and this principle was previously outlined within the Joint Statement of Pension Principles. Although some initial options e.g. CARE scheme, were explored, it has been very much focussed on the defined benefit final salary scheme and this is an agreed position.

Accrual Rate

10. In developing proposals, various accrual rates were considered. Under the current scheme, the accrual rate is the equivalent of around $1/64^{\text{th}}$. Therefore, accrual rates below $1/64^{\text{th}}$ were considered and costed. It is the preferred view of COSLA and the Unions that the accrual rate should be $1/60^{\text{th}}$ which is consistent with other public sector schemes. This offers the greatest benefit to employees in terms of benefits from the scheme. However, the overall affordability of $1/60^{\text{th}}$ needs to be considered as part of the overall package of benefits.

Cost Sharing (para 16 also refers)

11. The principle of cost sharing in the scheme has been discussed. There is broad agreement from the Unions on moving forward to a cost sharing scheme but that this equally embraces the concept of cost savings should they arise. Whilst the detail has not been worked up, both COSLA and the Unions are content to consider a 'trigger' in the guidance which would lead to further discussions should the ratio look as if it is shifting significantly.

Governance

12. During discussion, the Unions have expressed some views about the existing governance arrangements in place. COSLA recognises the concerns and issues raised by the Unions and agrees, in principle, that governance arrangements should be reviewed.

Contribution Rates

Employee

13. Although the exact detail as to what the contribution rates for employees should be are still to be finalised, both sides are in general agreement that the new LGPS should have in place a tiered employee contribution rate system, which would operate in a similar mechanism to the current tax banding system i.e. where a % is payable up to a particular salary band, and then a separate contribution rate is payable on any salary above the agreed banding level etc. The implementation of a tiered contribution system will limit the 'cliff edge' possibilities within a straightforward banding system, where any employee moving between salary bands may be faced with a considerable increase in pension contribution rates.

14. Details are still to be finalised as to; the preferred number of contribution tiers; the basis of earnings (including the calculation of contributions for part time staff); and also what the appropriate salary bandings should be within these tiers. The actual contribution rates within these tiers will depend on the overall affordability of the benefit package within the new scheme.

15. It should be noted that during discussions, Pension Fund Managers have indicated that a tiered contribution rate will be difficult to implement and administer. For example, current systems would not be compatible to operate a tiered contribution system, and these systems would therefore require modification and amendment, which may have significant cost implications. These complexities should not be a reason to dismiss the implementation of any tiered contribution rate system, but the practicalities and potential cost implications will require further consideration once the detailed proposals are further established and agreed. Further work is being undertaken on the shape of the workforce.

Employer

16. As outlined within paragraph 11 above, COSLA has indicated a preference of moving towards a principle of adopting a 2:1 cost sharing ratio, between employee and employer contribution rates. The exact level of employer contribution rates will depend on the overall affordability of the cost package once the overall benefit structure is agreed. It should be noted that the costs of any scheme deficit arising prior to the implementation of the new scheme in April 2009 and the cost of the investment risk should continue to fall on the employer, and the 2:1 principle is adopted for taking forward the new benefit scheme only.

Death in Service Arrangements

17. Subject to the overall affordability of the pensions benefit package, a death in service benefit of three times final salary is preferred. This reflects the practice in other public sector schemes, such as the new England and Wales LGPS and the Scottish Teachers.

III Health Arrangements

18. A two tier ill benefit scheme is the preferred option of COSLA. This would provide:

- No reasonable prospect of undertaking gainful employment before age 65 - accrued pension benefits plus service enhanced by 100% of prospective service to age 65.
- Unlikely to undertake gainful employment within a reasonable period of time but likely to be able to do so before age 65 - accrued pension benefits service enhanced by 25% of prospective service to age 65.

19. The Unions have indicated a preference for a 3 tier scheme and reviewing the definition and application of the pension protection regulations. Discussions are ongoing around this issue.

20. Definitions have been developed of 'reasonable prospect', 'gainful employment' and 'reasonable period' which are currently under discussion. Both COSLA and the Unions acknowledge the progress which has been made in terms of the definitions. Further detailed work on this has been undertaken on this as indicated above and this will be submitted separately for consideration as part of the development of the consultation document.

Partner Pension (Including civil partners)

21. This should be at a rate of 1/160th and backdated to no earlier than 6 April 1988. This provides a clear, fixed and easy to administer criterion which is broadly in line with other public sector scheme practice. Again it is recognised that this is subject to the overall affordability of the benefit package.

Spouses Pensions / Dependants

22. This should be at a rate of 1/160th.

Flexible Retirement Arrangements

23. On the principle of no detriment to existing members, current provisions for flexible retirement should be retained as a feature of the new Scottish LGPS. Work is ongoing to develop guidance on the application of the arrangements to see if this can address Union concerns over the application of the arrangements.

Transfer Options

24. To date there have been limited discussions between COSLA and the trade unions as to the transfer options between the old and new LGPS. It is the preference of COSLA that all existing members of the LGPS should transfer their current benefits across to the new scheme. This will ease future administrative complexities, ensure that all members of the LGPS receive the same type of benefits and make benefits easier to understand. Transfer values will need to be determined for any transfer of existing members to the new scheme, and ensure that they continue to 'hold what they had' and do not suffer any detriment by the transfer. This needs further consideration. A pragmatic, easy to understand transfer basis may involve additional costs. The transfer terms could take into account past service benefits prior to the 2006 scheme changes, hence taking into account the commitment from the Executive to recycle the savings.

Equality Impact Assessment

25. An Equality Impact Assessment must be undertaken as part of the considerations on the final proposals.