Scottish Pensions Bulletin

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Scottish Local Government Pensions in good shape

The Public Service Pensions Act provides for an independent review of the valuation and employer contribution rates in pension schemes and the Government Actuary's Department (GAD) has been appointed to do this for the SLGPS. GAD reported to the last advisory board on their first 'dry run'.

Their report states that all our funds operate in accordance with the SLGPS regulations, although more work is needed to address inconsistencies in presentation and assumptions. GAD has developed a solvency dashboard that identifies risks, although there are relatively few of these in the SLGPS. They also concluded that employer contributions are set at an appropriate level to ensure the long-term cost efficiency of the scheme. Overall there were few significant concerns and the first formal report will be undertaken following the 2017 valuations.

A key element in the cost of pensions is life expectancy. The latest report from the Institute and Faculty of Actuaries is not likely to top many bedtime reading lists! However, it suggested that future improvements in death rates will be significantly less than expected. In particular, life expectancy for a 65-year-old man fell by 1.3%, which means nearly four months less of life. For a 65-year-old woman it was 2% lower – or nearly six months less. While not generally good news – it does make defined benefit pensions across the public and private sector cheaper.

Another major cost to our pensions are fund management fees. The Financial Conduct Authority has published a helpful report highlighting the lack of transparency in charges and the role of investment consultants. They also highlighted the relatively poor performance and charges associated with active fund management. This is something the LGPS is taking measures to address following UNISON's campaign.

Scottish Public Service Pensions Governance Review

When the new governance arrangements for public sector pension schemes in Scotland were established, it was agreed that there would be a governance review after two years. In reality, this is a relatively short period of time and includes a learning curve for all the participants. The report makes a number of recommendations, most of which are sensible improvements to training and communications. The SLGPSAB response sets out the issues for the local government scheme.

State Pension Age

The UK government's review of the State Pension Age (SPA) has been published. It recommends that the SPA should rise to age 68 over a two year period starting in 2037 and should not increase more than one year in any ten year period after that. It also recommends an end to the 'Triple lock' on pension increases, an issue that has already come to the fore in the general election campaign.

The SPA is important to public sector pension schemes because the Normal Retirement Age in our schemes now has to follow the SPA. UNISON Scotland made representations when the review came to Edinburgh on how inequality and different working lives impact on life expectancy. The review largely ignored these points in favour of a broad brush approach, which will leave many reliant on the reducing social security system and insecure part-time work.

Investing pensions in Scottish communities instead of pollution

A new report from Re-Invest Scotland shows how our retirement money is being used to harm the environment by adding to climate change. The campaign partners: Common Weal, UNISON Scotland and Friends of the Earth Scotland believe Scotland's councils can take the opportunity to lead the pensions industry out of its short-term thinking and towards an investment practice that takes on the biggest challenge of our age: climate change.

SLGPS Structure Review

The SLGPS Advisory Board at its last meeting considered an options paper on the future structure of local government pension funds in Scotland. It was agreed to present these options with no specific recommendations to the Cabinet Secretary for Finance and discuss with him arrangements for wider stakeholder consultation. The latest SAB Bulletin covers all the issues discussed at the last SAB meeting.

Auto-Enrolment is working – in part

More than 400,000 Scots have joined a workplace pension scheme due to auto-enrolment. That has almost doubled the numbers in a private pension scheme in some local authority areas. There are predictable complaints from some business organisations about the cost, even though employer costs are modest. The real challenge is adequacy of pensions. As Dr Patrick Ring at Glasgow Calendonian University puts it:
"It's agreed that that won't be enough, but the concern is that auto-enrolment has been established by the Government under legislation so people think 'if the Government think I should be saving eight per cent that must be a reasonable amount; they wouldn't be saying that if it wasn't enough' - but it isn't."

Most of the new employer pension schemes in the private and voluntary sector also put the investment risk onto workers, who are least able to bear that risk. And of course the pension fund managers will take their cut, further reducing retirement income.

The UK government has published a Green Paper on the future of Defined Benefit schemes. These are often described as unaffordable by companies. However, the government paper is more positive. Tim Sharp from the TUC gives us a useful overview at the Touchstone blog.

For further information visit our dedicated pension website:
Pensions Scotland: http://www.pensionsscotland.org
Or contact: Dave Watson: d.watson@unison.co.uk