



Pensions Briefing

Scottish Local Government Pension Scheme

Actuarial Report

Introduction

Scottish Ministers have accepted the recommendations of the Government Actuaries Department (GAD) on the Scottish Local Government Pension Scheme (SLGPS) valuation.

This is the notional actuarial valuation as at 31 March 2014 undertaken for the purposes of establishing the employers cost cap as required by UK *The Public Service Pensions (Valuations and Employer Cost Cap) Directions 2014*. The contribution rate required to cover cost of benefits is 21.8%. Less 6.3% member contributions, resulting in an employer cost cap of 15.5%.

There is a huge amount of detail in these reports that can be viewed at the SPPA [website](#). This briefing covers some of the more interesting points.

Scheme membership

Table A1 describes the active (i.e. in employment) members of the SLGPS.

Table A1: Actives

	at 31 March 2014					
	Number of members	Total pensionable pay (i) (£m)	Average pensionable pay (£)	Average age (ii) (years)	Average period of membership (years)	Average accrued pension (£)
Male	73,304	1,803	24,593	47.2	12.8	5,116
Female	144,340	2,439	16,897	46.2	8.5	2,989
Total	217,644	4,242	19,489	46.6	10.0	3,705

- (i) the pensionable pay shown is actual pensionable pay for the time worked.
- (ii) weighted by actual pensionable pay.

In addition, there are a further 162,808 pensions in payment and 125,317 deferred pensioners. On a very rough calculation that means around one in five Scots have a direct or indirect interest in the SLGPS.

Assumptions

Actuarial valuations are largely based on assumptions - such as how long members will live, will they have to retire on the grounds of ill health, how much will they earn etc.

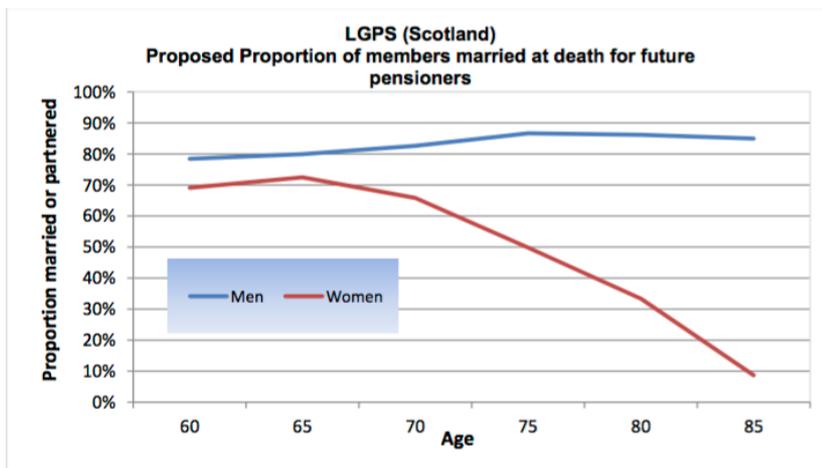
The assumptions that formed the basis of the new 2015 scheme have proved to be pretty accurate. Life expectancy has marginally increased from 22.2 years at age 65 to 24.8 years. However, that is balanced out by a lower incidence of ill health retirement for women.

The bad news is that members of the Scottish scheme are still dying earlier than equivalent workers in England and Wales. The rates are on average 15% and 19% higher than E&W for men and women respectively. This leads to a life expectancy for LGPS Scotland members of approximately 1.5 years less than their England & Wales counterparts.

Table 4.2: Comparison of normal health life expectancies - Current Pensioners (years)

	2014 Valuation (proposed)	2013 analysis	2013 England & Wales valuation
Current normal health pensioners			
Men aged 60	27.0	26.9	28.3
Men aged 65	22.2	22.1	23.4
Women aged 60	29.7	29.7	31.4
Women aged 65	24.8	24.8	26.4

The good news is that SLGPS members live longer than the Scottish population as a whole - just over two years longer on average.



Male members are assumed to be three years older than their partners, but here is a scary chart – if you are a man!

The difference with south of the border is even more marked when it comes to ill health. Mortality rates for ill-health men and women are approximately 30% heavier than their E&W counterparts; 20% for men and a staggering 40% higher for women.

There are two tiers of ill-health retirement in the SLGPS, with 70% going to Tier 1 and 30% going to Tier 2. In the three year inter-valuation period from 1 April 2011 to 31 March 2014; 1835 active members retired due to ill health (612 per year).

In 2013 it was assumed that all members would retire at the earliest date at which their benefits could be taken unreduced as of right. However, the experience over the period 2011-2014 indicates that a significant proportion of members do not take their benefits at the earliest date they are available unreduced. In fact the normal retirement age is by far the norm.

Pay negotiators will be amused to note that the long-term salary growth assumption is 4.75%. In fairness, this does include salary progression (increments etc), although that is marginal for the average age of active members. It is worth paying particular attention to the assumptions for the next few years!

Table C1: Financial assumptions at current and previous valuation

Discount rate	5.06% pa nominal (3.06% pa in excess of actual pension increase)			
Pension increases	2% pa			
Long term salary growth	4.75% pa (2.75% pa in excess of assumed pension increase)			
Short term variations in assumptions		Nominal Discount rate	Pension increases	Salary growth
	2014/15	4.24%	1.2%	1.5%
	2015/16	5.16%	2.1%	2%
	2016/17	n/a	n/a	2.5%
	2017/18	n/a	n/a	3.0%
	2018/19	n/a	n/a	3.0%

The assumed pension increase for 2015/16 was 2.1%. In practice we now know it was nil, because the CPI was -0.1% last September and the CARE revaluation has been reduced by that amount. That brings a further unanticipated saving to the scheme.

Finally, for those that still believe local government workers retire on 'gold-plated' pensions – the average pension in payment is £3,705.

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Scottish Local Government Pension Scheme In Numbers

People



- 217,644 contributors
- 162,808 pensioners
- 125,317 deferred



Assets

£28.3bn

That could be invested in the Scottish economy

The Average SLGPS Member



- Earns £19,489 p.a.
- Has 10 years service
- Is 46 years old
- Receives a pension of £3,705 p.a



Not quite gold plated!