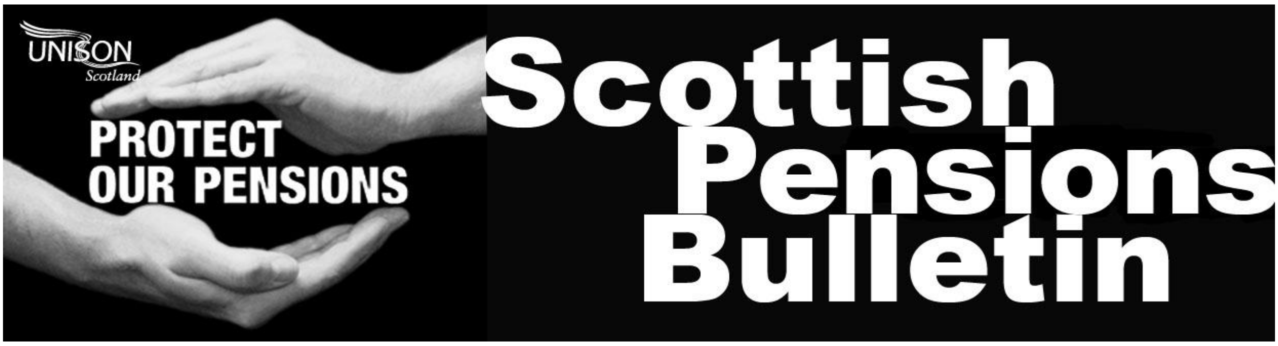

No. 48 **December 2015**

Pensions and Infrastructure Investment

The Scottish Parliament's Local Government and Regeneration Committee has published a report on pension fund investment in infrastructure and City Deal spend. This is a good analysis of the current position and they examine the barriers to infrastructure and other socially useful investment.

The Committee draws attention to the UNISON Scotland report *Funding and building the homes Scotland needs 2013* and identifies other barriers to infrastructure investment. These include the narrow interpretation of fiduciary duty, lack of expertise and prescriptive investment regulations. The committee highlighted the benefits of in-house expertise, using the West Yorkshire experience, and questioned if pension funds should be investing in arms, tobacco and fossil fuels.

The key points of the report are summarised in our Pensions Scotland blog.

SLGPS Regulation Changes

The Scheme Advisory Board agreed to recommend a number of changes to the Scottish Local Government Pension Scheme at its November meeting.

- Regulation 29 should be amended to allow members to retire voluntarily before age 60 without the consent of the employing authority. Members exercising this option do so with a full actuarial reduction so the provision is cost neutral.
- The SAB also clarified the definition of pensionable pay when pay is preserved. A small number of employing authorities have wrongly been excluding preserved pay, partly because of misleading guidance that will also be corrected.
- Regulation 14 in the investment regulations should also be replaced with a broader general duty that allows funds more flexibility to invest in different asset classes.

There is more information on the November meeting of the SAB in the Board's regular Bulletin.

Pension Reform

The Chancellor's Autumn Statement brought few surprises on pensions. The outcome of the consultation on tax relief will be announced in next April's budget. The next two tranches of auto-enrolment have been postponed to save money on tax relief and there was a hint that he might end salary sacrifice schemes, used quite extensively in our private sector pension schemes.

It is worth reminding members again that all public sector pension schemes are affected by the Chancellor's decision to end the contracting out National Insurance discount next April. This means a 1.4% increase in NI contributions for most members and a 3.4% increase in employer contributions that will hit budgets hard next year on top of the cuts. This is part of wider changes to the state pension that is explained here. History suggests it won't end well as explained here.

Scottish Local Government Pension Scheme Valuations

We will publish a full analysis of the 2014 valuations early next year. The good news is that the funds are generally in good financial shape – on average 94% funded, although that would be 100% if funds used the better GAD discount rate. There are 217,000 active members (73,304 men and 144,340 women) with an average age of 46. There are a further 125,317 deferred members and 162,808 pensioners. This remains by far the biggest pension scheme in Scotland.

On a cheery note, 719 active members died during the three year valuation period and a further 1819 retired on the grounds of ill health. Both figures are an improvement on the assumptions used for the new 2015 scheme. Members are living longer, but still shorter than England and Wales, and fewer members have to retire on the grounds of ill health.

NHS Pension Choice Exercise

The original Choice Exercise was carried out in 2010 when all active members of 1995 Section were given the option to move to the 2008 Section. During scheme negotiations it was agreed to offer these members a second opportunity to make a choice to move their preserved rights into the 2008 Section, which has a higher accrual rate, NPA 65 and more flexibilities about retirement options and re-employment. This is known as 1995 Section Choice in Scotland.

The SPPA issued generic letters to 2800 members during first week of August 2015. Additional information has been published on the SPPA website including case studies and FAQs to help members make their decision. These members had 4 months to reply until 30 November 2015. Just over 2% decided to change.

Gap between rich and poor pensioners is growing

A report from the Equality and Human Rights Commission says older people in Scotland are facing greater inequality and isolation, are working longer and taking on more unpaid care.

Two-thirds of homeowners over 65 reports being in good health, only a third of those in socially rented housing said the same. There is a similar health gap between those in routine jobs compared to managerial posts. Fewer older Scots are now taking early retirement and there are large numbers of people working long hours in their retirement years. 7.2% of Scots over the age of 65 are in work, a rise from the 2001 figure of 6.8%. Men are twice as likely to work past 65 as women.

Pension Fund Costs Increase

Four-fifths of local government pension scheme funds have seen the cost of administration and investment management rise since 2011, by as much as 169%! This is in part as a result of greater transparency in accounting for transaction charges incurred by investment managers, following the introduction of new CIPFA reporting guidance. However, UNISON believes that there is still some way to go in fully reporting these costs, many of which are hidden from pension funds.

The SLGPS Scheme Advisory Board at its last meeting agreed new templates that aim to ensure greater consistency and transparency in reporting. This is an interim position and the SAB will return to this issue in February to look at how these rising costs can be addressed.

For further information visit our dedicated pension website:
Pensions Scotland: http://www.pensionsscotland.org
Or contact:
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