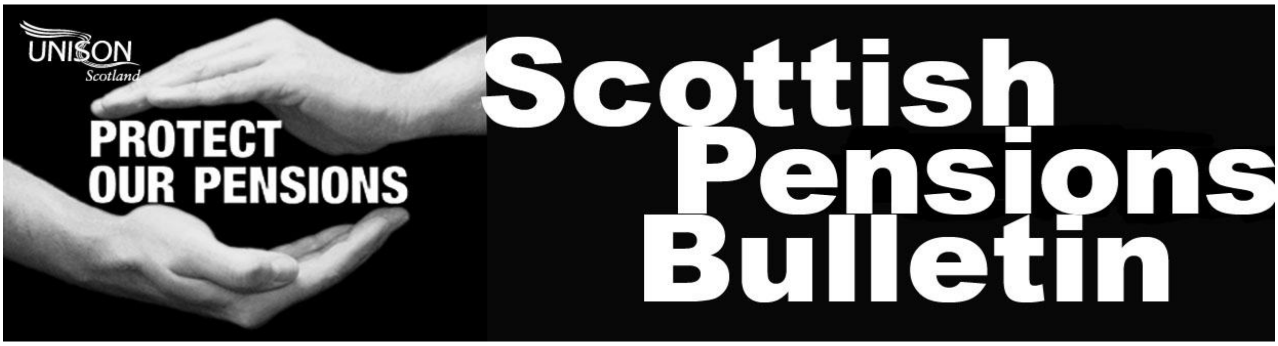

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Structure Review - Next Steps

The Scottish Local Government Pension Scheme Advisory Board (SAB) has given consideration to the structure of pension funds in Scotland. At present there is one LGPS scheme in Scotland that is administered by eleven funds. These range from large funds like Strathclyde and Lothian, to small funds like Orkney or Shetland.

Earlier this year the SAB received an options paper, which set out a range of options supported by research on trends across the pensions sector. The Cabinet Secretary for Finance has now responded to the paper. He has asked the SAB to consult on the future structure of the scheme based on the options identified in the report:

- Status quo of eleven funds in Scotland.
- Retain the eleven funds, but with closer collaboration.
- One or more common investment pools.
- Merge the funds into one or more new funds.

The SAB officers are drafting a consultation paper and timetable for the next SAB meeting in April. That will be followed by a period of consultation with all stakeholders.

Pension reform

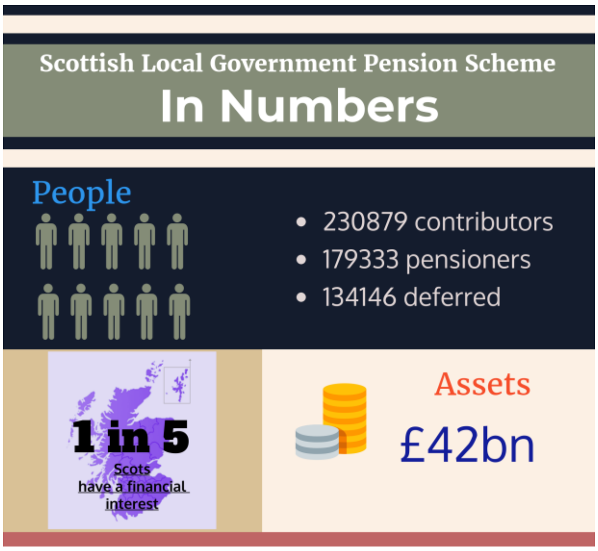
The TUC has outlined nine steps to pension reform, arguing that the current system is not working for many people.

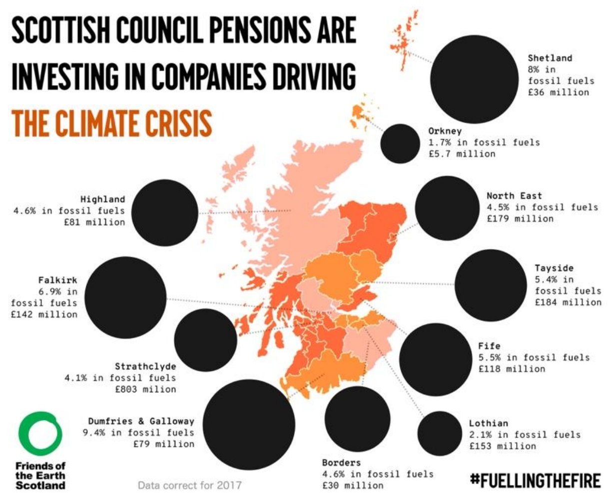
Many workers have difficulty in getting enrolled in a pension scheme; they increasingly bear the risk of investment markets turning against them in defined contribution schemes; and the continuation of this uncertainty into retirement. We have also seen the collapse of big private company schemes, while bosses prioritised their remuneration and dividends over funding the scheme.

The TUC argues that reform should include abolishing the earnings trigger (currently £10k), which would bring many more workers into pensions. Most importantly, contributions have to be raised to provide a decent income in retirement and defined benefit schemes (like most public sector schemes) should be maintained with reformed regulation. There also needs to be greater cost transparency and consolidation of smaller company schemes.

Audit overview of SLGPS

Audit Scotland has published its annual review of the Scottish Local Government Pension Scheme. It shows a big increase in the value of scheme funds, although challenges remain as liabilities are also increasing. All funds had an unqualified audit, which reinforces the findings of the Government Actuary's Department report last year.





Dirty Pension investments

A report shows that UK council pension funds invest over £16 billion in fossil fuel – the industry most responsible for climate change. Scottish councils were found to have £1.8 billion invested in fossil fuels: 4.2% of the scheme. This is despite councils in Scotland having a statutory duty to reduce fossil fuel emissions.

UNISON has published a guide on fossil fuel divestment with Share Action. This sets out how pension boards should address this issue.

Even the UK government is taking some action by consulting on rules that will make it easier for pension schemes to make investment decisions to fight climate change. This follows recommendations in 2014 and a Law Commission report in 2017.

Improving Cost Transparency

The Financial Conduct Authority is continuing its work on collecting data and improving transparency of the excessive charges being made by many asset managers. The key action is to gain agreement on templates for cost and fee disclosure by asset managers to institutional investors, including pension funds. Many of the biggest advisors have already signed up to the LGPS code, but there is much more to do.

In Brief....

- The UK Government intends to lower the age for automatic enrolment in workplace pensions from 22 to 18. However, the change will not take place until the mid 2020s, as a sop to employers. The lowering of the minimum age to 18 will affect 900,000 people across the UK. The earnings trigger of £10,000 will not be changed in 2018/19.

- Young adults will have retirement incomes similar to today's pensioners, according to an analysis by the Resolution Foundation which rejects widespread pessimism about the financial prospects for millennials. However, men in their 40s will suffer a fall in their retirement incomes compared with today's pensioners. Auto-enrolment is the main driver of improved pensions.

- National insurance contributions will need to increase by 5% in the future to fund the state pension, the Government Actuary's Department has revealed. GAD said the state pension accounts for more than 90% of benefits paid from national insurance. Unlike 'funded' private pensions, state pensions are paid on a 'pay as you go' basis so that future state pensioners are reliant on the national insurance contributions of future workers to pay their pension.

- The deficit of all UK private sector schemes has fallen by £75bn in the 12 months to 28 February 2018, JLT Employee Benefits has reported. However, there is still a need for greater funding rather than prioritising shareholder dividends.

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