Partial
Business and Regulatory Impact Assessment

Title of Proposal

Local Government Pension Scheme (Scotland) Regulations 2014

Purpose and intended effect

- **Background**
  Due to the rising costs of public service pensions to the tax payer, the UK Government established an independent commission, chaired by Lord Hutton, to review the long term affordability of public sector pensions. Lord Hutton's final report was published in March 2011 and made clear that change was needed to make public service pension schemes simpler, more transparent and fairer to those on low to moderate earnings. The Schemes also needed to become more cost-effective if they were to be sustainable.

- **Objective**
  The resulting Public Service Pensions Act 2013 (the Act) also requires the changes to the existing Local Government Pension Scheme (Scotland) 2008 established under the Superannuation Act 1972.

- **Rationale for Government intervention**
  Scottish Ministers require the reform of the Local Government Pension Scheme to meets the legislative requirements of the Public Service Pensions Act 2013. It was important to deliver a scheme which is fair and valued by all scheme members; full time and part time workers. The new scheme represents a fair deal for Scottish local government workers, employers and the taxpayer, ensuring that the scheme remains both affordable and sustainable in the long term.

Consultation

- **Within Government**
  Consulted:

1. SG Local Government colleagues – to ensure regulations took account of wider Local Government issues.
2. SG Equalities team – Ensure that Equality impact assessment process was conducted properly and completed within timescales.
3. SGLD - Advice on issues that only affect Scotland were included and the resulting regulations fit for purpose.

- **Public Consultation**
  Public consultation was completed on 14 February 2014. The feedback has been collated, examined and following further advice from SGLD - all appropriate changes made to the regulations.

- **Business**
  Discussions have also been held with Fund Authorities, Directors of Finance, Fund Managers, COSLA (representing employers including Third Sector Employers) & the unions at the Scottish Local Government Pensions Advisory Group (SLOGPAG) meetings.

The main changes include;

- **Final Salary Scheme becomes Career Average Revaluation of Earnings (CARE) for service from 1 April 2014**
  One of the primary objectives of LGPS reform is to reduce its cost to taxpayers and employers and to ensure that scheme members bear a greater proportion of these costs. The Government Actuary's Department have assessed the cost of the new Local Government Pension Scheme on 1 April 2014 as 19.6 per cent of pensionable pay

  Transitional protections for those closer to retirement: Scheme members within 10 years of retirement (Normal Pension Age) at 1 April 2012 will be eligible for an underpin which provides the greater of the benefits payable under either the new scheme or that would have been payable under the old (current) scheme. Detail will be included in the Transitional Regulations (to follow before end of June).

- **50/50 arrangement offering membership at a half-rate in return for half the contributions, for a finite period, during periods of financial constraint.**
  To encourage new participants in the Scheme and minimise the risk of members opting-out. This would result in a reduction of costs for employers. An estimated take-up of 10% would save employers 0.5% of payroll.

- **Normal retirement age will link to State retirement age**
  Scheme members further from retirement who do not benefit from transitional protections will see their retirement age increase to match State Pension Age, and so may need to work for longer than would be the case under the 2008 Scheme. Members can elect not to work longer and instead take early retirement with an actuarially reduced pension or to purchase additional service. As it is not possible to determine how individuals might elect to manage this cost, no estimation of cost can be given.

- **Sectors and groups affected**
  LGPS Members
  LGPS Employers (including third sector employers)
  LGPS Fund Authorities

- **Costs**
  Moving to a 'Career Average Revaluation of Earnings' (CARE) scheme, will require detailed records of employees' salaries to be kept throughout their career. This may create some implementation costs for employers who do not currently maintain full employment records. As the thousands of individual Scheme employers would need to determine whether they would need changes to their systems and the cost of implementing any changes, this cost cannot be reliably estimated.

  Some ' third sector' charitable bodies currently have staff enrolled in the LGPS. The payment of contributions for staff members is a high percentage cost during the economic recession and some would prefer to leave the scheme; however they remain in LGPS due to the punitive actuarial costs incurred on leaving a funded scheme. It is envisioned that the new Scheme Advisory Board for the LGPS in Scotland (which will be put in place for the 1 April 2015) will conduct a review of this issue and make recommendations on how it might be addressed.

Summary and recommendation

This policy ensures that the new Local Government Pension remains cost-effective and sustainable in the long-term, resulting in lower costs to employers in the future. It is therefore determined that a full BRIA is not needed for the introduction of the Local Government Pension Scheme (Scotland) 2014.

Mr John Swinney
Cabinet Secretary for Finance, Employment and Sustainable Growth

Signed:

Date:

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