LGPC MEETING
16 January 2019 ITEM D

Regulation Update Scotland 2018

1. Draft Regulations - The Local Government Pension Scheme (Scotland) (Miscellaneous Amendments) Regulations 2018

Draft Regulations went out to a technical consultation on the 18 December 2018, closing on Monday 11 March 2019. These amendments extend the flexibility to take an 'Uncrystallised Funds Pension Lump Sum' (UFPLS) from a member's AVC provider to members of previous schemes.

They also include changes which re-instate the wording requiring employers to use the full unreduced pensionable pay when calculating ill-health benefits after a member reduces their hours due to ill-health.

This change is backdated to the 2014 regulations which came into force on 1 April 2015.

In response to requests from stakeholders, draft changes have been introduced to require that pension contributions are paid automatically for the first 30 days of an absence, to ensure that members do not lose pension benefits and to assist in the administration of the Scheme.

These regulations also correct a number of referencing errors and ensure that the provisions in the Local Government Pension Scheme (Transitional Provisions and Savings) (Scotland) Regulations 2014 continue to have effect in the 2018 scheme.

2. Regulations - The Local Government Pension Scheme (Scotland) Pensions Amendment (Increased Pension Entitlement) Regulations 2019

In 2008/2009 GMP-related overpayments across the public service schemes were identified and Scottish Ministers chose to allow the pension in payment to remain unadjusted for affected pensioners in the Police, Firefighter and Local Government Pension schemes.

Scottish Ministers have decided that a similar approach should be taken for GMP-related overpayments that arise from the current GMP reconciliation exercise, which concluded in December 2018.

Pensions currently in payment will remain unadjusted, going forward, for affected pensioners in the devolved schemes for Police, Firefighter and Local Government members.

These regulations provide for a new scheme award known as an Increased Pension Entitlement (IPE) which reflects the GMP-related overpayment and will come into force early in 2019.

Government Actuary's Department (GAD)

3. Section 13 of the Public Service Pensions Act 2013

GAD are currently working on their report based on the 2017 valuations completed by actuaries acting for the 11 pension funds in Scotland. The Section 13 analysis assesses whether the four main aims [compliance, consistency, solvency and long term cost effectiveness] have been achieved. GAD expect to present their report to the Scheme Advisory Board in 2019.

4. 2017 Employer Cost Cap

The Public Service Pensions Act 2013 requires all public service pension schemes to undergo regular valuations, in addition to the regular fund valuations undertaken by LGPS fund actuaries.

The Act requires costs to be managed through a cost control mechanism which requires schemes to set a target cost known as the ‘employer cost cap’. This cap is used to measure changes in the cost of the scheme, as identified by the valuation. If the cost of the scheme increases or decreases by over 2% of the cost cap set in 2015, steps must be taken to return costs to that level.

The cap applies to significant unexpected changes in “member costs” i.e. relating to assumptions about the profile of members, such as life expectancy, promotional pay progression and retirement rates.

In preparation for the 2017 cost cap valuation and in line with Treasury directions, GAD collected data from the pension funds as at 31 March 2017. This data has been used to inform the cost cap valuation.

We know that some schemes have breached the cost-cap’ downwards, based on assumptions including the levelling-off of increased life expectancy reported by the Office of National Statistics (ONS), therefore it is likely that the Scottish LGPS will also be affected.

Unlike other public service pension schemes, for the LGPS in Scotland any changes arising from the valuation will apply from 1st April 2020.

5. Actuarial guidance

HM Treasury released draft amending valuation directions on 6 September 2018. The draft directions make public a proposed change in the SCAPE discount rate from 2.8% to 2.4% (subject to confirmation).

GAD are working through the review of all the actuarial factors for the scheme. The review was triggered by HM Treasury’s change to the SCAPE discount rate used in calculating the factors, announced in the Budget. GAD are also including the updated demographic assumptions.

CETV and pensioner cash equivalent factors have already been issued, and we aim to issue further key sets of factors as soon as they become available. We have also taken this opportunity to, where possible, move the factors to a unisex basis.

6. Statutory valuations

HMT Directions confirmed a shift to quadrennial statutory valuations for LGPS, in line with the unfunded schemes, after the 2020 valuation.

Contact: kimberly.linge@gov.scot
roddy.macleod@gov.scot