

Briefing for the Public Petitions Committee

Petition Number: [PE1757](#)

Main Petitioner: Liz Maguire

Subject: Reduce actuarial reductions to the Scottish Local Government Pension Scheme

Calls on the Parliament to urge the Scottish Government to significantly reduce the levels of reduction to the Scottish Local Government Pension Scheme to ensure that today's low paid workers do not become even poorer pensioners.

Background

The six largest public service pension schemes in the UK – the schemes for the Armed Forces, the Civil Service, NHS, Teachers, Police and Firefighters (which operate on a pay-as-you-go basis) and the Local Government Pension Scheme (which is funded) are statutory defined benefit (DB) pension schemes (i.e. they provide pension benefits based on salary and length of service).

These schemes were reformed under the [Public Service Pensions Act 2013](#).

Key features of the new schemes included:

- pension benefits based on Career Average Revalued Earnings (CARE);
- a pension age linked to the State Pension age for teachers, local government, NHS and the civil service;
- a pension age of 60 for members of the schemes for the police, firefighters and armed forces.

Active members of the schemes prior to April 2015 (2014 for local government) were transferred onto the new schemes, except for those covered by transitional protection for those 'closest to retirement.'

The [House of Commons Library state](#) that these reforms have contributed to the projected decline in spending on public service pensions, from around 2% to below 1.5% of GDP, over the next 50 years ([Whole of Government Accounts 2017-18](#), June 2018, para 1.63).

The Public Service Pensions Act 2013 extends to England and Wales, Scotland and Northern Ireland.

Section 2 and Schedule 2 of the Act provide that scheme regulations are to be made by the “responsible authority” for the scheme (i.e. where regulation-making power is devolved, the Minister in the devolved administration).

Scottish Ministers have regulation-making powers for the schemes for: local government; teachers; NHS; firefighters and the police.

Under section 3, responsible authorities have the power to make regulations including provision for any of the matters specified in Schedule 3. These include provision for death and injury benefits and employer and employee contribution rates.

Regulations must be in accordance with the framework set by the Act. For example, regulations must provide benefits through a ‘career average revalued earnings scheme’; normal pension age should be linked to the State Pension age (except for firefighters, police and armed forces which must have a normal pension age of 60).

The Petition

The petitioner calls for the Scottish Government to “significantly reduce the levels of reduction to the Scottish Local Government Pension Scheme to ensure that today’s low paid workers do not become even poorer pensioners.”

The reduction is based on the length of time that a member retires early i.e. the period between the date the benefits are paid and normal pension age (NPA) of the member. The earlier a member retires, the greater the reduction.

Is this within the power of the Scottish Government?

The short answer is yes.

Treasury directions made under section 11(2) of the Public Service Pensions Act 2013 require Scottish Ministers to appoint a ‘Scheme Actuary’ to carry out valuations to ensure that the scheme remains both affordable and fair to members and the tax-payer.

Scottish Ministers task the Government Actuary’s Department with carrying out valuations of the Scheme and providing the factors used to reduce a member’s benefits when taken earlier than the NPA of the scheme.

This is based on the fact that the amount of pension accrued in the scheme, comprising of contributions from the member and employer, will be paid over a longer period. Therefore, the reduction is based on the length of time that a

member retires early i.e. the period between the date the benefits are paid and NPA.

The earlier a member retires, the greater the reduction.

Scottish Government Action

The Scottish Government is not planning any further action in this regard.

There is a cost for retiring before NPA for the member of the scheme and the tax-payer, so Scottish Ministers agreed with GAD to adopt the principle of 'financial neutrality' for the setting of actuarial factors. This principle means that the costs are evenly balanced between the member and the scheme.

If Scottish Ministers were to reduce the levels of reduction on retiring early, the result would be an increase to the cost to the employer and subsequently the Scottish tax-payer.

Scottish Parliament Action

There has been no Scottish Parliament action in this area.

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0810/2019

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