

PE1757/C

Minister for Public Finance and Migration submission of 13 October 2020

Consideration of Petition PE1757: Reduce actuarial reductions to the Scottish Local Government Pension Scheme

Thank you for your email dated 16 September 2020 regarding the further questions from the Committee on the above petition about the actuarial reductions applied to members of the Local Government Pension Scheme who leave before normal pension age.

You have asked for further information on three points and I will respond to these in turn.

Firstly, the Committee asks if consideration has been given to changing the calculations for the LGPS in Scotland given the State Pension Age has risen since the regulations were introduced in 2015.

As you are aware, occupational pensions policy, including that for public service pensions, remains reserved to the UK Government, though Scottish Ministers have executively devolved powers to make regulations in respect of a number of schemes in Scotland. The Public Service Pensions Act 2013 (the 2013 Act) set out the legislative framework to reform all public service pension schemes in the UK and requires the LGPS normal pension age to be linked to state pension age. Whilst the state pension age has risen since 2015, the legislative changes introducing the increases were made prior to that, latterly by the Pensions Act 2011.

In accordance with HM Treasury directions made under section 11(2) of the 2013 Act, Scottish Ministers must appoint a scheme actuary to carry out valuations of the scheme. This is to ensure that the scheme remains both affordable and fair to members and the tax-payer. The scheme actuary is responsible for carrying out valuations of the scheme and providing actuarial advice on matters such as the reduction to benefits when they are taken earlier normal pension age. When setting factors, the actuary adopts a principle of 'fiscal neutrality'.

The reduction is based on the length of time that a member retires early and the earlier a member retires, the greater the reduction. The scheme actuary must regularly review scheme factors whenever their assumptions about the future experience of the scheme change. This is based on investigations undertaken in the statutory valuation, after the publication by ONS of an update to its population projections, or on a revision of the SCAPE discount rate by HM Treasury.

The 'fiscal neutrality' principle means that the costs of retiring early are evenly balanced between the member and the scheme, and we would therefore expect the same proportionate impact on workers across all grades on early retirement at a given age. The same approach is generally followed for all Scottish public service pension schemes.

Secondly, the Committee asks whether it is agreed that women are disproportionately affected because of this, and if so whether thought should be given to the unisex basis of the scheme.

Under the structure of the scheme, benefits accrue at the same rate for all members, although contribution rates are applied on a tiered basis, so that lower paid members contribute a lower percentage of their pensionable earnings to earn the benefits being accrued. Therefore, women are not disproportionately affected. Introducing different benefit structures based on sex or income would add considerable complexity to the scheme and may also introduce other discrimination.

In assessing the early retirement factors, the scheme actuary has set the relevant male and female factors to fairly reflect the payment of pension for a longer period than would otherwise be the case. Such reductions are calculated using the scheme actuary's assessment, based on ONS data, as to the likely pattern of life expectancy for men and women in the scheme as a whole.

Thirdly, the Committee has asked if an Equalities Impact Assessment (EQIA) has been carried out on the LGPS on the basis a disproportionate number of women are in low paid, physically demanding roles.

I can confirm an EQIA for the new LGPS was undertaken by Scottish Government in consultation with representatives from LGPS Employers and Unions in 2013. This was formerly [published on the website of the Scottish Public Pensions Agency](#) and I have included a copy with this letter.

The EQIA was required to identify how the policy would affect members and to ensure the needs and rights of all members were considered. It considered relevant evidence in order to understand the likely effect on protected groups, which included:

- identifying any existing inequality
- predicting any potential adverse impact
- informing service improvement - particularly for disadvantaged or under-represented groups
- identifying any appropriate actions to eliminate or minimise any adverse impact and for promoting positive impact.

I am aware of that the larger proportion of LGPS members are women, many of whom with familial responsibilities throughout their working lives. At the time, the EQIA identified that the raising of the NPA to 66, 67 and beyond would cause a disproportionate impact on men. A review of life expectancy for members of the LGPS in Scotland has shown that the life expectancy of men (aged 65 in 2011) is 22.1 years compared to 24.8 for women. This amounts to 12% more pension years for women.

The Local Government Pension Scheme (LGPS) (Scotland) Regulations 2014, Regulation 29 Retirement benefits, allows early retirement for all members after the age of 55. After reaching the age of 55, regulation 29(5) allows for a member to leave their employment early, with an actuarial reduction which takes into account the longer period over which the member will receive retirement benefits.

The LGPS regulations also provide additional flexibilities which can be accessed by members over the age of 55, including reducing their hours or grade to receive all or a proportion of their retirement benefits whilst working part-time. Employers also have discretion to waive whole or part of the actuarial reduction. In addition, all members can elect to temporarily reduce contributions. Scottish Ministers believe that these options are helpful in allowing members to balance their work-life and family responsibilities.

With these options available to members, Scottish Ministers believe that the LGPS takes due regard to the need to eliminate unlawful discrimination, advance equality of opportunity and foster good relations in line with the Equality Act 2010.