

## **A Severance Policy for Scotland Consultation**

### **SAB Response**

#### **Introduction**

The Scottish Local Government Pension Scheme Advisory Board (LGPSAB) welcomes the opportunity to respond to the Scottish Government's Consultation "A Severance Policy for Scotland."

The LGPSAB was established under the (UK) Public Service Pensions Act 2013. The purpose of the LGPSAB is to provide advice to the Responsible Authority, which, in this case is Scottish Ministers. It is in this capacity that it is appropriate for the LGPSAB to provide a response to this consultation.

The LGPSAB's primary interest is in relation to the pension implications referred to in the consultation. Therefore, the response does not seek to answer each of the questions in turn, but instead presents comments on the pension aspects, with reference to the consultation questions as appropriate.

#### **Pension Governance Arrangements**

Before getting into the specific pensions points, it is worth making some general comments about the existing governance arrangements for the local government pension scheme in Scotland. The LGPSAB, in looking at the desirability of changes and good governance in the Pension Scheme, will have consideration to the benefits that individuals should receive, whilst ensuring that the best interests of employing bodies are effectively represented. Fairness, both for employee and employer, in the context of the funded local government pension scheme depends on strong and stable Pension Funds and effective local governance arrangements. These governance arrangements comprise Pension Boards with oversight of each of the eleven Pension Funds in Scotland, accountability to Ministers through the Scottish Public Pensions Agency (SPPA), pension regulations and scrutiny by the pensions regulator, as well as Audit Scotland scrutiny.

Furthermore, the LGPSAB takes seriously its responsibility to keep the governance arrangements under review and to seek to improve these where needed. Indeed, as part of its current workplan, a review of existing pension fund governance and investment arrangements is being undertaken.

Given the existing well established governance structures, the LGPSAB would advise caution with regard to any nationally imposed measures that cut across scheme regulations in respect of early payment of pensions, as part of locally determined severance packages.

#### **Specific pensions aspects of the consultation**

Moving on to the specific pensions aspects of the consultations, the LGPSAB notes the reference to section 3.5 in the consultation which refers to severance payments associated with pension. The LGPSAB recognises that when employees take early severance (whether voluntary or compulsory), early access to pension may be part of the equation. This may take three main forms and arrangements vary across local authorities:

- Actuarially reduced pension in which the employee's pension benefits are reduced to take account of early receipt. There is no cost to the Pension Fund in this case.
- Unreduced pension, in which the employee receives their pension early, based on the level of contributions as at severance, without actuarial reduction. In this case the 'strain costs' of the early access are borne by the employer and there is no cost to the Pension Fund.
- Enhanced pensions, whereby the employer opts to pay for 'compensatory years' to make up some or the shortfall in pension benefits arising due to the employee's being unable to contribute to their pension until normal retirement age. Again, these costs are met by the employer and do not fall to the Pension Fund.

These arrangements are regulated by Pension Scheme rules, and the LGPSAB is content that they work well in practice and do not adversely impact on Pension Funds. As such, we believe it is appropriate for individual employers, when formulating business cases for severance arrangements, to decide how best to achieve the restructuring of its workforce whilst ensuring fair access to pensions for individuals, who lose their employment after the age of 50.

It is worth noting that, the inclusion of 'pension strain costs' when calculating whether the cap of £95,000 has been reached would mean that modestly paid employees, with long service could readily be affected.

### **In conclusion**

The LGPSAB has an advisory role to Scottish Ministers. Should Ministers decide to introduce a cap on public sector severance payments that takes account of pensions-related payment, the LGPSAB would advise extreme caution and would argue that existing regulation is sufficient, accompanied by the current framework of good governance around the local government Pension Funds in Scotland, with any improvements being considered by relevant stakeholders with Ministers.