Scottish Public Pensions Agency
Buidheann Peinnseanan Poblach na h-Alba

**Scottish Local Government Pension Scheme Advisory Board**

SPPA Update - 30 November 2022

## 1. Government Actuary's Department - Section 13 Report – to note

1.1 Section 13 of the Public Service Pensions Act 2013 requires the Scottish Ministers, as the 'responsible authority', to appoint a person to review the actuarial valuations of each fund and employer contributions rates and to publish the findings of that review. The review must consider whether the fund valuations comply with the scheme regulations, whether they are consistent with other valuations under the scheme and whether the employer contributions rates have been set as required. The Government Actuary's Department (GAD) undertakes this review for the Scottish Ministers and will report on whether the aims in relation to compliance, consistency, solvency and long-term cost efficiency are being achieved.

1.2 GAD colleagues will give an overview of their current work on the report and answer any questions from the board.

## 2. Expected change to the SCAPE discount rate – to note

2.1 In the coming months we expect the announcement from HM Treasury on its consultation on the appropriate methodology for setting the SCAPE discount rate used in the valuation of public service pension schemes. Following this we expect HM Treasury to set the discount rate and any change to the existing rate will trigger a review of the actuarial factors used in scheme calculations.

2.2 Administrators have been informed that the following calculations will need to be suspended immediately following those announcements:

- Cash Equivalent Transfer Values (CETVs)
- Divorce Cash Equivalents
- Non-club Transfers-In

2.3 During the period of the factor review, administrators will communicate to members who may be obtaining estimates, such as in relation to transfers or divorce settlements, that factors are subject to change.

## 3. Annual Allowance – for advice

3.1 The annual allowance is the maximum amount of pension savings an individual can make in any one tax year (i.e. from 6 April to 5 April in the following year), that benefits from tax relief. The standard annual allowance limit is currently £40,000, but can be lower for high earners. The growth in pension savings in one year is referred to as the Pension Input Amount or 'PIA'.

3.2 If a member's PIA is more than their annual allowance, they may be liable to pay tax on the amount that is over their annual allowance.

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3.3 The intention is that the PIA only considers pension growth above inflation and so inflation is applied to the opening pension amount in the calculation of the PIA.

3.4 However, there is a timing mismatch between the CPI used to revalue the pension at the start of the year and the CPI used for revaluation of CARE benefits. Recent high inflation means that this “disconnect” will result in more members breaching the annual allowance.

3.5 The Department for Health and Social Care has announced it intends to explore an option to mitigate this disconnect, by moving the date that revaluation is applied to CARE pensions from 1 April to 6 April each year. This will align the rate of CPI used in both calculations. If this were to be adopted by the LGPS, there would be no in-service revaluation in the calculation of the PIA, for the 2022/23 tax year only. This would reduce an individual’s PIA and mean they would be less likely to breach the annual allowance.

3.6 HMT have confirmed that this is a policy option that has been extended to all workforce departments in England/England and Wales **on a voluntary basis**. DHSC have announced that they will be implementing this policy for the NHS (England & Wales) Pension Scheme for the 2022/23 scheme year, namely that revaluation will next take place on 6 April 2023. Scottish Ministers expect to adopt this change for the NHS in Scotland and consideration is also being given to similar changes to the Scottish Police Pension Scheme.

3.7 **SPPA would be interested in any view of the SAB on the merits and value of introducing a similar change to the Sottish LGPS.** If the LGPS were to adopt this policy, we expect that minor changes to scheme legislation would be necessary. Administration routines would have to be amended and the application of scheme factors may need to be reviewed. We are also considering whether there are any implications for individual who may retire between 1 April and 6 April 2023.

3.8 The interaction with other schemes, for example in the case of club and bulk transfers, would need to be considered and there may be additional pressures if the policy is adopted by one workforce and not another, or in one region of the UK and not another.

**4. Good Governance – for action**

E&W SAB Board The Good Governance Report provided by Hymans Robertson, has been accepted by DLUHC for implementation. SPPA would be interested in the view of the SAB on their recommendations.

**5. Guidance - The Local Government Pension Scheme (Scotland) (Miscellaneous Amendments) Regulations 2022 – for action**

5.1 The Local Government Pension Scheme (Scotland) (Miscellaneous Amendments) Regulations 2022 (the 2022 regulations) came into force in June

2022. These amendments provided further flexibilities for administering authorities when dealing with exiting employers.

5.2 Stakeholders have commented on the adequacy of the wording of some of these regulations and have contacted the SPPA about, in particular: the date from when the 90 days cessation figure is fixed; a formal definition of 'cessation basis'; and the publication of information that could be considered commercially sensitive.

5.3 We are keen to work with stakeholders to ensure that the regulations are worded to reflect the policy intent, although it is our view that most of these concerns could be dealt with by the provision of accompanying guidance.

5.4 The Scheme Advisory Board in England & Wales provided guidance on Employer Flexibilities when similar provisions were introduced there. It has previously been brought to our attention that fund authorities and their actuaries believe that guidance to implement 2022 Regulations is also needed in Scotland.

5.5 It would be helpful if the SAB would indicate whether it plans to issue equivalent guidance in Scotland.

**6. September 2022 CPI rate announced – for info**

6.1 On 19 October 2022, the Office for National Statistics announced the Consumer Prices Index (CPI) rate of inflation for September 2022 as 10.1 per cent.

6.2 Government policy in recent years has been to base increases under the Pensions (Increase) Act 1971 and revaluation of pension accounts, under Section 9 of the Public Service Pensions Act 2013, on the rate of CPI in September of the previous year.

6.3 We await confirmation from the UK Government that the revaluation and pensions increase that will apply to LGPS active pension accounts, deferred pensions and pensions in payment in April 2023 will be 10.1 per cent.

**7. McCloud Remedy Update – to note**

7.1 In tandem with DLUHC, we are working on updated draft regulations to remove the discrimination identified in the McCloud judgment - to ensure that eligible younger members will be provided with a protection equal to the underpin already provided for older members.

7.2 Consultations on amending regulation will be undertaken by DLUHC, Scottish Ministers and the Department for Communities in Northern Ireland early in 2023. These updated draft regulations also take into consideration technical responses received during the 2020 consultation.

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## 8. Pensions Dashboard – to note

8.1 The Pensions Regulator (TPR) has confirmed the timeline for LGPS funds to be ready to connect and respond to matching requests is 30 September 2024.

8.2 In advance of this, funds should review the guidance and resources available on TPR's website and speak with their administration or software providers. There is a checklist available on TPR's website, which funds are encouraged to use to help track their progress.

8.3 TPR has confirmed that frozen refunds would not be included in the information required to be provided on the dashboard and that there will be a 10 day turnaround time for data requested from funds in public sector schemes, to provide that information.

8.4 TPR will issue compliance notices and penalties to trustees and managers if they fail to comply with pensions dashboards requirements. These requirements include connecting and maintaining their connection with dashboards and complying with technical, data and other standards that the Money and Pensions Service requires.

8.5 They may also issue compliance notices and penalties to third parties where they have caused non-compliance. This may include administrators, integrated service providers and employers. Under the proposed regulations, TPR will have the option to issue penalties of up to £5,000 to individuals and up to £50,000 for organisations, for a single compliance breach.

8.6 A failure to return information will be viewed at a similar level of breach as returning incorrect information. Although TPR's focus will be on 'wilful non-compliance', they have confirmed that the response to these cases will be 'robust'.

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