

**Shetland Islands Council
Deferred Members - Pensions Newsletter
AUGUST 2020**



WELCOME TO THE AUGUST 2020 DEFERRED MEMBERS NEWSLETTER. *The purpose of this newsletter is to keep all of our deferred members informed about the Shetland Islands Council Pension Fund and Local Government Pension Scheme (LGPS) matters in general.*

CORONAVIRUS & SERVICE UPDATE

Following Government advice, our offices continue to remain closed until further notice, with most staff working from home to maintain our key services. The Pension Section remains functional and **pensions continue to be paid**. While the Government advice remains in place, the Pension Section is operating as follows:

- **Phone:** You can continue to contact us by phone on: **01595 744644**
- **Email:** You can continue to email us at:

Pensions-FinanceServices@shetland.gov.uk
- **Visiting:** It is still not possible for appointments, drop-ins or face-to-face meetings to take place.
- **Mail:** There is a limited mail service in operation.
- **Payslips:** We are still unable to print paper payslips.

We send our best wishes to you and your family during these unprecedented times and hope that you are staying safe and well.

THE LOCAL GOVERNMENT PENSION SCHEME (LGPS) AND STOCK MARKETS

There has been a lot of disturbing news lately about the fall in stock markets and the potential resultant impact on **defined contribution** pensions.

The LGPS is a **defined benefit scheme**. **Defined benefit** pensions are **not** linked to stock market performance and therefore remain unaffected by any movement in financial markets.

Although short term investment values may vary, the LGPS as a long-term investor is securely managed to address any longer term impacts.

LGPS members can therefore be assured that both their contributions and their pension, whether in payment or built up to date, will be unaffected.

McCLOUD JUDGEMENT

When the LGPS in Scotland changed from a final salary to a career average pension scheme in 2015, protections for older scheme members were introduced. Similar protections were provided in other public sector pension schemes.

The Court of Appeal ruled that younger members of the Judges' and Firefighters' Pension schemes have been discriminated against because the protections do not apply to them. The Government has confirmed that there will be changes to all main public sector schemes, including the LGPS, to remove this age discrimination. This ruling is often called the 'McCloud judgment'.

The Government is still considering exactly what changes need to be made to remove the discrimination from the LGPS. This means it has not been possible to reflect the impact of the judgment in your annual benefit statement this year. **If you qualify for protection it will apply automatically - you do not need to make a claim.**

YOUR BENEFITS ARE KEEPING PACE WITH INFLATION

April 2020's full-year inflation increase for deferred pension benefits was **1.7%**. This follows increases of 2.4 % for 2019, 3.0% for 2018, 1.0% for 2017, 0% for 2016 and 1.2% for 2015.

Your pension statement shows the current value of your pension benefits as at **6 April 2020**. The statement also details the amount of pension increase applied to your benefits since you became a deferred member of the pension scheme.

ACCESSING YOUR BENEFITS FROM AGE 55

Scheme changes effective from 28 June 2019 now allow **all** deferred members to access their benefits **from age 55** provided they are no longer in the employment that gave rise to the benefit. An individual with deferred pension benefits but now in a different local government employment would be able to access these benefits.

However, if you take your benefits before your normal pension age, they will be reduced as they are being paid for longer.

When benefits are due for payment you can choose to give up part of your pension in exchange for a tax-free lump sum. Your total lump sum can be up to 25% of your Lifetime Allowance. You will be able to change pension to lump sum at the rate of £12 extra lump sum for every £1 of annual pension given up.

Our current process is to write to our deferred members when they can access their deferred benefits unreduced.

There is provision now to elect to delay taking your unreduced benefits; however, you must access them by age 75. An Election Form can be obtained by contacting the Pensions Section.

ILL HEALTH

Your deferred benefits can be paid at any age if, because of permanent ill health, you would have been unable to continue the duties of your former Local Government employment until at least age 65. If these circumstances apply to you, you require to contact the Pensions Section. The Pensions Section will then liaise with Human Resources to arrange a medical appointment with the Fund's Independent Registered Medical Practitioner.

FREEDOM AND CHOICE

AVCs

In conjunction with Prudential, there is now added flexibility with our in-house AVC facility. It is now possible to take all or part of your AVC fund from age 55 as a lump sum without taking your LGPS benefits at the same time. However, only 25% of the lump sum can be paid tax-free.

You can contact Prudential on 0345 6000 343 to get more information on this.

PENSION SCAMS DESTROY LIVES

Fraudsters are singling out people like you claiming that they can:

- help you access your Pension Fund
- offer immediate access to cash
- provide a pension loan

You must keep your pension safe. If you are cold-called or text messaged with a deal to unlock or review your pension, do not touch it. For more information about the dangers of pension scams visit:

<http://www.thepensionsregulator.gov.uk/en/pension-scams>

What to do if you think you are being targeted:

- Never be rushed into making a decision.
- Before you sign anything, call The Pensions Advisory Service on 0300 120 1047 or visit www.pensionsadvisoryservice.org.uk.
- If you have already accepted an offer, call Action Fraud on 0300 123 2040.
- Visit www.thepensionsregulator.gov.uk to find out more.

SECURITY OF YOUR PENSION – UK leaving the European Union (BREXIT)

The Local Government Pension Scheme (LGPS) Scotland regulations are set out in UK and Scottish legislation and will therefore continue to apply. As the Scheme benefits are protected by UK law, there would not be any change as a direct result of leaving the EU. Other EU legislation which impacts directly or indirectly on the Scheme is already written into UK legislation.

Please be assured that your pension will not be affected if there are changes in the value of the Fund caused by Brexit. The LGPS is backed by law, and this means that your pension is secure. Unlike some other pension schemes, returns on investments do not affect the amount of pension you are paid.

GDPR

The General Data Protection Regulation (GDPR) is a new set of European Union (EU) regulations that came into force on 25 May 2018. It has changed how organisations process and handle data, with the key aim of giving greater protection and rights to individuals. The Data Protection Act 2018 came into force on the 23 May 2018 to incorporate this new legislation.

LGPS NATIONAL INSURANCE DATABASE

The 2018 LGPS Regulations state that when a member dies, the Fund must check if there are any other LGPS benefits held with another Scottish LGPS Fund. This is to ensure the correct death benefits are paid. This has resulted in the development of a national database. The data held on the database is processed in accordance with the Data Protection Act 2018 and other relevant legislation.

You cannot opt out of us sharing your data, as this is required to comply with a legal requirement.

The data shared is your National Insurance number, membership status, the last calendar year the membership status changed and the LGPS Fund.

CLAIMING THE STATE PENSION FROM 6 APRIL 2016

The UK Government introduced a change to the State Pension on 6 April 2016 for those who became eligible after that date. If you reach State Pension Age after 6 April 2016, you can claim the new State Pension. If you are currently receiving the State Pension you will not be affected by the change.

You can still get a State Pension if you have other income like a personal pension or a workplace pension such as the one you receive from the Pension Fund.

You can find out more information at www.gov.uk/new-state-pension.

When you reach State Pension Age, you can also claim your State Pension online at <https://www.gov.uk/get-state-pension>. Please note that when you start claiming the State Pension, the tax on the pension paid by Shetland Islands Council Pension Fund may change. This is because the tax allowance is allocated to your State Pension first, and so you may pay more tax on the pension you receive from Shetland Islands Council Pension Fund. HMRC will automatically tell us what tax to deduct from the pension you receive from us.

REJOINING THE SCHEME

If you have the option to join the LGPS again, we suggest that you consider getting back into the Scheme to build up further benefits for your future right away. Rejoining could also enable your deferred benefits to be linked to the final pay in your new job.

It is important that you contact us if you rejoin the LGPS. There are LGPS rules that we have to apply to your deferred benefits. If you do not notify us it may be to your disadvantage.

AUTOMATIC SPOUSE'S/CHILDREN'S PENSIONS

There is no need to nominate your husband, wife, civil/cohabiting partner or dependant children for a pension payable on your death, but you should make a nomination for the lump sum.

LUMP SUM PAID ON DEATH

If you left service before 1 April 2009 and die before becoming a pensioner, we will pay out 3 times your deferred pension as a lump sum.

If you left service after 31 March 2009, die before becoming a pensioner and are not an active member on your death, we pay out 5 times your deferred pension as a lump sum.

If you are also an active member of the LGPS in Scotland, the death grant payable is the higher of your death grants. These amounts are **not** added together.

We have ultimate discretion over whom a lump sum is paid to on death. By completing a nomination form, you can tell us who you would like to receive any lump sum payable on your death. This will ensure quick and accurate payment after your death to the person or persons that you would like to receive the lump sum.

Your current nomination details are on your 2020 Pension Statement. Please check to make sure they are up-to-date.

If you have not completed a nomination form or want to change your nomination, a new form can be obtained from our Website at: <https://www.shetlandpensionfund.org/media/4486/nomination-form-beneficiary.pdf> or contact the Pensions Section and we will send you the appropriate form. Contact details are at the end of this newsletter.

SCHEME YEAR 2019/20

In the course of the year the Shetland Islands Pension Fund reduced from **£497 million** at 31 March 2019 to **£461 million** at 31 March 2020.

The table below summarises the membership of the scheme over the past 3 years.

	2017/18	2018/19	2019/20
ACTIVE	3,358	3,339	3,472
DEFERRED	2,044	2,193	2,293
PENSIONERS/DEPENDANTS	1,851	1,967	2,077
TOTAL	7,253	7,499	7,842

INVESTMENT PERFORMANCE

At the start of 2019/20 the investment markets rose reasonably steadily despite ongoing trade tensions between the US and China, and Brexit uncertainty between the UK and Europe. The protests in Hong Kong and political uncertainty in Italy brought some concern to the markets during 2019. By the end of 2019, the main impact on the markets was the US trade war with China, which was beginning to see some resolution, and the UK election result in December 2019 that gave more clarity as to the UK's position. This had resulted in equity markets mainly rising during 2019. This equity market performance continued into the start of 2020 until around the middle of February when the global equity markets started to get very concerned about the Coronavirus pandemic. This concern increased and the resulting fall in equity markets was severe and quick just before the year end.

The best performing sector in 2019/20 was bonds with UK Index Linked Gilts producing a return of 2.4%, followed by Corporate Bonds at 1.4%. Equity markets produced a large range of returns from the Pacific Region returning -19.8% to Japan with -1.9%, but all equity markets were negative over the financial year due to the impact of the Coronavirus near the end of 2019/20. Cash returns remain low due to the current low UK interest rate position.

Over the first few months of the 2020/21 financial year equity markets have started to rise and recover some of the February/March fall, as countries have seen their lockdown measures having an effect, along with countries using various monetary options to help stimulate their economies.

The Pension Fund's investments have risen in value since March 2020, standing at an unaudited value of £510 million on the 31st May 2020.

PENSION FUND ACCOUNTS 2019/20

The Pension Fund accounts have been prepared with regard to statute and the Code of Practice on Local Authority Accounting in the United Kingdom and summarise the transactions and net assets of the Fund. An extract from the Pension Fund accounts is shown in this leaflet, with a full copy of the accounts being available on the Council's website at the following link: http://www.shetland.gov.uk/about_finances/

At the end of March 2020 the Pension Fund was invested as follows:

	£000	%
Managed Funds	167,442	36.5
Unit Linked Insurance Policies	192,030	41.8
Pooled Property Unit Trust	51,401	11.2
Fixed Income Unit Trusts	38,023	8.3
Property income due	133	0.0
Unitised Liquidity Fund	206	0.0
Property Debt	2,243	0.5
Cash deposits	7,882	1.7
Total	<u>459,360</u>	<u>100.0</u>

Performance

The fund's overall performance is measured against an agreed performance benchmark (i.e. market return where funds invested) and recorded on a quarterly basis. The following table compares the performance of the SIC Pension Fund against the set benchmark over the past five years.

	2015/16	2016/17	2017/18	2018/19	2019/20	3 Year Annualised	5 Year
	%	%	%	%	%	%	%
Fund Return	1.0	19.0	2.3	8.1	(7.3)	0.8	4.3
Fund Benchmark	2.0	19.1	3.3	8.9	(3.6)	2.7	5.6
Performance	<u>(1.0)</u>	<u>(0.1)</u>	<u>(1.0)</u>	<u>(0.8)</u>	<u>(3.7)</u>	<u>(1.9)</u>	<u>(1.3)</u>

YEAR ENDED 31 MARCH 2020

	2019/20		2018/19	
	£'000	£'000	£'000	£'000
Dealings with members, employers and others directly involved in the scheme				
Contributions	(18,573)		(17,694)	
Transfers in from other pension funds	(1,371)		(1,503)	
Other income	<u>(0)</u>		<u>(1)</u>	
		(19,944)		(19,198)
Benefits Payable	15,427		14,509	
Payments to and on account of leavers	719		525	
Management expenses	1,929		1,917	
Other payments	<u>31</u>		<u>170</u>	
		<u>18,108</u>		<u>17,121</u>
Net (additions)/withdrawals from dealings with Members		(1,838)		(2,077)
Returns on investments				
Investment income	(4,130)		(3,417)	
(Profits) and losses on disposal of investments and change in their market value	<u>42,400</u>		<u>(31,419)</u>	
Net returns on investments		<u>38,270</u>		<u>(34,836)</u>
Net (increase)/decrease in net assets available for benefits during the year		<u>36,432</u>		<u>(36,913)</u>
Opening net assets of the scheme		(497,132)		(460,219)
Closing net assets of the scheme		(460,700)		(497,132)

**NET ASSETS STATEMENT
AS AT 31 MARCH 2020**

	2019/20		2018/19	
	£'000	£'000	£'000	£'000
Investment Assets		459,360		459,465
Current assets				
Debtors	1,722		1,970	
Bank Current Accounts	<u>1,572</u>		<u>1,788</u>	
		3,294		3,758
Current liabilities				
Sundry Creditors	(468)		(495)	
Benefits Payable	<u>(1,486)</u>		<u>(1,596)</u>	
		<u>(1,954)</u>		<u>(2,091)</u>
Net Assets of the Fund available to fund benefits at financial year end		<u>460,700</u>		<u>497,132</u>

The 2019/20 figures are unaudited.

COMMENTS AND SUGGESTIONS

Please get in touch with us if you have any comments or suggestions about this newsletter or our website.

ANY QUESTIONS?

If you have any questions after reading this newsletter, please do not hesitate to contact the Pensions Section who will be pleased to help.

CHANGE NAME/ADDRESS/MARITAL STATUS/GENDER

If you change your name, address, marital status or gender, please remember to advise the Pensions Section.

USEFUL LINKS

www.shetlandpensionfund.org/

www.scotlgps2015.org

<http://www.scotlgpsregs.org/>

www.pensionsadvisoryservice.org.uk

www.pensionwise.gov.uk

CONTACTING THE SHETLAND ISLANDS COUNCIL PENSIONS SECTION

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Pensions Officer:	Ruth Wood	Tel: 01595 74 4619
Pensions Officer:	Sandra Eldridge	Tel: 01595 74 4652
Pensions Assistant	Martin Lumsden	Tel: 01595 74 4663

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Address: Shetland Islands Council, Corporate Services – Finance: Pensions Section, 8 North Ness Business Park, Lerwick, Shetland, ZE1 0LZ

We are confident that at the time of publishing, the information contained in this Newsletter is accurate, but you should be aware that nothing within could override the regulations governing the scheme.