



Shetland Islands Council Active Members - Pensions Newsletter AUGUST 2020

WELCOME TO THE AUGUST 2020 ACTIVE MEMBERS NEWSLETTER.
The purpose of this newsletter is to keep all of our active members (i.e. members who are currently contributing to the pension scheme) 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.**

RULE OF 85 and 2020

The Rule of 85 allowed members to retire after age 60 without any reduction to their pension where their age and length of scheme membership (in whole years) added up to 85. The rule was removed from the scheme regulations with effect from 1 December 2006. However, certain protections remain in place for members who joined the scheme prior to this date.

Benefits protected by the Rule of 85 are payable without reduction from the later of:

- Age 60 (if the member meets the Rule of 85 criteria on or before this date)
- The date the member satisfies the Rule of 85 (if between 60 and 65)
- Age 65

Different levels of protection apply depending on your age, and these are outlined below.

Group 1 - members born before 1 April 1960 who joined the scheme before 1 December 2006:

- All benefits accrued up to 31 March 2020 are protected by the Rule of 85
- Benefits accrued from 1 April 2020 onwards will be reduced if paid before your State Pension Age

Group 2 - members born on or after 1 April 1960 who joined the scheme before 1 December 2006:

- All benefits accrued up to 31 March 2008 are protected by the Rule of 85
- Benefits accrued from 1 April 2008 to 31 March 2015 will be reduced if paid before age 65
- Benefits accrued from 1 April 2015 onwards will be reduced if paid before your State Pension Age

Group 3 - members who joined the scheme on or after 1 December 2006 (regardless of age):

- None of your benefits are protected by the Rule of 85
- Benefits accrued up to 31 March 2015 will be reduced if paid before age 65
- Benefits accrued from 1 April 2015 onwards will be reduced if paid before your State Pension Age

Although benefits accrued after 1 April 2020 will not benefit from the Rule of 85 protection, all protection accrued up to this date will remain in place even if you leave or retire after 31 March 2020.

The Rule of 85 **only** applies when you take your pension **from age 60**. So even if you meet the Rule of 85 (i.e. age + service = 85) before you attain 60, your benefits would still be reduced. The only exception to this is if your employer consented to paying the additional cost in respect of you taking your benefits early.

ACCESSING YOUR BENEFITS FROM AGE 55

Scheme members can now retire and access their pension benefits **from age 55**. However, unless on the grounds of redundancy or retirement in the interests of business efficiency, if you take your benefits before your normal pension age, they will be reduced as they are being paid for longer.

You can also remain being a member of the Scheme after your normal pension age, where your benefits are increased as they are being paid for a shorter period of time but you must access your benefits prior to age 75.

FREEDOM AND CHOICE

Government reforms have meant individuals aged 55 and over can access benefits from their defined contribution (DC) pension schemes.

As the Local Government Pension Scheme (LGPS) is a public sector defined benefit (DB) scheme, Freedom and Choice does not apply. However, if you have an AVC Fund, this is a defined contribution (DC) arrangement, and Freedom and Choice can apply.

Before retiring, members do have the right to transfer their pension rights out of the LGPS to a DC arrangement offering “flexible benefits”.

A transfer out of the LGPS is a major financial decision. It requires careful consideration and should only be done after taking appropriate professional financial advice.

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 AVC lump sum would 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.

PENSIONS BODIES UNITE TO REASSURE UK PENSIONS SAVERS

The Pensions Protection Fund (PPF) has joined forces with the Department for Work and Pensions (DWP), Financial Services Compensation Scheme (FSCS), Money and Pensions Service (MAPS), the Pensions Regulator (TPR), the Financial Conduct Authority (FCA) and the Pensions Ombudsman to create a guide to reassure pension savers. The guide outlines all the protections that are in place, and directs savers where they can go to seek free, impartial guidance should they have any further questions. The guide, can be found at:

<https://www.ppf.co.uk/sites/default/files/2020-05/COVID-19-and-your-pension.pdf>

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 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 Regulations 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.

TAX – LIFETIME ALLOWANCE (LTA)

The Lifetime Allowance (LTA) is the total amount of pension benefits that you can have without incurring a tax charge (this includes any other pension arrangements you have). The LTA for 2019/20 was £1.055 million and for 2020/21 is £1.073 million. On being a member of the LGPS, your LTA is calculated as 20 times your annual pension plus any guaranteed lump sum, plus the value of your AVC fund if this applies.

TAX – ANNUAL ALLOWANCE (AA)

The Annual Allowance is the amount by which the value of your pension can grow from one year to the next without having to pay a tax charge. The AA for 2019/20 and 2020/21 remains at £40,000. Anything that exceeds this amount is liable for a tax charge, although you can use any unused AA in the previous 3 years to offset any tax liability.

We will inform you by 6 October 2020 if your LGPS pension savings exceeds the £40,000 Annual Allowance amount.

LTA/AA - MORE INFORMATION

If you want to understand more about LTA/AA, we recommend that you consult an independent financial adviser or visit HMRC's website at: <https://www.gov.uk/tax-on-your-private-pension/overview>

We are not authorised by the Financial Conduct Authority (FCA), therefore we cannot advise you on tax matters.

ARE YOU PROTECTING YOUR LOVED ONES?

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

A lump sum death payment of 3 times your pay may be payable.

If you are also a deferred 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 details, a form can be obtained from our Website at: <https://www.shetlandpensionfund.org/media/4486/nomination-form-beneficiary.pdf> or by contacting the Pensions Section. 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 Year Annualised	5 Year Annualised
	%	%	%	%	%	%	%
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

www.scotlgpsregs.org/

www.pensionsadvisoryservice.org.uk

www.pensionwise.gov.uk

CONTACTING THE SHETLAND ISLANDS COUNCIL PENSIONS SECTION

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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.