Pensions in an Independent Scotland

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Central to our vision of Scotland as a thriving European country is a decent retirement for all. As this paper sets out, independence offers a genuine opportunity to deliver an affordable, fair and efficient pensions system, one that rewards hard work and incentivises saving, while also tackling pensioner poverty. Independence also offers Scots the chance, for the first time, to reject the poor stewardship that has characterised the UK Government’s management of the pensions system over many years and to establish pensions, squarely, as a Scottish responsibility.

We know that Scotland has the strong foundations on which to build such a pensions system. In financial terms, Scotland is already a highly successful country: in 2011, GDP per head in Scotland was estimated to be the 8th highest in the OECD. Furthermore, the amount spent in Scotland on social protection, which includes pensions and other welfare spending, is lower as a share of GDP than in the UK.

Much of the pensions infrastructure is already in place in Scotland, through the Scottish Public Pensions Agency and the local authority teams that manage public sector pensions. The Pension Centres located in Motherwell and Dundee, currently part of the Department for Work and Pensions, are already administering State
Pension and Pension Credit claims for everyone living in Scotland. These resources would support the delivery of pensions in an independent Scotland.

Scotland also has a track record in delivering real benefits to older people – exemplified by free personal and nursing care and concessionary travel. This Scottish Government has made a positive commitment to retain these, and our commitment would not change after independence.

The pensions system that will be built on these firm foundations is set out in this paper, giving full detail on how it will function in practice, what it will deliver to those of retirement age, and how it will support hard working people across Scotland to save for the future.

**The main aim of this paper is to provide clarity and reassurance for existing pensioners, people of working age, employers and the pensions industry.** With this in mind, three key principles structure our vision for a Scottish Pensions System under independence:

- **With independence, we will keep the best of the existing State Pensions system, making genuine improvements where necessary.** This means that the State Pension will continue as now, and planned reforms will be rolled out, including the single-tier pension. All pensions will continue to be paid as now and all accrued rights will be honoured and protected. Improvements include a commitment to apply the Triple Lock to the single-tier pension, the Basic State Pension and Guarantee Credit initially for the term of the first independent parliament, thereby protecting the value of pensions over time. We will maintain Savings Credit to benefit low-income households.

- **Independence will provide strong protection for individuals’ private pension savings via an effective regulatory system.** Alongside that, the full powers of independence will be harnessed to help people to save for their retirement over the course of their working lives.
Independence will deliver a public service pensions system that is affordable, sustainable and fair, one that works for public sector employees, public service provision, the tax-payer, and the overall public finances. Independence will enable a positive and inclusive approach to negotiating public sector workers’ pension arrangements.

In September 2014, the people of Scotland will have the opportunity to choose a better pensions system – one that will be affordable and fair, secure and efficient, one that will protect the most vulnerable and tackle pensioner poverty. Crucially, Scots will have the chance, for the first time, to decide who manages their pensions system – a choice between the pensions crisis brought about by successive UK Governments and the competence demonstrated by the Scottish Government.

In short, this paper offers a pensions system based squarely on Scottish needs and Scottish circumstances.

Independence is the only way to deliver it.

Nicola Sturgeon MSP

Deputy First Minister
and Cabinet Secretary for Infrastructure, Investment and Cities
Executive Summary

PENSIONS FOR AN INDEPENDENT SCOTLAND

The general principle of this Scottish Government, in planning for pensions in an independent Scotland, is to keep the best of the current pensions system, stressing the importance of certainty in this most important area of public policy.

In addition, independence offers the opportunity to deliver a number of immediate improvements, benefitting existing pensioners and those approaching retirement. A number of these improvements are set out here.

Future Scottish Governments would be able to make further improvements over time, to help ensure that people of all ages feel more confident about their pension arrangements and can look forward to a decent retirement.

SCOTLAND CAN AFFORD A DECENT PENSIONS SYSTEM

Scotland is a wealthy and productive country by international standards. Scottish GDP per head in 2011, including Scotland’s geographical share of North Sea output, is estimated to be the 8th highest in the OECD – and around 118 per cent of the UK average.

Scotland has strong financial foundations. Social protection expenditure, which encompasses pensions and other welfare spending, is lower as a share of GDP in Scotland than in the UK.

All Western countries face ageing populations. Addressing that challenge in Scotland requires targeted action to improve growth, boost productivity, and increase the working-age population as a share of overall population. An independent Scottish
Government would be best placed to take such targeted action to meet Scotland’s specific circumstances.

THE IMPLICATIONS OF INDEPENDENCE FOR EXISTING PENSIONERS

On independence, everyone currently in receipt of the Basic State Pension, Graduated Retirement Benefit, State Earnings Related Pension Scheme or the State Second Pension would continue to receive these pensions as now, on time and in full.

This Scottish Government commits to uprating the **Basic State Pension by the Triple Lock from 2016**. This provides protection for the value of pensions over time, meaning that pensions increase by average earnings, CPI inflation, or 2.5 per cent – whichever of these is highest. This commitment is initially for the first term of an independent parliament. The UK Government has only made a commitment to the Triple Lock until 2015.

The **Guarantee Credit element of Pension Credit**, which tops up pensioners’ weekly income to a minimum level set by government, would also be uprated using the Triple Lock from 2016, initially for the first term of an independent parliament. This provides an improved safeguard for low income pensioners in Scotland compared to their counterparts in the rest of the UK where the only requirement is for Guarantee Credit to be uprated in line with earnings.

The **Savings Credit element of Pension Credit would be retained** as additional support for those with low incomes and increased in line with earnings. This element provides a credit for those aged 65 or over who have made some financial provision for their retirement but are on a low income.

Those people who are not yet retired but who will reach State Pension Age before April 6 2016 would benefit from the same arrangements as existing pensioners.
THE PENSIONS IMPLICATIONS OF INDEPENDENCE FOR THOSE APPROACHING RETIREMENT

From April 6 2016, new pensioners would receive a Scottish single-tier pension, similar to that proposed by the UK Government, but with important improvements. In line with UK Government plans, the main outline of the Scottish single-tier pension is as follows.

- The single-tier pension would be paid in full to everyone who reaches State Pension Age after the introduction date and has 35 qualifying years of National Insurance (NI) Contributions or NI credits.
- There would be a qualifying requirement of 7-10 years of contributions.
- All Additional State Pension rights accrued prior to April 2016 would be retained and paid to individuals on retirement.
- As a result of the abolition of the state second pension, contracting out of NI contributions for those currently in Defined Benefit pension schemes would cease.

In addition, this Scottish Government commits to make a number of improvements to current UK Government plans.

The single-tier pension would initially be set at a level of £160 per week (£8320 per annum). If the rest of the UK (rUK) rate for the single-tier pension is set at a higher level, the Scottish single-tier pension will match this figure.

The rate of the single-tier pension would be increased on an annual basis in line with the Triple Lock, initially for the period of the first independent parliament. The Triple Lock provides protection for the value of pensions and is based on whichever is highest: average earnings, CPI inflation, or 2.5 per cent. The UK Government, in contrast, has only committed to uprate the single-tier pension by earnings.
Provision would be maintained for those expecting to receive a State Pension based on their spouse's contributions. This protection would be in place for 15 years after the introduction of the single-tier pension, unlike in the rest of the UK.

The Savings Credit element of Pension Credit would be retained for new pensioners who are on low incomes and increased in line with earnings. This would ensure that those pensioners approaching retirement who would have received Savings Credit are not disadvantaged by the move to the single-tier pension. The UK Government is to abolish Savings Credit for those reaching State Pension Age after April 2016.

**THE IMPLICATIONS OF INDEPENDENCE FOR STATE PENSION AGE**

State Pension Age (SPA) for women across the UK is in the process of increasing from 60 to 65 between 2010 and 2018. The original timetable for an increase to 66 for both men and women was 2026. However, the UK Government has now legislated that this increase should be fully implemented by October 2020. A further SPA increase to 67 is planned to be phased in over two years from April 2026 – again, this represents a change in expectations. An earlier timetable was that SPA should be 67 by 2036.

The Scottish Government accepts that SPA will rise to 66 according to the existing timetable. Individuals are already expecting and planning on the basis of this change. **The rapid move to 67 is a concern, however.** On average, Scots currently enjoy fewer years in retirement - and in receipt of State Pensions - than the UK average due to lower life expectancy. The difference between UK regions can be stark, with a recent report suggesting the average life expectancy gap within English areas, for those aged 65, may be as high as nine years by 2028: this would equate to approximately £67,000 in additional State Pension payments. There are also differences in terms of the work people do, with those who do routine and manual work tending to have fewer years in receipt of State Pension than managerial or professional workers. This means that a precipitate move to set SPA at 67 will
reduce still further the number of years that Scots, on average, receive the State Pension.

To address the life expectancy issue, this Scottish Government will continue to use its devolved powers to seek to improve health and well-being and to reduce health inequalities across Scotland.

However, in an independent Scotland, we would also reserve judgement on the increase to 67 between 2026 and 2028.

An Independent Commission on the State Pension Age would be established and tasked with considering the appropriate rate of increase of the SPA for Scotland over the long term, bearing in mind life expectancy, fairness with comparable workers elsewhere, affordability, sources of revenue, equality considerations, impacts on business, employers and the workplace, and the choices it would require of Ministers. The commission would report to Parliament within the first two years of independence with a view to decisions being taken promptly thereafter, to allow sufficient time for longer term financial planning.

ENTITLEMENT TO A SCOTTISH STATE PENSION

State pension entitlement in an independent Scotland would be organised as follows:

For those people living in Scotland in receipt of the UK State Pension at the time of independence, the responsibility for the payment of that pension will transfer to the Scottish Government.

For people of working age, living and working in Scotland at the time of independence, the UK pension entitlement they have accrued prior to independence will become their Scottish State Pension entitlement. Any pension entitlement accrued in Scotland after independence will also form part of that Scottish State Pension. On retirement, the Scottish State Pension will be paid by the Scottish Government.
For future pensioners who have accrued rights to the Scottish State Pension but who retire outwith Scotland, the Scottish State Pension will be paid either via a Scottish equivalent of the International Pensions Centre or by the pensions institution in the country of residence.

For people who build up entitlement to a range of State Pensions - in Scotland, in the rUK, in Europe, or elsewhere - the current situation would continue after independence. The only difference would be that pension entitlement accrued from working in Scotland after independence would be to the Scottish State Pension, rather than the UK State Pension.

**OCCUPATIONAL AND PERSONAL PENSIONS**

Occupational and personal pension rights and accrued benefits would not be affected by Scotland becoming independent. An individual's occupational or personal pension will already set out the retirement benefits which will be granted under the particular scheme and under which conditions.

**SAVING FOR A BETTER RETIREMENT**

It is important that all of us are able to save for a decent retirement. However, 13.2 million people of working age in the UK are currently estimated to be under-saving. Furthermore, only around half of Scottish employees currently contribute to a private pension (i.e. to a personal or an occupational pension in the public or private sector). Although this level is higher than the UK average, it still suggests problematic levels of under-saving.

Helping people save for a better retirement would be a key priority for this Government in an independent Scotland, as follows:
- **This Scottish Government would continue with the roll-out of automatic enrolment**, introduced last year, to help address the historic decline in private pension saving.

- The Scottish Government proposes that a **Scottish equivalent of the National Employment Savings Trust (NEST) should be established** as soon as possible following independence. The Scottish Employment Savings Trust (SEST) would provide a workplace pension scheme focused on people with low to moderate earnings, which would accept any employer wishing to use it.

- **This Scottish Government would launch a Financial Capability Strategy** to build skills, knowledge and understanding about personal finance. This could include, for example, improving access to financial advice about purchasing an annuity on retirement, as recent comparisons of example annuity rates have suggested that, without good advice, the value of the income provided can be highly variable.

Independence would also give future governments the flexibility to approach pension saving in innovative ways:

- Future Scottish Governments would be able to work with the pensions industry, employers and other stakeholders on the development of **innovative pension and savings products**.

- Future Scottish Governments **would be able to improve pension information**, giving personalised feedback to people about their current position in regard of retirement saving.

- Future Scottish Governments might wish to make **adjustments to tax relief arrangements**, with a view to improving incentives to save.

**LEGAL AND REGULATORY FRAMEWORK**

The body of law governing pensions would continue to apply in Scotland, until amended, replaced or repealed by the Scottish Parliament.
The Scottish Government proposes that the structure and activities of the regulatory framework in an independent Scotland should be closely aligned with that in the rest of the UK.

This Scottish Government proposes to establish a Scottish Pensions Regulator, which would work closely with the UK Pensions Regulator and the Financial Conduct Authority (FCA) to maintain a pan-UK approach to the regulation of private pensions.

The Scottish Government considers that it is in the best interests of all parties for current arrangements for the protection of individuals’ pensions by the Pension Protection Fund (PPF) (including its responsibility for the Financial Assistance Scheme and the Fraud Compensation Fund) to continue, with Scotland playing its full part. However, it would also be entirely possible for the Scottish Government to establish a Scottish equivalent to the PPF. The important assurance is that individuals will have the same level of protection as they do now.

The Scottish Government will ensure that arrangements for an effective compensation scheme are established, mirroring the level of protection provided in the UK Financial Services Compensation Scheme.

IMPLICATIONS FOR CROSS BORDER SCHEMES

The European Union’s Institutions for Occupational Retirement Provision (IORP) Directive places specific requirements on schemes operating across the borders of two or more EU Member States. Pension schemes that wish to accept contributions from an employer located in another EU Member State must be fully funded at all times; schemes must have prior authorisation and approval from the relevant competent authority; and must comply with the social and labour laws of the host Member State. These requirements would apply to those schemes that currently operate in Scotland and the rest of the UK if they continued to operate, on independence, on a cross-border basis.
It should be noted that the under-funding of pension schemes has resulted in large part from the poor policy decisions of successive UK Governments (see Chapter 1).

The Scottish Government will negotiate for appropriate transitional arrangements to address the impact of the requirements on newly cross-border schemes. The case for such transitional arrangements is strong:

- **The cross-border requirements in the Directive were not designed for application in an integrated financial services market**, as proposed for an independent Scotland.

- **Transitional arrangements would be strongly in the interests of the Scottish and UK Governments, the European Commission, employers and their employees.** Indeed, the European Commission’s aim in bringing forward the Directive was precisely to promote greater cross-border occupational pension provision. From within the pensions industry, it has been recognised that it is “inconceivable” that the EU would not allow transitional arrangements for schemes.

- **Member States already interpret the cross-border requirements flexibly in order to protect pension schemes.** Member States have interpreted the requirement for cross-border schemes to be ‘fully funded at all times’ differently. For example, the period allowed for cross-border schemes in Ireland to regain full funding is decided by the Irish Pensions Board on a case by case basis.

The Scottish Government's view is that discussions on this issue should start immediately, with a view to agreeing appropriate transitional arrangements. The priority would be to agree arrangements which would provide sufficient flexibility for employers, whilst ensuring that members and beneficiaries were protected in the way intended by the Directive. Transitional arrangements of this kind have been implemented previously. On the introduction of the Directive, the UK Government’s implementing legislation provided for a three year grace period for existing UK/Ireland cross-border schemes to reach full funding levels. The Scottish Government considers that it would be appropriate, in this instance, to allow a
scheme with an existing recovery plan to be allowed to implement that plan in accordance with the period originally set for it.

PUBLIC SERVICE PENSIONS

Pension schemes for the public sector provide a firm basis for individuals to save for their retirement. The Scottish Government remains fully committed to providing a fair, affordable and sustainable pension and reward package to public sector employees.

In an independent Scotland, all public service pension rights and entitlements which have been accrued for fully or executively devolved or reserved schemes will be fully protected and accessible.

There will be no difference to how much people pay for their pensions or the level of benefits they receive as a result of the move to independence.

Scotland already has the people and the infrastructure in place to deliver high quality public service pensions. The Scottish Public Pensions Agency has unrivalled first-hand knowledge and experience of both designing and delivering occupational pensions policy for the public sector.

Public sector pensions policy has been imposed on Scotland with insufficient engagement and consultation. In an independent Scotland, the approach to negotiations about any future changes to public sector pensions would be positive and inclusive, rather than confrontational.

Independence would make it possible for a future Scottish Government to consider the pension terms of all ‘uniformed’ services, including whether they should be able to access their occupational pension at a consistent age. For example, this would enable proper consideration of whether, as now, it is right that Prison Officers should wait until SPA to draw their occupational pensions, in common with Civil Servants and Local Government workers, or whether it would be
more equitable for their Normal Pension Age to be in line with that of Police Officers and Firefighters. Independence would enable a future Scottish Government to consider such issues for other workers in ‘blue light’ services such as Ambulance staff and paramedics.

A future Scottish Government with a full range of powers at its disposal could also more fully consider the impact SPA policy is having on the working and retirement patterns of Scotland’s public servants, including hard-working nurses, teachers and doctors.

This Scottish Government’s proposal to establish an Independent Commission on the State Pension Age, which would examine the UK Government’s timetable for increasing SPA to 67 between 2026 and 2028, would also have implications for the Normal Pension Age of public sector workers.
Glossary

**Absolute Poverty**: Individuals living in households whose equivalised income is below 60% of inflation adjusted median income in 2010/11. This is a measure of whether those in the lowest income households are seeing their incomes rise in real terms. See also: Relative Poverty.

**Additional State Pension**: A payment linked to earnings and National Insurance contributions. The ASP covers three separate earnings-related State Pension schemes introduced by the UK Government since 1961: the Graduated Retirement Benefit; the State Earnings-Related Pension Scheme, and; the State Second Pension.

**Advance Corporation Tax**: Prior to 1997, pension schemes were able to claim a tax relief on dividends called ACT Relief – they could claim back the tax paid on dividends from companies in which they owned shares. The UK Government announced the removal of ACT relief from equity dividends for pension schemes in 1997, thereby reducing a pension scheme’s income from dividend payments by 20%.

**Annually Managed Expenditure**: Government spending which is set each year and contains those elements of expenditure which are not readily predictable. See also: Departmental Expenditure Limits.

**Annuity**: A financial product where a lump sum (from a pension fund or other saving) is exchanged for a regular income.

**Basic State Pension**: A contributory, flat rate benefit paid to individuals over the SPA calculated on the basis of qualifying years of National Insurance contributions / credits.

**Career Average Revalued Earnings**: A type of defined benefit scheme where the retirement benefits are worked out using the average of a member’s revalued pensionable salaries over their pensionable service.

**Consumer Prices Index**: A measure of inflation reflecting changes in the cost of buying a 'basket' of products. See also: Retail Price Index.

**Contracting out**: From 1961 to 2012, individuals with an alternative earnings related pension arrangement were able to opt-out of the various iterations of the Additional State Pension and pay reduced National Insurance contributions. Contracting out ended for Defined Contribution schemes in 2012. Individuals in Defined Benefit schemes are still able to contract out, but contracting out will be abolished with the move to the single-tier pension in 2016.

**Defined Benefit**: A pension scheme in which the benefits are defined in the scheme rules and accrue independently of the contributions payable and investment returns. Most commonly, the benefits are related to members' earnings when leaving the scheme or retiring, and the length of pensionable service.
**Defined Contribution**: A pension scheme based on the performance of the investment of contributions to the pension fund. The accumulated funds purchase an annuity from pension providers for an individual which gives an income in retirement.

**Departmental Expenditure Limits**: Government departmental spending which can be planned and controlled over a Spending Review Period. See also: Annually Managed Expenditure.

**Dependency ratio**: The number of dependants (under 16s and over pensionable age combined) per 1,000 persons of working age.

**EU-15**: The 15 member countries in the European Union prior to the accession of the ten candidate countries on 1 May 2004. The EU-15 comprises the following countries: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, and the United Kingdom.

**European Insurance and Occupational Pensions Authority**: An EU supervisory authority set up to promote greater harmonisation and coherent application of regulatory standards across the European Union, and to establish a single internal market for both insurance and pensions.

**Financial Assistance Scheme**: A scheme set up to pay compensation to people who lost pension rights because their workplace pension scheme was unable to pay the benefits promised. It is administered by the Pension Protection Fund.

**Fraud Compensation Fund**: A fund that provides compensation to occupational pension schemes, with insolvent employers, that suffer a loss that can be attributable to an offence involving dishonesty.

**Financial Conduct Authority**: In April 2013, the Financial Services Authority (FSA) split into two regulatory bodies - the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA). The FCA is responsible for regulating the standards of conduct in retail and wholesale, financial markets and for supervising the infrastructure that supports those markets. The FCA also has responsibility for the prudential regulation of firms that are not regulated by the PRA. See also: Prudential Regulation Authority.

**Financial Ombudsman Service**: An independent service for settling disputes between businesses providing financial services and their customers. It is funded by a levy from financial services businesses.

**Financial Services Compensation Scheme**: An independent body, funded by a levy on firms authorised by the Prudential Regulation Authority and the Financial Conduct Authority. It compensates consumers who lose money because their provider becomes insolvent.

**Funded (Public Service) schemes**: Public service pensions schemes in which employee and employer contributions are invested to earn a return. Payments to
current pensioners are paid out of cumulative investment income. See also Unfunded (Public Service) Schemes.

**Funding level:** The relationship at a specified date between the value of the assets and the actuarial liability. Normally expressed as a percentage.

**Graduated Retirement Benefit:** The first earnings-related Additional State Pension, implemented in 1961 and abolished in 1975. See also: Additional State Pension.

**Gross Domestic Product (GDP):** A measure of the economic activity which captures the value of goods and services that the UK produces during a given period. See also: Gross Value Added.

**Gross Value Added (GVA):** The value generated by any unit engaged in production and the contributions of individual sectors or industries to Gross Domestic Product.

**Group Personal Pensions:** See Personal Pensions.

**Guarantee Credit:** A component of Pension Credit, it tops up the Basic State Pension to a minimum level, currently £145.40 for single people and £222.05 for couples. Additional payments are made for severely disabled people, carers and for housing costs.

**Home Responsibilities Protection:** Introduced in 1978 to help protect a person’s State Pension when they did not work and had caring responsibilities. For each year of HRP, the number of qualifying years needed for the full Basic State Pension was reduced by one year.

**Individual Personal Pensions:** See Personal Pensions.

**International Pension Centre:** Deals with all enquiries regarding the payment of State Pension, bereavement benefits, incapacity benefits and other such benefits for those living abroad.

**Liabilities:** The benefits promised under a defined benefit scheme.

**Local Government Pension Scheme:** The LGPS pension scheme for people working in local government or working for other types of employer participating in the scheme.

**Lower Earnings Limit:** If an individual has earnings in any particular job less than the LEL (£109 per week in 2013/14) they do not pay any National Insurance, and will not accrue a qualifying year towards the Basic State Pension. Earnings from separate jobs cannot be aggregated for pension purposes.

**National Employment Savings Trust:** Provides a workplace pension scheme with a public service obligation to accept any UK employer wishing to use it and also to accept as members any employees who ask their employer to be enrolled into a qualifying pension scheme. Employers can use NEST on its own or alongside a
scheme they already have in place. A Scottish version of NEST (the Scottish Employment Savings Trust) is proposed in this paper.

**National Insurance Credits:** In 2010, National Insurance credits were introduced to replace Home Responsibilities Protection (see entry above). National Insurance credits are provided for those who are unemployed, in receipt of disability or sickness benefits, have caring responsibilities, are on government approved training courses or who don't earn enough to pay National Insurance. National Insurance credits count as qualifying years towards the Basic State Pension.

**Occupational Pensions:** A pension scheme provided by public or private sector employers. See also: Personal Pensions.

**OECD:** The Organisation for Economic Co-operation and Development, an international economic organisation of 34 countries founded in 1961 to stimulate economic progress and world trade.

**Pensions Act 2011:** Legislation introduced by the UK Government which accelerated the increase in women’s SPA to 65 and brought forward the increase to 66 by October 2020.

**Pensions Advisory Service:** Provides free information to the public and guidance to members of state, company, personal and stakeholder schemes.

**Pension Credit:** An income related benefit for people over SPA. Pension Credit is made up of 2 component parts - Guarantee Credit and Savings Credit (see entries).

**Pensions Ombudsman:** The official ombudsman, appointed by the UK Minister for Work and Pensions, who decides complaints by scheme members and beneficiaries about the way a pension scheme is run. This includes disputes about entitlement and complaints of maladministration from individual members of occupational pension schemes; disputes between trustees of occupational pension schemes and employers; and disputes between trustees of different occupational pension schemes.

**Pension Protection Fund:** Established to pay compensation to members of eligible Defined Benefit pension schemes, whose sponsoring employers become insolvent. The PPF is funded by a levy on all eligible defined benefit schemes. The PPF became operational on 6 April 2005.

**Pensions Regulator:** Regulates work-based pension schemes in the UK.

**Personal Pensions:** Arrangements between an individual and a private pension provider, rather than an employer. There are three main types: 1) group personal pensions, where the employer chooses the pension provider and commits to paying contributions; 2) individual personal pensions which can be used by anyone to supplement their occupational pension scheme; and 3) stakeholder pensions which are required to meet certain minimum standards set by Government.
**Private Pensions**: A term covering all occupational pensions and all personal pensions.

**Prudential Regulation Authority**: Responsible for the authorisation, in conjunction with the Financial Conduct Authority, and prudential supervision of individual deposit takers (including banks, building societies and credit unions), insurers (including friendly societies) and certain designated investment firms. See also: Financial Conduct Authority.

**Public Service Pensions**: Also known as Public Sector Pensions, these occupational pensions are part of a reward package for public servants.

**Qualifying threshold**: The minimum period of contributions required to qualify for a State Pension.

**Relative poverty**: Individuals living in households whose equivalised income is below 60% of median income in the same year. This is a measure of whether those in the lowest income households are keeping pace with the growth of incomes in the economy as a whole. See also: Absolute Poverty.

**Retail Price Index**: A measure of inflation. Like the Consumer Prices Index, RPI looks at the prices of items we spend money on, but it includes housing costs - such as council tax - and mortgage interest payments. See also: Consumer Prices Index.

**Savings Credit**: A component of Pension Credit, it provides a credit for those aged 65 or over who have made some financial provision for their retirement but are on a low income. See also: Guarantee Credit.

**Scottish Index of Multiple Deprivation**: Contains 38 different indicators covering seven different dimensions of deprivation. These dimensions are: income, employment, health, education, housing, access to services and crime. These are combined to create the overall SIMD (2012).

**Scottish Public Pensions Agency**: An Agency of the Scottish Government. Its principal role is to administer the pensions, premature retirement and injury benefits schemes for employees of the National Health Service in Scotland and for members of the Scottish Teachers' Superannuation Scheme. The SPPA also has responsibility for providing policy advice to Ministers on public sector pensions for these schemes plus those for Local Government, Police and Fire; for developing the regulations for each of these schemes; and for determining appeals made by members of these schemes. It also provides a pension calculation service for the Legal Aid Board for Scotland and the Scottish Parliament.

**Single-Tier Pension**: Set to replace the Basic State Pension and State Second Pension for new pensioners from April 2016.

**Social wage**: A term used to describe the social benefits available to individuals, funded wholly or partly by the state through taxation and received free or at subsidised cost. The social wage includes free education, NHS treatment, and social housing.
**Stakeholder Pensions:** See Personal Pensions.

**State Earnings Related Pension Scheme:** One of the iterations of the Additional State Pension, it allowed employed individuals to accrue further pension rights based on their National Insurance contributions and earnings. Replaced by State Second Pension in 2002.

**State Pension Age:** This is the age when people normally start getting their State Pension. Under current UK legislation, SPA is set to rise gradually for women from age 60 to age 65 by 2018. This will bring it into line with the current SPA for men. From December 2018 the SPA for both men and women will start to increase to reach age 66 by October 2020. These changes are set out in the Pensions Act 2011. The UK Government further proposes to increase the SPA to 67 between 2026 and 2028.

**State Second Pension (S2P):** From 2002, the S2P replaced State Earnings-Related Pension Scheme and aimed to expand coverage of and increase entitlement to, the Additional State Pension.

**Triple Lock:** Introduced in the UK in 2010, the Triple Lock is the rate of increase currently applied to the Basic State Pension. It is intended to protect the value of pensions and is based on whichever is highest: average earnings, CPI inflation, or 2.5 per cent. Also known as the ‘triple guarantee’.

**Unfunded (Public Service) Schemes:** Public service schemes which are not backed by dedicated investment funds but are funded from contributions from active scheme members and their employers. Cash surpluses of income (contributions) over expenditure (pension payments) are available for general government expenditure. Conversely, in-year cash deficits require government to top-up the difference from other sources. See also: Funded (Public Service) Schemes.
## Acronyms and Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>ASP</td>
<td>Additional State Pension</td>
</tr>
<tr>
<td>ACT</td>
<td>Advance Corporation Tax</td>
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<td>AME</td>
<td>Annually Managed Expenditure</td>
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<td>BSP</td>
<td>Basic State Pension</td>
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<tr>
<td>CARE</td>
<td>Career Average Revalued Earnings</td>
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<tr>
<td>CPI</td>
<td>Consumer Prices Index</td>
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<tr>
<td>DB</td>
<td>Defined Benefit</td>
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<tr>
<td>DC</td>
<td>Defined Contribution</td>
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<tr>
<td>DEL</td>
<td>Departmental Expenditure Limits</td>
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<td>DWP</td>
<td>Department for Work and Pensions</td>
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<tr>
<td>EU-15</td>
<td>The fifteen member states of the European Union, prior to 2004.</td>
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<tr>
<td>FAS</td>
<td>Financial Assistance Scheme</td>
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<td>FCA</td>
<td>Financial Conduct Authority</td>
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<td>FCF</td>
<td>Fraud Compensation Fund</td>
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<td>FOS</td>
<td>Financial Ombudsman Service</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>GERS</td>
<td>Government Expenditure and Revenue Scotland</td>
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<td>GPP</td>
<td>Group Personal Pensions</td>
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<tr>
<td>GRB</td>
<td>Graduated Retirement Benefit</td>
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<tr>
<td>GVA</td>
<td>Gross Value Added</td>
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<tr>
<td>HMRC</td>
<td>Her Majesty’s Revenue and Customs</td>
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<tr>
<td>HMT</td>
<td>Her Majesty’s Treasury</td>
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<td>HRP</td>
<td>Home Responsibilities Protection</td>
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<tr>
<td>ICAS</td>
<td>Institute of Chartered Accountants of Scotland</td>
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<td>IPC</td>
<td>International Pension Centre</td>
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<tr>
<td>IORP</td>
<td>Institutions for Occupational Retirement Provision</td>
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<td>LEL</td>
<td>Lower Earnings Limit</td>
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<td>LGPS</td>
<td>Local Government Pension Scheme</td>
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<td>MIG</td>
<td>Minimum Income Guarantee</td>
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<td>NEST</td>
<td>National Employment Savings Trust</td>
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<td>NHS</td>
<td>National Health Service</td>
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<td>NI</td>
<td>National Insurance</td>
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<tr>
<td>NPA</td>
<td>Normal Pension Age</td>
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<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
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<td>ONS</td>
<td>Office for National Statistics</td>
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<tr>
<td>PAYG</td>
<td>Pay As You Go</td>
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<tr>
<td>PPF</td>
<td>Pension Protection Fund</td>
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<tr>
<td>RPI</td>
<td>Retail Price Index</td>
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<tr>
<td>rUK</td>
<td>Rest of the UK</td>
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<tr>
<td>SERPS</td>
<td>State Earnings-Related Pension Scheme</td>
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<tr>
<td>SEST</td>
<td>Scottish Employment Savings Trust</td>
</tr>
<tr>
<td>SME</td>
<td>Small to Medium-size Enterprise</td>
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<tr>
<td>SPA</td>
<td>State Pension Age</td>
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<tr>
<td>SPPA</td>
<td>Scottish Public Pensions Agency</td>
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<tr>
<td>S2P</td>
<td>State Second Pension</td>
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1. Setting the Scene

The UK pensions crisis

1. The stewardship of pensions by successive UK Governments has resulted in a pensions crisis. Other factors have contributed to the crisis, such as employers’ responses to regulation and markets, mis-selling of pensions, and market performance. However, successive UK Governments have failed to encourage adequate pension provision and participation.

2. This is evident from the estimated 13.2 million people of working age in the UK who are under-saving for retirement.\(^1\)

3. It is demonstrated by the large falls in private pension scheme membership over the recent decades. In 2011, private sector membership of occupational pension schemes in the UK reached its lowest level since 1953, with 2.9 million members, falling from a peak of 8.1 million in 1967.\(^2\)

4. It can be seen in the number of people contributing to a personal pension, which has fallen over the last decade. In 2010-11, 520,000 people in Scotland contributed to personal pensions, considerably below the 670,000 contributing at the peak in 2002-03.\(^3\)

5. It is also apparent from the reduction in access to quality pension schemes. For example, in 1993, all the FTSE 100 leading companies in the UK had a DB final

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\(^1\) Department for Work and Pensions (2013) *Framework for the analysis of future pension incomes*  

\(^2\) ONS (2013) *Pension Trends – Chapter 7: Private Pension Scheme Membership*  
http://www.ons.gov.uk/ons/dcp171766_314955.pdf

\(^3\) HMRC (2013) *Personal pensions - estimate number of individuals contributing by country and region*  
http://www.hmrc.gov.uk/statistics/pension-stats/pen5.xls
salary scheme open to new members. In October 2012, this was the case for only one such company.\(^4\)

6 There are many reasons why a UK pensions crisis has been allowed to develop over the last thirty years.

7 **The State Pension lost value.** The 1979 Conservative Government reduced the long term value of the State Pension when it abolished the link between the State Pension and earnings. The State Pension has never recovered its previous level relative to earnings since then.\(^5\) In 2011, the UK ranked 2nd worst out of 27 EU member states for both men and women in terms of how well the state pays pensioners relative to gross average pre-retirement earnings.\(^6\)

8 **Employers took ‘pension holidays’ on contributions to their pension schemes.** The 1983 Conservative Government introduced the Financial Services Act in 1986, requiring pension schemes with a surplus over a certain level to reduce it by a number of means. The Act removed tax exemption from payments of surpluses to employers, as overfunded schemes could be used to manage down corporate tax liability in years of high profit. This incentivised employers to maintain lower surpluses, and a deep dip in contributions seen in the period following implementation of the Act (1988-91) almost certainly reflects the impact of the policy.\(^7\)

9 These schemes appeared to be well-funded until the 2001 stock market crash: this left many funds, which had previously had a healthy surplus, with a major


deficit. Since then, many occupational Defined Benefit (DB) schemes have either closed or restricted entitlement.\(^8\)

10 **Personal pensions were mis-sold.** The 1986 Financial Services Act also introduced personal pensions and removed the requirement for employees to join an occupational pension scheme. The UK Government itself actively promoted this change as ‘breaking the chains’ of scheme membership.\(^9\) This led directly to the personal pensions mis-selling scandal. Between 1988 and 1996, many people were advised to take out personal pensions when they were already a member of, or able to join, a DB scheme. However, the legislation in place meant that it was not actually possible to save into a DB pension and a personal pension at the same time. In many cases, people were badly advised because their DB scheme would have been a much better choice in financial terms.\(^10\) The mis-selling scandal dented public confidence in personal pensions. It also further weakened occupational pension schemes.

11 **Pension funds lost value.** Prior to 1997, pension schemes were able to claim a tax relief on dividends called Advance Corporation Tax (ACT) Relief – they could claim back the tax paid on dividends from companies in which they owned shares. The 1997 Labour Government announced the removal of ACT relief from equity dividends for pension schemes in 1997, thereby reducing pension scheme income from dividend payments by 20%. Estimates of the financial impacts of this decision have varied considerably, but analysis from a fellow of the Institute of Actuaries puts the direct past and future losses for pension funds at £100 billion across the UK.\(^11\) Since then, many employers have wound up final salary schemes.

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\(^10\) [https://www.pensionsadvisoryservice.org.uk/common-areas-of-concern/pension-mis-selling](https://www.pensionsadvisoryservice.org.uk/common-areas-of-concern/pension-mis-selling)

\(^11\) [http://www.moneymarketing.co.uk/analysis/raid-review/131072.article](http://www.moneymarketing.co.uk/analysis/raid-review/131072.article)
The State Pension has remained highly complex. At the same time as occupational and personal pensions have been experiencing significant difficulties, the UK State Pension system has remained one of the most complex in the world, providing a confusing foundation for pension saving. State Pension entitlement within the UK currently comprises the Basic State Pension and the Additional State Pension, which can in turn consist of up to three different elements (the Graduated Retirement Benefit, SERPS and the State Second Pension). It is little wonder so many people are unclear about what they can expect to receive from State Pensions, offering a further explanation of why 13.2 million people of working age across the UK are financially poorly prepared for retirement.

Whilst current UK Government reforms are aiming to address this profoundly complex landscape through, for example, the single-tier pension, these changes are long overdue and may not be sufficient to ensure that many of those approaching retirement receive a decent pension. DWP estimates that, even after UK Government reforms, 12.2 million people will still be under-saving for retirement.

In an independent Scotland, we can do better.

A vision for pensions under independence

Detailed proposals for a pensions system in an independent Scotland are set out in the following pages. However, the pensions vision of this Scottish Government is described in brief as follows:

Independence would keep the best of the existing State Pensions system, making genuine improvements where necessary.

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12 Pensions Commission 2005
17 This means that the State Pension would continue as now, and planned reforms will be rolled out, including the single-tier Pension.

18 All pensions would continue to be paid as now and all accrued rights would be honoured and protected.

19 Improvements include applying the Triple Lock to the Basic State Pension, the single-tier pension, and Guarantee Credit for at least the term of the first independent parliament, thereby protecting their value over time.

20 **Independence would deliver strong protection for individuals’ private pension savings via an effective regulatory system.**

21 Alongside that, the full powers of independence would be harnessed to encourage people to save for their retirement over the course of their working lives.

22 **Independence would deliver a public service pensions system that is affordable, sustainable and fair.**

23 This system would be one that works for public sector employees, public service provision, the tax-payer, and the overall public finances.

24 Independence would enable a positive and inclusive approach to negotiating public sector workers’ pension arrangements.

The structure of this paper

25 This paper is structured into five substantive sections as follows:

- **Chapter two** provides background context on Scotland’s economy and the affordability of pensions, including consideration of State Pension costs
and demographics. There is also discussion of equality characteristics, pensioner income and poverty.

- **Chapter three** considers in detail current and planned State Pension provision, and sets out this Scottish Government’s plans for the State Pension in an independent Scotland.

- **Chapter four** explores private saving for retirement with a more detailed focus on the crisis of under-saving that has been allowed to develop over recent years. It then sets out approaches that could be taken forward in an independent Scotland to address this.

- **Chapter five** considers the legislative and regulatory framework for pensions in an independent Scotland, and includes detailed discussion of the issue of cross-border pension schemes.

- **Chapter six** describes the current landscape for public service pensions in Scotland, and this Scottish Government’s proposals for these pensions on independence.

26 Finally, there are two summary annexes. **Annex A** summarises all the proposals in this paper. **Annex B** sets out cost implications for these proposals.
2. Background Context

Key points

- Scotland is already a wealthy and productive country by international standards.
- GDP per head in Scotland in 2011 is estimated to be the eighth highest in the OECD.
- The amount spent in Scotland on ‘social protection’, which includes pensions and other welfare spending, is lower as a share of GDP than in the UK.
- In November 2012, 1,022,380 individuals in Scotland were in receipt of a State Pension, and the average weekly payment was £126.52 per pensioner.
- All western nations face ageing populations. The projected increase in the number of pensioners between 2010 and 2035 is slightly lower in Scotland than in the UK as a whole.
- Scotland is currently in a better position than the UK as a whole in terms of the number of dependants per 1,000 persons of working age.
- The dependency ratio in Scotland is projected to remain below that in the UK for the next 10-15 years. Beyond 2026, it is projected that, without further action, dependency ratios in Scotland and the rest of the UK will gradually converge.
- This projected convergence is largely driven by slower projected growth in the working age population in Scotland. Therefore, Scotland’s main challenge is how to increase the working-age population as a share of overall population.
- This demographic challenge is best addressed in an independent Scotland by tackling issues of participation, productivity and population in ways that meet Scottish circumstances.
- A range of equality implications affect pensions, with women, disabled people, young people and ethnic minorities likely to be disadvantaged in terms of pension saving.
- Pensioner poverty remains a concern for the Scottish Government. In 2011-12, 110,000 pensioners were in relative income poverty (after housing costs) in Scotland.
Introduction

27 Public finances and demographic trends are both key to determining the future affordability of pensions. This chapter sets out Scotland’s strong financial foundations, the costs of the current system, and the demographic issues for longer-term affordability.

28 The chapter concludes with an assessment of particular equality aspects of pensions and a consideration of evidence on pensioner income and poverty.

The Scottish economy and public finances

29 The Fiscal Commission Working Group has highlighted that Scotland is already a wealthy and productive country by international standards, adding that “there is no doubt that Scotland has the potential to be a successful independent nation”.

30 This economic strength is evident from a range of key data comparing Scotland with the UK. Scottish Gross Domestic Product (GDP) per head in 2011, including Scotland’s geographical share of North Sea oil output, was around 118 per cent of the UK average. Excluding North Sea oil output, Gross Value Added (GVA) per person was estimated at 99 per cent of the UK average.

31 In international terms, Scotland also performs impressively. GDP per head in Scotland in 2011 was estimated to be the eighth highest in the OECD.

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15 Gross Domestic Product (GDP) is a measure of the value added to materials and other inputs in the production of goods and services by resident organisations; before allowing for depreciation or capital consumption. Net receipts from interest, profits and dividends abroad are excluded. When measured at basic prices, which excludes taxes less subsidies on products (taxes on products include VAT and excise duties), this is known as Gross Value Added (GVA).
Scotland’s overall public finances are in a stronger fiscal position than the UK as a whole. In 2011-12, Scotland accounted for 9.9 per cent of UK tax revenue, while receiving just 9.3 per cent of UK public spending. Over the past five years as a whole, Scotland’s deficit is estimated to have been smaller than the UK’s as a share of GDP.\(^\text{17}\) When expressed in cash terms, this relatively stronger position is equivalent to £12.6 billion over this period. This means that over the past five years, holding everything else constant, Scotland could have had higher spending and/or lower taxation and still had a smaller estimated fiscal deficit than the UK. The long term trend shows that tax receipts per capita in Scotland are estimated to have been higher than in the UK as a whole in every year since 1980-81.\(^\text{18}\)

Furthermore, the amount spent in Scotland on ‘social protection’, which includes pensions and other welfare spending, is lower as a share of GDP than in the UK. In 2011-12, the most recent year for which statistics are available, 38 per cent of Scottish tax revenues, including a geographical share of North Sea tax revenue, were estimated to be spent on social protection, compared with 42 per cent for the UK as a whole. Expenditure on social protection as a share of GDP has also been lower in Scotland than in the UK in each of the past 5 years as outlined in Table 2.1 below.\(^\text{19}\)

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<tr>
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<th>2007-08</th>
<th>2008-09</th>
<th>2009-10</th>
<th>2010-11</th>
<th>2011-12</th>
</tr>
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<tbody>
<tr>
<td>Scotland</td>
<td>12.4%</td>
<td>13.2%</td>
<td>15.0%</td>
<td>14.5%</td>
<td>14.4%</td>
</tr>
<tr>
<td>UK</td>
<td>13.2%</td>
<td>14.4%</td>
<td>15.9%</td>
<td>15.7%</td>
<td>15.9%</td>
</tr>
</tbody>
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\(^\text{17}\) Scottish Government analysis based on Government Expenditure and Revenue Scotland 2011-12. Analysis assigns Scotland a geographical share of North Sea oil and gas tax revenue and GDP.  
Comparing spending on social protection internationally is complicated by differences in the structure of government and the provision of welfare transfers. However, combining the analysis in GERS\textsuperscript{20} with internationally comparable data from Eurostat suggests that spending on social benefits was lower in Scotland, as a share of GDP, than all EU-15 countries during 2011, except the Netherlands, as illustrated by Figure 2.1.

Figure 2.1 – Social Benefit Spending as a Share of GDP

Source: Eurostat (Social benefits other than social transfers in kind paid by general government) and Scottish Government

The strength of Scotland’s financial position thus provides a sound basis for a high quality pensions system under independence.

\textsuperscript{20} Government Expenditure and Revenue Scotland
State pension costs

36 Expenditure on the Basic State Pension and the Additional State Pension in Scotland amounted to £6.5 billion in 2011-12, as shown in Table 2.2.\(^{21}\) This was 45 per cent of the total expenditure in Scotland on benefits administered by DWP.\(^{22}\) Expenditure on Pension Credit, which includes both Guarantee Credit and Savings Credit, was £780 million in 2011-12.\(^{23}\) In 2016-17, State Pension expenditure is forecast to be £7.6 billion and Pension Credit expenditure £570 million.

| Table 2.2: State Pension / Pension Credit Expenditure Scotland 2011-12; 2016-17\(^{24}\) |
|---------------------------------|-----------------|
| State Pension Expenditure       | 2011-12 £6,550m | 2016-17 £7,600m |
| Pension Credit Expenditure      | £780m           | £570m            |

Source: for 2011-12, DWP Benefit expenditure by country, region and local authority from 2000/01 to 2011/12.\(^{25}\)

37 Costs associated with public sector pensions are set out in chapter six.

38 The number of recipients of the State Pension in Scotland has been increasing since 2002, as shown in Figure 2.2. In November 2012, 1,022,380 individuals in Scotland were in receipt of a State Pension, and the average weekly payment

\(^{22}\) This does not include Tax Credits or Child Benefit which are administered by HMRC.\(^{23}\) 2013/14 prices.
\(^{24}\) Notes: all figures are 2013-14 prices. 2016-17 projections are based on Scottish share of GB expenditure in 2011-12 and are based on the current UK Government’s policies for 2016-17.\(^{25}\) https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/195337/la_expenditure_230413.xls.xls
2016-17 projections are based on DWP Medium term forecast for all DWP benefits and the Scottish share of GB expenditure in 2011-12.
was £126.52 per pensioner (this comprises of the basic State Pension and the Additional State Pension). \(^{26}\)

**Figure 2.2: Number of State Pension Recipients in Scotland**

Source: DWP Tabulation Tool

![State Pension Recipients in Scotland](chart)

**Demographics**

39 Scotland and the rest of the UK - along with many western countries – have increasing pensioner populations, and this brings with it pension affordability issues. Between 2010 and 2035, the number of people of State Pension Age (SPA) in the UK is projected to increase by 28 per cent. The increase is slightly lower in Scotland, with the pensioner population projected to grow by 26 per cent between 2010 and 2035 (see Figure 2.3 below). \(^{27}\)

40 Note that population projections are subject to significant uncertainty. \(^{28} / 29\)

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\(^{26}\) DWP Tabulation Tool November 2012

\(^{27}\) Working age and pensionable age populations are based on State Pension age for a given year. The latest population projections are based on changes introduced as part of the Pensions Act 2007.

\(^{28}\) Population projections have limitations. A projection is a calculation showing what happens if particular assumptions are made. The population projections are trend-based. They are, therefore, not policy-based forecasts of what the government expects to happen. Many social and economic
41 These projections for the pensioner population are based on the Pensions Act 2007. Where the UK Government has brought forward increases in the SPA, these levels would be expected to fall.

42 The dependency ratio in Figure 2.4, below, shows the number of children aged under 16 and the number of people over SPA, per 1,000 people of working age.\(^3\)

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\(^{29}\) http://www.scotland.gov.uk/News/Releases/2012/08/scotlands-population02082012

\(^{30}\) Dependency ratios should be interpreted carefully. While a simple interpretation is that the ratio reflects the number of older people or children who are ‘dependent’ on people aged 16 to 64, that interpretation assumes that most older people and children are not economically active. The reality is more complex, for example not everyone of working age is employed and economically active (some are at school or university and others are unemployed); and the age at which people retire varies greatly. A large number of factors will affect future dependency ratios and the further ahead projections are made, the less accurate they are likely to be.
Scotland is in a relatively better position than the UK in 2013, with 589 dependants per 1,000 persons of working age compared to 615 dependants in the UK as a whole. The dependency ratio in Scotland is projected to remain below that in the UK for the next 10-15 years. In 2016, for example, Scotland is projected to have 29 fewer dependants per 1,000 adults of working-age than the UK.

Beyond 2026, it is projected that without further action, dependency ratios in Scotland and the rest of the UK will gradually converge. From 2033 onwards, projected Scottish and UK ratios are broadly comparable, with the Scottish rate being marginally higher. In 2035, the dependency ratio in Scotland is projected to be 645 dependents per 1,000 working-age adults, compared with 639 dependents per 1,000 working-age adults in the UK as a whole.
45 It is worth noting that longer term ONS projections (to 2060) suggest a more
marked increase in the number of pensioners in the UK than in Scotland.
Despite this, the dependency ratio in Scotland is projected to remain above that
in the UK at this point. This suggests that Scotland’s challenge, compared to
the UK, is to increase its working age population as a share of the overall
population.

46 The long-term affordability challenge for pensions needs therefore to be firmly
set within the context of sustainable economic growth. The Fiscal Commission
Working Group’s report on Scotland’s macroeconomic framework commented
that the growth rate of an economy depends upon the key supply side drivers of
Productivity, Participation and Population. These three aspects are key to
considering how best to address the challenges going forward.

47 Productivity. Improving productivity is regarded as the principal long-term
driver of growth in an advanced economy. An independent Scottish
Government would have access to a greater range of economic levers to
enhance long term competitiveness and deliver increased sustainable
economic growth. It would be able to tailor economic policies to reflect distinct
economic circumstances, or to target sectors where Scotland has a competitive
advantage.

48 Participation. Labour force participation is a key determinant of long-run
economic growth. As highlighted by the Fiscal Commission Working Group, the
Scottish labour market has performed relatively strongly both in comparison to
other parts of the UK and internationally over the last decade. However, the
impact of the recession on the labour market is still being felt in almost every
advanced economy. Independence would provide the Scottish Government
with the policy levers to increase labour force participation, linking tax, welfare
and skills policies to fully unlock Scotland’s job creation potential and improve
the prospects of the Scottish people.

49 **Population.** The increase in the Scottish dependency ratio over time is largely driven by slower growth in the working age population. Scotland’s main challenge, therefore, is how to increase our working-age population as a share of the overall population. Immigration policy is currently reserved to the UK Government, but Scotland’s needs are different from those in the rest of the UK, and Scottish business, employers, universities and the NHS, amongst others, recognise the important contribution that targeted migration can make to our economy and society. The Scottish Government is already working hard to attract the best international talent to our workforce and to our universities, but full control over economic and social policy would allow a future Scottish Government to develop a response to population pressures that squarely reflects Scotland’s demographic circumstances. For example, an independent Scotland would put in place a system of controlled migration to attract the brightest and best students and migrants to live, work and study here.

50 Finally, increasing long term, sustainable economic growth would also increase the resources available to fund future welfare provision in Scotland. Under this future fiscal framework, any increase in Scottish tax revenues would be retained in Scotland for these purposes. At the moment, of course, the vast majority of Scottish tax revenue flows to the UK Exchequer.

51 In short, there is no avoiding the demographic challenge that faces Scotland. But we believe it is a challenge that is best addressed by an independent Scottish Government, with Scotland’s best interests as its main focus.

**Equality characteristics**

52 This section of the chapter focuses on pensions and equality characteristics. In particular, it considers how pension provision has differed substantially over many years in relation to gender, disability and ethnicity. It also looks in brief at some of the pensions issues facing young people. No robust evidence has been found on pensions and the other equality characteristics.
Gender

53 Historically, women have been disadvantaged by the pensions system and have tended to receive lower pensions (both state and private) than men. Current State Pension payments are, on average, considerably lower for women than men. In November 2012, the average State Pension payment for a woman in Scotland was £114.52. This was over £30 lower than the average payment for a man at £145.52.32

54 Those with caring responsibilities were disadvantaged by the system pre-2002, but the expansion of coverage since then has increased the State Pension entitlement of this group. The new single-tier pension will improve State Pension provision for women when it comes into force in 2016 and will effectively move to equalise State Pension provision for men and women.

55 Many women have also seen their SPA increase. The Pensions Act 2011 accelerated the increase in the women’s SPA to 65 and brought forward the increase to 66 by October 2020. Women, who earlier in their working-lives expected to retire at 60, are now facing a SPA of 66 if they were born after October 1954.

56 However, until 2010, men had an SPA which was 5 years later than for women, despite having lower average life expectancy.

57 In terms of private pensions, of those aged 65 to 74, 80 per cent of men but only 55 per cent of women have some form of private pension wealth.33 Of those aged 65 to 74 with some pension wealth, the average value for women is £66,400, significantly lower than the £134,100 average pension wealth for


The gender difference in pension wealth is smaller for younger age groups: of those aged 35 to 44, 69 per cent of men and 61 per cent of women have some form of private pension wealth.

The move to automatic enrolment in occupational pension schemes is expected to improve private pension outcomes for women although, whilst the gender pay gap remains, private pension income of women is expected to remain below that of men.

Additional gender analysis is provided in the next chapter on State Pensions.

Disabled people and ethnic minority groups

Research by the Pensions Policy Institute in 2008 found that disabled people and those from ethnic minorities were likely to have lower pension incomes in the future than a traditionally-employed median-earning male. This is because they have characteristics associated with lower pension income. On average, ethnic minorities and disabled people:

- Are less likely to be in work;
- Are less likely to qualify for State Pensions;
- Have lower earnings when in work;
- Are less likely to be saving for a private pension; and,
- Are less likely to work after SPA (disabled people) and are less likely to be in work at older ages (ethnic minorities).

Whilst the introduction of the single-tier pension may address some of these issues and improve State Pension outcomes for ethnic minorities and disabled people, differences in private pension provision are likely to remain.

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34 Median pension wealth.
35 Pensions Policy Institute (2008) The under-pensioned: disabled people and people from ethnic minorities PPI Briefing Note Number 50
http://www.pensionspolicyinstitute.org.uk/uploadeddocuments/Briefing%20Notes/PPI_Briefing_Note_50.pdf
Young people

62 Many working age people have seen their SPA increase over recent years and this reflects a generational shift in expectations of retirement. Under the current UK Government, younger people could face an even higher SPA. The proposed increased SPA to 67 under an accelerated timeframe will affect those who are now in their mid-forties, but many younger people could reasonably expect an increase in the SPA to 68.

63 Financial pressures on young people are considerable and affect the extent to which they are willing and able to save for retirement. At the start of their working lives, young people face lower earnings and start-up costs for family and housing (including, for some, saving for a deposit for a first home) and they are more likely to be burdened by student debt. These financial pressures are reflected in participation in occupational pensions membership. In 2012, around 93% of employees aged 16-21 and around 70% of those aged 22-29 had no employer pension provision. Automatic enrolment in occupational pension schemes should improve private pension outcomes for young people, but current financial pressures on young people are likely to persist.

64 We have taken equality issues into account when developing the proposals contained within this paper, and would be exploring these issues further in an independent Scotland.

Pensioner income and poverty

65 The final section of this background context chapter looks at pensioner income and poverty. In Scotland in 2011-12, nearly half (46%) of the average gross income for pensioners came from state benefits, including the State Pension. 

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37 Households Below Average Income 2011-12 dataset
Investment income and private pensions provided an average of 37 per cent of gross income, with the remaining 17 per cent coming from earnings and other sources.  

State benefits make up a larger proportion of income for less well-off pensioners; 81 per cent of income for those in the lowest quintile compared to 21 per cent for those in the highest quintile.

Pensioner poverty remains a key concern for the Scottish Government. In 2011-12, 110,000 pensioners were in relative poverty in Scotland after housing costs. The relative poverty rate for pensioners (after housing costs) was at 12 per cent in 2011-12 (compared to 14 per cent in the UK as a whole), having remained at about the same level since 2008/09. In short, pensioner poverty reduction in the UK, although more successful in Scotland, has stalled.

The Scottish Government is doing what it can within its devolved powers to support older people, providing a range of key benefits, including free personal care, concessionary travel, and a council tax freeze since 2007. However, with independence, we could do more.

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38 Other sources of income includes income from sub-tenants, odd-jobs, royalties, allowances from friends, relatives or an organisation, and allowances from local authorities for foster and adopted children.

39 Households Below Average Income 2011-12 dataset


41 Relative poverty refers to individuals living in households whose equivalised income is below 60% of UK median income in the same year. This is a measure of whether those in the lowest income households are keeping pace with the growth of incomes in the population as a whole.
3. State Pensions

Key points

- In an independent Scotland, the best of the current State Pension system would be retained.
- Everyone currently in receipt of the Basic State Pension, Graduated Retirement Benefit, State Earnings Related Pension Scheme or the State Second Pension would receive these pensions as now, on time and in full.
- The Basic State Pension would be uprated by the Triple Lock, initially for the term of the first independent Scottish Parliament.
- Current reforms, including the single-tier pension, would be introduced as scheduled. Improvements would be made to current UK plans, as below.
  - The single-tier pension would be set initially at a level of £160 per week (£8320 per annum);
  - The single-tier pension and Guarantee Credit would be uprated by the Triple Lock, initially for the term of the first independent Scottish Parliament;
  - Savings Credit would be retained;
  - Those reaching SPA who expected to receive a State Pension based on their partner’s contributions would continue to be able to do so for the first 15 years of the single-tier pension.
- Scottish Governments in an independent Scotland would be able to set the SPA to reflect Scottish circumstances. This Government commits to setting up an independent commission to examine what the SPA in Scotland should be. In particular, we are reserving judgement on the accelerated timetable to an SPA of 67 between 2026 and 2028.
- For those in Scotland in receipt of the UK State Pension at the time of independence, the responsibility for paying that pension would transfer to the Scottish Government.
- For those people of working age, who are living and working in Scotland at the time of independence, the UK pension entitlement they have accrued prior to independence would become their Scottish State Pension entitlement.
Introduction

69 The State Pension has been benefitting people in Scotland since 1909, when the 'Old Age Pension' was introduced for those aged 70 years and above. The ongoing importance of the State Pension to the people of Scotland is clear, whether they are already retired or are saving for retirement. The State Pension has been subject to substantive change since its inception, and it still requires improvement today.

70 The first half of this chapter begins by setting out current State Pension arrangements within the UK. The second half of the chapter sets out how the best of the current State Pensions system would be retained in an independent Scotland, but with a range of concrete improvements. It goes on to discuss how currently planned UK Government reforms would be dealt with, including the single-tier pension and the State Pension Age (SPA).

Context

71 The current State Pension comprises two elements: the Basic State Pension and the Additional State Pension.

72 The amount of pension paid to an individual is based on the number of years an individual has made pension contributions and the period of time over which these contributions have been made. In some circumstances, the amount of State Pension also takes account of a partner’s contributions.

73 Pensioners may also be eligible for means-tested benefits such as Pension Credit, Housing Benefit and the Council Tax Reduction Scheme (previously Council Tax Benefit). Pensioners also receive flat rate non-contributory benefits, such as free TV licences for over 75s and the Winter Fuel Allowance.
The Basic State Pension

74 The Basic State Pension (BSP) is a contributory, flat rate benefit paid to individuals over the SPA. It is calculated on the basis of qualifying years of National Insurance contributions or credits.42

75 Individuals who have accrued the required number of qualifying years National Insurance contributions receive the full BSP. Those who have fewer qualifying years than this receive a pro rata pension. For those who reached the SPA on or after 6 April 2010, the number of qualifying years needed for a full BSP is 30. Prior to this, the number of qualifying years was based on an individual’s “full working life”; 44 years for men and 39 years for women. Additionally, a minimum qualifying rule applied – men required 11 years of contributions to receive any State Pension and women required 10 years of contributions.43

76 The BSP is currently worth £110.15 per week. Between 2002 and 2011, this was uprated by the highest of the inflation rate (measured by the Retail Price Index (RPI)) or 2.5 per cent. The UK Government announced in the 2010 Budget that the BSP would be uprated annually by the highest of earnings growth, the inflation rate (measured by the Consumer Price Index (CPI)) or 2.5 per cent - this is referred to as the triple guarantee or Triple Lock.44

77 Under the current system, an individual’s BSP entitlement is calculated based on their own contributions, and can be increased based on their current or former partner’s National Insurance contributions. However, changes to partner BSP entitlements over a number of years have particularly affected women, as follows.

78 Prior to 1977, married women were able to elect to pay reduced NI contributions. They were not entitled to claim benefits based on their own NI contribution record, but could claim based on their husband’s. After 1977, only

42 https://www.gov.uk/state-pension/overview
43 https://www.gov.uk/state-pension/eligibility
those who had been paying reduced NI contributions prior to 1977 were able to continue doing so.\textsuperscript{45} In November 2012, 34 per cent of State Pensions in payment in Scotland had been increased on the basis of the recipients’ current or former partners’ National Insurance contributions.\textsuperscript{46} Over time, the proportion of individuals relying on a partner’s contribution record is expected to fall, due to increases in the female employment rate and the expansion of National Insurance credits. DWP predicts that, under the current system, over 90\% of men and women would qualify for the full BSP in their own right by 2025.\textsuperscript{47}

79 A range of support was also introduced in 1978, via Home Responsibilities Protection (HRP), to help protect a person’s State Pension when they did not work and had caring responsibilities. For each year of HRP, the number of qualifying years needed for the full BSP was reduced by one year.\textsuperscript{48} Under this system, those receiving HRP only accrued entitlement to the BSP and were excluded from the Additional State Pension.

80 In 2010, National Insurance credits were introduced to replace HRP. National Insurance credits are provided for those who are unemployed, in receipt of disability or sickness benefits, have caring responsibilities, are on government approved training courses or who don’t earn enough to pay National Insurance.\textsuperscript{49} National Insurance credits count as qualifying years towards the BSP.

\textsuperscript{45} For further information see \url{http://www.hmrc.gov.uk/ni/reducedrate/marriedwomen.htm}

\textsuperscript{46} DWP Tabulation Tool November 2012

\textsuperscript{47} DWP (2006) \textit{The Gender Impact of Pension Reform}

\url{http://www.dwp.gov.uk/docs/genderimpactassessment.pdf}

\textsuperscript{48} For further information see \url{https://www.gov.uk/home-responsibilities-protection-hrp/overview}

\textsuperscript{49} For more information and a complete list of categories for qualifying for National Insurance credits see \url{http://www.hmrc.gov.uk/ni/intro/credits.htm}
The Additional State Pension

81 The Additional State Pension (ASP) is a payment linked to earnings and National Insurance contributions. It was introduced to provide additional support for those not covered by private pension schemes.

82 The ASP covers the three separate earnings-related State Pension schemes introduced by the UK Government since 1961. An individual’s entitlement is based on the rights they have accrued under all three schemes.\(^{50}\) These are as follows:

   o The Graduated Retirement Benefit (GRB) was the first earnings-related State Pension, implemented in 1961 and abolished in 1975.\(^ {51}\) The average GRB payment is now less than £1 a week in Scotland;\(^ {52}\)
   o From 1978 to 2002, the State Earnings-Related Pension Scheme (SERPS) allowed employed individuals to accrue further pension rights based on their National Insurance contributions and earnings;\(^ {53}\)
   o From 2002, the State Second Pension (S2P) replaced SERPS.

83 The S2P aimed to expand coverage of, and increase entitlement to, the ASP. The accrual rate for low earners was increased and the earnings used to calculate entitlement were increased for some groups. S2P entitlement is calculated on the basis of nominal earnings of £15,000 (2013/14) for:

   o Those with earnings above the Lower Earnings Limit (LEL) (£5,668 in 2013/14) but below £15,000 per annum;
   o Those in receipt of National Insurance credits covering the S2P.

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\(^{50}\) For further information on the additional State Pension see https://www.gov.uk/additional-state-pension


\(^{52}\) DWP Tabtool November 2012

The following groups are not eligible for the S2P: those earning less than £5,668 p.a., those who are unemployed, students, those caring for children older than 12 and the self-employed.\textsuperscript{54}

**Contracting out of the Additional Second Pension**

Since GRB was introduced in 1961, individuals with an alternative earnings-related pension arrangement have been able to opt-out of the various iterations of the ASP and pay reduced NI contributions: this is known as contracting-out.

The rebate on National Insurance contributions for those contracted-out in Defined Benefit schemes is currently worth 1.4% of pay for employees and 3.4% of pay for employers on salaries between £5,564 and £40,040.\textsuperscript{55}

From April 2012, the option to contract-out of the ASP into a personal, stakeholder or Defined Contribution (DC) occupational pension ended.\textsuperscript{56} People who previously contracted-out under these DC schemes were brought back into the state system and began to build up entitlement to the ASP.\textsuperscript{57} Those contributing to Defined Benefit (DB) schemes, both final salary and career average, continue to contract-out, but this arrangement is scheduled to end with the introduction of the single-tier pension in 2016.

The UK Government estimated that the impact to the Exchequer of ending contracting-out from DC schemes was broadly neutral as, although NI revenue would increase, higher State Second Pension payments would be made in the future which would offset any early savings. However, the annual increase in

\textsuperscript{54} https://www.gov.uk/additional-state-pension/eligibility

\textsuperscript{55} HMRC National Insurance Contributions – Rates and Allowances http://www.hmrc.gov.uk/rates/nic.htm

\textsuperscript{56} These are referred to as money purchase schemes.

\textsuperscript{57} It should be noted that for those contracting out into money purchase schemes, the National Insurance rebate was lower, 1.4% on employer earnings and 1.6% on employee earnings between the Lower Earnings Limit and the Upper Accrual Point for employers in 2011-12, and this National Insurance rebate was paid into the pension schemes. HMRC National Insurance Contributions – Rates and Allowances http://www.hmrc.gov.uk/rates/nic.htm
revenue to the UK Treasury from ending the contracting-out rebate for DC schemes was estimated to be around £2.3bn per year in 2010-11 prices.\textsuperscript{58}

**Pension Credit**

89 Means tested benefits are available as additional financial support for those on low income in retirement, with the main form of support being Pension Credit, introduced in October 2003, which replaced the Minimum Income Guarantee (MIG).

90 Pension Credit consists of two elements: Guarantee Credit and Savings Credit.

91 Guarantee Credit tops up the Basic State Pension, currently worth £110.15 a week, to the minimum income guarantee level (currently worth £145.40 for single people and £222.05 for couples).\textsuperscript{59} Additional payments are made for being disabled or a carer and for housing costs. Guarantee Credit is withdrawn at a rate of 100 per cent for any non-Guarantee Credit income.

92 Savings Credit provides a credit for those aged 65 or over who have made some financial provision for their retirement but are on a low income. Savings Credit provides an incentive for those on low incomes to save. Without Savings Credit, any additional savings in a pension will be offset by reductions in Guarantee Credit and other means-tested benefits. Savings Credit is payable at a rate of 60%; in other words, a credit of 60p is payable for each £1 of income above the threshold up to the income limit. From April 2013, the Savings Credit threshold was £115.30 for a single person or £183.90 for a couple.\textsuperscript{60} The


\textsuperscript{59} https://www.gov.uk/pension-credit

maximum Savings Credit in 2013/14 is £18.06 per week for a single person and £22.89 for a couple.  

Expenditure on Pension Credit was £752 million in 2011-12. This includes both Guarantee Credit and Savings Credit. In Scotland in November 2012, 293,830 individuals (247,020 households) were in receipt of Pension Credit - around 30 per cent of all pensioners. Table 3.1 below, shows a breakdown of Pension Credit recipients in Scotland.

### Table 3.1: Pension Credit Recipients and Average Payment in Scotland

<table>
<thead>
<tr>
<th></th>
<th>All Types of Pension Credit</th>
<th>Guarantee Credit only</th>
<th>Savings Credit only</th>
<th>Both Guarantee and Savings Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Individuals</td>
<td>247,020</td>
<td>86,150</td>
<td>58,800</td>
<td>102,060</td>
</tr>
<tr>
<td>Number of Beneficiaries</td>
<td>293,830</td>
<td>99,440</td>
<td>74,570</td>
<td>119,820</td>
</tr>
<tr>
<td>Average weekly Payment</td>
<td>£52.59</td>
<td>£82.15</td>
<td>£11.22</td>
<td>£51.46</td>
</tr>
</tbody>
</table>

Source: DWP Tabulation Tool November 2012

Additional means-tested support is available to pensioners through Housing Benefit and the Council Tax Reduction Scheme.

Non-means tested support is available through Disability Living Allowance and the Attendance Allowance, as well as Winter Fuel Payments for those over the female SPA and free TV licences for those aged over 75.

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61 [https://www.gov.uk/pension-credit/what-youll-get](https://www.gov.uk/pension-credit/what-youll-get)
62 DWP Tabulation Tool, November 2012 and ONS population projections
63 Pension Credit is claimed on a household basis. The number of beneficiaries of Pension Credit is the number of claimants in addition to the number of partners for whom they are also claiming.
The Single-Tier Pension

In January 2013, the UK Government announced the introduction of a single-tier State Pension to replace the BSP and S2P.\(^{64}\) This will be introduced from April 2016 and affects all those reaching SPA from April 6 2016.\(^{65}\)

The key features of the single-tier pension are as follows:

- The single-tier pension will be set at a level above the basic level of means-tested support (the Pension Credit Standard Minimum Guarantee, £145.40 per week for a single person in 2013-14). The UK Government’s White Paper was based on an illustrative rate of £144 per week (2012-13 prices).
- Thirty five qualifying years of National Insurance contributions or credits will be required to qualify for the full single-tier pension.
- People who do not have 35 qualifying years when they reach SPA will receive \(\frac{1}{35}\) of the full rate for each qualifying year.
- A minimum qualifying rule will be introduced of between seven and ten years.\(^{66}\)
- The single-tier pension will replace the BSP and the S2P for new pensioners and DB scheme contracting-out will end.
- An individual’s entitlement to the single-tier pension will be based on their own National Insurance contribution/credit record; the option to build a pension entitlement based on a (current or former) spouse or civil partner’s record will end.
- Transitional protection will ensure that those who have accrued rights above the single-tier prior to implementation maintain these rights.


\(^{66}\) This has yet to be confirmed by the UK Government. Prior to 2010 men were required to have at least 11 years contributions and women at least 10 years to receive any State Pension.
The introduction of the single-tier pension is intended to be a significant simplification of the State Pension system. Some outdated elements of the system will also end for those reaching SPA after April 2016. These include the Category D pension and the 25p per week “age addition” for those aged 80 or over.

State Pension Age

Under current UK Government plans, SPA for women will reach 65 by December 2018. SPAs for both women and men will then increase to 66 by October 2020, and to 67 between 2026 and 2028. Prior to this, the SPA has been 65 for men since 1948 and 60 for women between 1948 and April 2010. This represents a significant shift for women approaching retirement – a six year increase to the new SPA over ten years. It is also a significant acceleration of plans previously announced for both the move to 66 and to 67.

The increases in the SPA have been staged so that in March 2019 the SPA will be 65 years and 3 months, increasing to 65 and 11 months in September 2020.

The UK White Paper on the single-tier pension announced plans to carry out a review of the SPA every five years, based on the principle that the proportion of adult life in receipt of the State Pension should be maintained and not increased. This will be informed both by analysis of life expectancy projections and by other factors to be taken into account, such as variations in life expectancy.

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67 Paid to those aged 80 or over who do not qualify for a State Pension or who have a State Pension less than the Category D pension.
expectancy. As life expectancy is projected to continue increasing, it is expected that the UK SPA will continue to be increased.

Summary of changes to State Pensions

102 Table 3.2, overleaf, outlines the range of historical changes made to the State Pension as well as the changes planned by the UK Government.
<table>
<thead>
<tr>
<th>Date</th>
<th>Change introduced</th>
</tr>
</thead>
<tbody>
<tr>
<td>July 1948</td>
<td>The Basic State Pension (BSP) was introduced from the 1st July 1948; it paid a flat-rate to those who had paid contributions.</td>
</tr>
<tr>
<td>April 1961</td>
<td>The Graduated Retirement Benefit (GRB) introduced.</td>
</tr>
<tr>
<td>April 1975</td>
<td>GRB abolished.</td>
</tr>
<tr>
<td>May 1977</td>
<td>Married women no longer allowed to elect to pay reduced NI contributions, those already paying reduce NI contributions allowed to continue doing so.</td>
</tr>
<tr>
<td>April 1978</td>
<td>The State Earnings-Related Pension Scheme (SERPS) introduced. SERPS was introduced to provide a pension related to earnings in addition to the BSP.</td>
</tr>
<tr>
<td>April 1978</td>
<td>Home Responsibilities Protection (HRP) introduced.</td>
</tr>
<tr>
<td>April 1999</td>
<td>Minimum Income Guarantee (MIG) introduced.</td>
</tr>
<tr>
<td>April 2002</td>
<td>State Second Pension (S2P) introduced to replace SERPS.</td>
</tr>
<tr>
<td>October 2003</td>
<td>Pension Credit replaces the MIG.</td>
</tr>
<tr>
<td>April 2010</td>
<td>Number of qualifying years required for the BSP reduced to 30.</td>
</tr>
<tr>
<td>April 2010</td>
<td>HRP replaced by a system of National Insurance Credits.</td>
</tr>
<tr>
<td>April 2010</td>
<td>Female State Pension Age begins to increase from 60, reaching 65 by December 2018.</td>
</tr>
<tr>
<td>April 2016</td>
<td>Single-tier pension introduced.</td>
</tr>
<tr>
<td>April 2016</td>
<td>The option to contract-out of the S2P is removed.</td>
</tr>
<tr>
<td>April 2016</td>
<td>Savings Credit abolished for those reaching SPA after April 2016.</td>
</tr>
<tr>
<td>December 2018</td>
<td>Female SPA reaches 65.</td>
</tr>
<tr>
<td>December 2018</td>
<td>Male and Female SPA begins increasing from 65 in monthly steps, reaching 66 by October 2020.</td>
</tr>
<tr>
<td>October 2020</td>
<td>SPA equals 66.</td>
</tr>
<tr>
<td>2026-2028</td>
<td>Male and female SPA begins increasing from 66 to 67.</td>
</tr>
</tbody>
</table>
State Pensions in an Independent Scotland

103 This section sets out the policy positions of this Scottish Government for the State Pension in an independent Scotland. It addresses provision for existing pensioners and those approaching retirement, payment and entitlement issues, and ends with a discussion of SPA.

104 The Scottish Government has three priorities for State Pensions in an independent Scotland, as follows.

105 The first priority is ensuring continuity and providing certainty for people who have already retired. This means that:

- Everyone currently in receipt of the Basic State Pension, Graduated Retirement Benefit, State Earnings Related Pension Scheme or the State Second Pension would receive their pensions as now in an independent Scotland, on time and in full.
- Everyone currently in receipt of Pension Credit would receive this as now in an independent Scotland, on time and in full.

106 The second priority is to provide clarity to those approaching retirement. It would be important to allow individuals, employers, the state and the pensions industry sufficient time to implement any changes to plans for retirement saving. With that in mind, the single-tier pension would be introduced as scheduled in 2016 and would form the basis for the State Pension in Scotland on independence.

107 The third priority is to use the full powers of independence to provide a system of State Pension benefits which better reflects Scottish circumstances and priorities.
Note that, in the following discussions, the term ‘Scottish State Pension’ is used to cover the broad range of State Pension entitlements in an independent Scotland, ranging from the current system to the new single-tier pension.

Protection for existing pensioners and those reaching pension age before April 2016

People who have already retired would see no change in their State Pension entitlement as a result of independence. Scottish citizens have paid into and accrued rights in the UK State Pension system. These rights would be fully protected in an independent Scotland.

All those currently in receipt of the Basic State Pension, Graduated Retirement Benefit, State Earnings Related Pension Scheme, or the State Second Pension would receive these pensions as at present and at the level they will be at in the UK in March 2016.

Those who reach SPA between now and April 2016 would receive the Basic State Pension and all the other elements of pension benefits to which they are entitled.

The level of the Basic State Pension on independence in 2016 would be the same as in the rUK.

The Basic State Pension would continue to be uprated with the Triple Lock – the highest of average earnings increases, Consumer Price Index (CPI) inflation and 2.5 per cent – initially for the period of the first independent Scottish Parliament. Based on the current rate of £110.15 per week, the BSP is expected to be worth at least £118.60 in 2016-17.

The State Second Pension in an independent Scotland would also continue to be uprated in line with current arrangements. Up to an

71 Based on annual uprating of 2.5%.
individual’s SPA, the State Second Pension is uprated by average earnings and once in payment it is uprated by CPI inflation.

115 As in the rest of the UK, it would still be possible to defer receipt of the State Pension in order to receive a larger pension at a later date. Deferral arrangements would be organised as at present. Note, however, that those reaching SPA but deferring their State Pension until after April 2016 would not become eligible for the single-tier pension – they would retain their State Pension entitlement based on the current system, as in the rUK.

116 Pension Credit would continue for those pensioners on low incomes to provide a safety net for the most vulnerable in retirement. Its Guarantee Credit and Savings Credit elements would both be retained in an independent Scotland.

117 Guarantee Credit would be uprated by the Triple Lock, initially for the period of the first independent parliament. This would provide an improved safeguard for low income pensioners in Scotland compared to their counterparts in the rest of the UK, where the requirement is for Guarantee Credit to be uprated in line with earnings. Assuming uprating by earnings, in 2016-17 Guarantee Credit would be around £157.50 for a single person and £240.50 for a couple.72 73

118 Savings Credit would be uprated by earnings.

119 The current Scottish Government is also committed to continuing the policies of free personal care and concessionary travel. Free TV licences for the over 75s would also be retained, as would winter fuel payments.

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72 Based on OBR earnings forecasts for Q3 of the previous year. 

73 Guarantee Credit is currently £145.40 for a single person and £222.05 for a couple in 2013-14. Under current UK arrangements, Guarantee Credit is uprated by earnings, but in 2013-14 the UK Government increased Guarantee Credit by the same cash increase as in the BSP, above the relevant earnings increase.
State Pension arrangements for those reaching State Pension Age from April 2016

120 This Scottish Government proposes to keep the best of the planned system of reforms for future pensioners, but to make improvements wherever possible.

121 On independence, the new single-tier pension would be introduced as currently scheduled (from 6 April 2016) and would be the Scottish State Pension for people retiring after that date.\textsuperscript{74} This provides certainty to those already planning for retirement.

122 This Scottish Government is confirming now that the single-tier pension in an independent Scotland would be set initially at a rate of £160 per week or £8,320 per annum. If the rUK rate were set higher than £160 per week in the first year of independence, the Scottish rate would be increased to match it. The UK single-tier pension is estimated to be worth a minimum of £158.90 per week in 2016-17 if uprated by at least 2.5 per cent.\textsuperscript{75}

123 The current Scottish Government would uprate the single-tier pension by the Triple Lock initially for the term of the first independent Scottish Parliament.\textsuperscript{76} This represents a better deal for future pensioners than under

\textsuperscript{74} It should be noted that the single-tier pension only affects those reaching the SPA after April 2016. Those who reach the SPA prior to this will receive a State Pension based on the current system.

\textsuperscript{75} Uprated from £144 in 2012/13.

\textsuperscript{76} The cost of the Triple Lock depends on the future path of CPI inflation and earnings growth. Current projections from the Office of Budget Responsibility show that whilst earnings growth is projected to be around 4 per cent in 2016-17, CPI inflation is lower at 2 per cent. [Table 1.4 and Table 1.5 Office of Budget Responsibility (2013) March 2013: Economy Supplementary Tables \texttt{http://budgetresponsibility.independent.gov.uk/pubs/March-2013-EFO-economy-supplementary-tables-453246.xls}] However, if earnings growth fell below CPI inflation or below 2.5 per cent, using the Triple Lock rather than earnings growth to uprate the single-tier pension would provide higher pension incomes. According to the DWP White Paper on the single-tier pension, cost implications from uprating using the triple guarantee are only significant as a proportion of GDP from around 2040 [Department for Work and Pensions (January 2013) The Single-tier Pension: A Simple Foundation for Saving. London: DWP. \texttt{https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/181229/single-tier-pension.pdf} Accessed: 6 May 2013] State Pension expenditure in 2040 based on the single-tier with the triple guarantee is projected to be 7.4 per cent of GDP in Great Britain compared to 7.2 per cent if the single-tier was uprated by earnings.
the current UK arrangements, where current plans are to uprate the single-tier pension by the average growth in earnings.

124 This Scottish Government also proposes to retain Savings Credit for single-tier pensioners. The UK Government plans to abolish Savings Credit for those reaching SPA from April 2016. This would ensure that those approaching retirement who would have received Savings Credit are not disadvantaged by the move to the single-tier pension. Evidence submitted by the Pensions Policy Institute to the House of Commons Work and Pensions Committee showed how an individual who, under the current system, would have received an income from the BSP and the ASP of £142 and Savings Credit of £20 per week would be worse off under the single-tier pension of £144 with no Savings Credit.  

125 This Scottish Government would propose to adopt transitional arrangements for the move to the single-tier pension, as announced by DWP. These are designed to ensure that those who have accrued rights to the State Pension over the value of the single-tier pension would have their entitlement protected in an independent Scotland. In other words, if an individual had earned a higher State Pension, she or he would receive that higher amount as their State Pension.  

Winners and losers from the introduction of the single-tier pension

126 The introduction of the single-tier pension will benefit particular groups. DWP estimates that the majority of people reaching SPA in the next 40 years will receive a higher State Pension under the single-tier pension than under the current system. The largest winners are expected to be those who had caring

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responsibilities prior to 2002 and were excluded from the Additional State Pension - largely expected to be women who did not work whilst caring for children prior to 2002. Those currently excluded from the State Second Pension – including the self-employed and the unemployed - will also benefit from the reforms.

127 However, others would lose out under current UK plans. From around 2060, most people are expected to be worse off.\textsuperscript{79} From this date, over half of pensioners are projected to receive a lower State Pension under the single-tier than under the current system. Those who currently accrue rights to the Basic State Pension and the State Second Pension can expect to accrue rights above the value of the single-tier pension; however this will not be possible under the single-tier pension.\textsuperscript{80} Only independence would give future Scottish Governments the ability to decide how to mitigate this longer term impact in Scotland’s best interests.

Maintaining provision for those expecting to receive a State Pension based on spouse contributions

128 As part of the move to a single-tier pension and the simplification of the State Pension system, pension rights will depend solely on an individual’s National Insurance contributions and credits. Currently, individuals can increase their pension entitlement on the basis of their spouse’s or civil partner’s National Insurance record. Some of those approaching retirement will have expected to use their husband or wife’s contribution history to increase their State Pension entitlement. Whilst the UK Government is making provisions for those women who have previously paid reduced rate married women’s National Insurance (to ensure that their State Pension rights are the same as those under the current system), there are still those who will be worse off.

In an independent Scotland, this Scottish Government would maintain provisions for those expecting to receive a State Pension based on their spouse’s contributions for 15 years after the introduction of the single-tier pension. Those affected could receive the equivalent of 60 per cent of the Basic State Pension while their spouse is alive and 100 per cent if they are widowed, in line with the current arrangements. These provisions would ensure that those who had a legitimate expectation of receiving a State Pension based on their spouse’s contributions receive the State Pension they are entitled to. This measure is primarily expected to benefit women.

The UK Government has clarified that they expect that by 2020 around 30,000 people in the UK will receive a lower State Pension than they would have done under the derived entitlement in the current system. In Scotland, it is expected that fewer than 2,600 people would be affected. Therefore, the cost of ensuring that this group receive the State Pension to which they are entitled is expected to be low.

Maintaining the current system of National Insurance Credits

This Scottish Government would maintain the current system of National Insurance credits ensuring that those who are not working due to caring responsibilities, disability, ill health or unemployment continue to accrue rights to the single-tier pension. National Insurance Credits are automatically given to those in receipt of qualifying benefits, and additionally individuals can receive NI Credits where they do not qualify for a benefit after means testing. In particular, those not qualifying for Child Benefit as a result of their partner earning over £60,000 can still apply for NI Credits for Child Benefit even if they

82 Based on the Scottish share of the UK population aged 65 and over, 8.6% from ONS Census results 2011 Census: Usual resident population by five-year age group and sex, United Kingdom and constituent countries http://www.ons.gov.uk/ons/rel/census/2011-census/population-and-household-estimates-for-the-united-kingdom/rft-table-1-census-2011.xls
receive no Child Benefit payment.\footnote{http://www.hmrc.gov.uk/childbenefit/start/claiming/protect-pension.htm} The take-up of National Insurance credits for those who are entitled will be encouraged to ensure that those approaching retirement are not disadvantaged by time spent out of the labour market.

Deferring receipt of the single-tier pension

\footnote{http://www.hmrc.gov.uk/childbenefit/start/claiming/protect-pension.htm}

As with the current State Pension system, Scottish single-tier arrangements would allow individuals to defer receipt of the single-tier pension in order to receive a higher weekly payment at a later date. The Scottish deferral rate would be set out nearer to the introduction date. Unlike current pensioners, those retiring under single-tier arrangements would no longer be able to receive deferred State Pension as a lump-sum payment.

Ending contracting out for Defined Benefit schemes

\footnote{HMRC National Insurance Contributions – Rates and Allowances http://www.hmrc.gov.uk/rates/nic.htm}

Under current UK plans for the single-tier pension, the option to contract-out of the State Second Pension will not exist. These rebates/discounts are currently worth 1.4% of pay for employees and 3.4% of pay for employers on salaries between £5,564 and £40,040.\footnote{HMRC National Insurance Contributions – Rates and Allowances http://www hmrc.gov.uk/rates/nic.htm} Individuals will receive an offset on their single-tier pension for each year they were contracted out until they have reached 35 years of National Insurance contributions without the contracting-out rebate. However, the State Pension entitlement of those previously contracted out is expected to increase as they accrue rights to the single-tier pension.

Scotland in 2016. Of this around £320 million is estimated to be from public sector employers, £130 million from public sector employees and £80 million from private sector employees. In an independent Scotland, this revenue would accrue to the Scottish Government rather than the UK Treasury.

Payment of State Pensions in an independent Scotland

135 In an independent Scotland, those currently in receipt of a State Pension would continue to receive their State Pension as now. As the Expert Working Group on Welfare has set out, UK Pension Centres located in Motherwell and Dundee are already responsible for administering State Pension and Pension Credit claims for everyone living in Scotland – this means just over one million people who are in receipt of a State Pension, and around 250,000 people in Scotland who are in receipt of Pension Credit.

136 The two Regional Pensions Centres are also responsible for administering pensions and Pension Credit for a large number of recipients in England.

137 This means that Scotland is well placed to deliver pensions to existing and new pensioners after independence via existing mechanisms, but also that it would be important for both the UK and Scottish Governments to put in place sensible arrangements for a transition period. As the report of the Expert Working Group on Welfare points out, this principle is enshrined in the Edinburgh Agreement.

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86 Based on the Scottish share of the GB population, 8.6% from ONS Census results 2011 Census: Usual resident population by five-year age group and sex, United Kingdom and constituent countries http://www.ons.gov.uk/ons/rel/census/2011-census/population-and-household-estimates-for-the-united-kingdom/rfc-table-1-census-2011.xls
87 Figures do not sum due to rounding. Note that the figures are given in 2013/14 prices. http://www.scotland.gov.uk/Resource/0042/00424088.pdf
88 The Edinburgh Agreement states: "The two governments are committed to continue to work together constructively in the light of the outcome [of the Referendum], whatever it is, in the best interests of the people of Scotland and of the rest of the United Kingdom."
The report goes on:

“We believe that what underpins this common interest is an obligation to ensure continuity of service to benefit claimants across the UK. When viewed from this perspective, placing the current ‘shared services’ arrangements on a more formal footing appears to be not only a reasonable position during a period of transition but a natural conclusion. We also believe that it would be the most efficient and cost effective short term arrangement.”

From the point of view of the individual pensioner in either country, there would be little or no difference to the way their pension was dealt with day to day during the transition period. They would be in touch with the same offices, their records would be held and updated in the same way as at present, and existing payments arrangements would continue seamlessly.

As part of this sharing of services during the transition to an independent delivery system, the Scottish and UK Governments would need to agree continued access to IT and other systems presently serving Scotland and the rUK that are currently owned, operated and maintained by the UK Government and/or third party suppliers. Discussions on these systems would form part of overall post-referendum negotiations.

Entitlement to a Scottish State Pension

Pension entitlement in an independent Scotland can be understood via the following four key points:

- For those people living in Scotland in receipt of the UK State Pension at the time of independence, the responsibility for the payment of that pension would transfer to the Scottish Government.

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90 Expert Working Group on Welfare (2013), para 4.49
• For those people of working age who are living and working in Scotland at the time of independence, the UK pension entitlement they have accrued prior to independence would form part of their Scottish State Pension entitlement. Any pension entitlement accrued in Scotland after independence would also form part of that Scottish State Pension. On reaching SPA, their Scottish State Pension would be paid by the Scottish Government.

• For future pensioners who have accrued rights to the Scottish State Pension but who retire outwith Scotland, the Scottish State Pension would be paid either via a Scottish equivalent of the International Pensions Centre (IPC) or by the pensions institution in the country of residence. The Scottish IPC would be established following a transitional period of shared service provision.

• For people who build up entitlement to a range of State Pensions - in Scotland, in the rUK, in Europe, or elsewhere - the current situation would continue. The only difference would be that, from independence, pension entitlement accrued from working in Scotland would be to the Scottish State Pension, rather than to the UK State Pension.

142 In order to be clear about entitlement across the current UK, it would be necessary for the Scottish Government and an rUK Government to share data and records securely, including National Insurance contributions statements. We would work to secure such an agreement on independence. There is already a mechanism in train to capture the residency status of tax payers in Scotland, which would allow identification of those who accrued an entitlement to the Scottish State Pension after independence. Under plans for the Scottish rate of income tax, set out in the Scotland Act 2012, the UK Government will have identified Scottish tax payers separately from other UK tax payers on the basis of residency. This categorisation could be used for this purpose.
State Pension Age

143 The powers available to the first Government of an independent Scotland will offer opportunities to build a fairer pensions system that addresses Scotland’s needs. One example of this, which is now set out in detail, is that a future Scottish Government would have the power to vary the SPA to ensure that it is at a level appropriate for Scotland.

144 In March 2016, the proposed date of independence, the SPA, as set by the UK Government, will be 65 for men and 63 for women.\(^9\) Between April 2016 and November 2018, the female SPA will gradually increase to 65. The SPA for both men and women will then increase from December 2018 to reach 66 by October 2020. The UK Government then plans to increase the SPA to 67 between 2026 and 2028.

145 This is a significantly accelerated timetable, particularly the move to 67, which was originally scheduled to be introduced by 2036. This is currently a proposal, on which the UK Government intends to legislate.

146 The UK Government’s plans are based around a core principle that the proportion of adult life spent in receipt of the State Pension should be consistent to ensure fairness between generations.\(^9\) However, the proportion of adult life spent in receipt of the State Pension is lower in Scotland than in the UK as a whole. Life expectancy for both men and women in Scotland has consistently remained below the UK level, despite significant improvements over many years. In 2013, life expectancy at age 65 was 1.2 years higher in the UK than in Scotland for women; and 1.3 years higher for men.\(^9\)

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\(^9\) DWP State Pension Age Timetables


Figure 3.2, below, shows how life expectancy for individuals aged 65 in Scotland has increased over the last thirty years but has consistently remained below the UK level. The gap between UK and Scottish life expectancy is now wider than in 1997-1999, by 0.2 years for males and by 0.3 years for females. This gap is wider for younger generations, with the life expectancy at birth in Scotland 1.8 years lower for females in 2013 and 2.5 years lower for males in 2013.

The gap is still more noticeable in some parts of Scotland. Life expectancy at birth in Glasgow is the lowest in the UK. Men in Glasgow have an average life expectancy of 71.6 years, more than six years below the UK average, while women, at a life expectancy of 78, are more than four years below the UK average.

While life expectancy has been increasing for all socio-economic groups over recent years, the largest gains have accrued to higher socio-economic classes. In Scotland, the difference in life expectancy at age 65 between the least and most deprived areas (measured by the Scottish Index of Multiple Deprivation 2009) was 5.4 years for men and 4.9 years for women.

Scotland also fares poorly on life expectancy in international comparisons. The improvement in life expectancy at birth for males and females in Scotland since 1997-1999 can also be seen in Figure 3.3 (women) and Figure 3.4 (men). Comparisons are provided with life expectancy in the UK, other UK countries, and the countries that typically have the highest and lowest life expectancy in the EU (France and Romania for women and Sweden and Lithuania for men). These show that Scottish men and women have a relatively lower expectation of life at birth compared with much of the European Union and with the UK.


Figure 3.2: Life Expectancy at 65 - Scotland and UK, women and men

Source: Office of National Statistics

Figure 3.3 - Life expectancy at birth in selected countries 1997-1999 to 2008-2010, Females

Source: EUROSTAT, Office for National Statistics and National Records
Figure 3.4 - Life expectancy at birth in selected countries, 1997-1999 to 2008-2010, Males

Source: EUROSTAT, Office for National Statistics and National Records of Scotland
151 A recent OECD report makes the same point.\textsuperscript{97} This suggests that Scotland had the second lowest expected retirement duration of the thirty OECD countries measured and 2.9 years less than the OECD average.\textsuperscript{98}

152 Another recent report, looking at inequality in life expectancy across areas of England, has suggested that these inequalities are likely to increase, rather than decrease, in coming years. For example, women aged 65 in the highest life expectancy areas in England in 2028 are estimated to receive on average an additional nine years in receipt of the State Pension, which would equate to additional State Pension payments of approximately £67,000.\textsuperscript{99}

153 In sum, Scots on average enjoy relatively fewer years in receipt of the State Pension, than the UK average. The changes being introduced by the UK Government fail to account for differences in life expectancy within the UK.

154 There are clearly a range of issues to do with life expectancy that need to be addressed here. This Scottish Government will continue to use its devolved powers to seek to improve health and well-being and to reduce health inequalities across Scotland.

155 However, in an independent Scotland, we would also reserve judgement on the UK Government’s timetable for the SPA increase to 67 between 2026 and 2028.

156 An Independent Commission on the State Pension Age would be established within the first year of independence to consider this. The commission would have a remit to investigate and make recommendations on the appropriate rate of increase of the SPA, beyond 66, that would suit Scottish


\textsuperscript{98} Whilst OECD demographic estimates have been refreshed since the report, the specific outputs of the report have not been updated

\textsuperscript{99} TUC (2013) \textit{Life Expectancy Inequalities and State Pension Outcomes}. TUC. \url{http://www.tuc.org.uk/statepensiondivide}
circumstances. The commission would take into account the issues raised above - life expectancy, fairness and affordability, including implications for increased public sector pensions costs and equality considerations.

157 The commission would report to Parliament within the first two years of independence with a view to its recommendations being implemented promptly thereafter, to allow sufficient time for longer term financial planning.
4. Supporting Pension Saving

Key points

- For many people, private pensions are key to a successful retirement. The payment of retirement benefits which have accrued in an individual's occupational or personal pension would not be affected by Scotland becoming independent.
- However, successive UK Governments have allowed a situation to develop where more than 13 million people of working age in the UK are under-saving for retirement.
- In 2011/12, 54 per cent of Scottish employees were contributing to an occupational and/or personal pension. This was the highest proportion of all parts of the UK, but still suggestive of problematic levels of under-saving.
- In 2011, active membership of private sector occupational pension schemes in the UK reached its lowest level since 1953.
- Helping people save for a better retirement would be one of the key focuses of an independent Scotland:
  - This Scottish Government would continue with the roll-out of automatic enrolment, introduced last year, to stem the damaging decline in private sector occupational pensions.
  - The Scottish Government proposes that a Scottish equivalent of NEST should be established following independence to provide a workplace pension scheme focused on people with low to moderate earnings, which would accept any employer wishing to use it.
  - This Scottish Government would launch a Financial Capability Strategy.
  - Future Scottish Governments would be able to work with the pensions industry and other stakeholders on the development of innovative pension products.
  - Future Scottish Governments would be able to promote improvements to pension information, making it more personalised.
  - Future Scottish Governments could make adjustments to tax relief arrangements, with a view to improving incentives to save.
Introduction

158 Private pension saving can provide a substantial boost to the basic level of pensioner income provided by the State Pension, ultimately giving a better quality retirement. The first section in this chapter sets out the background context for private pensions as it currently exists in Scotland and the wider UK.

159 The chapter then goes on to describe how, in an independent Scotland, government would take action to encourage saving for retirement. This entails a continued focus on automatic enrolment, but also other considerations, such as a strategy for financial capability, developing options for adjusting tax relief, working with the pensions industry and other stakeholders on the development of innovative financial products, and improving pensions information.

160 Further information of relevance to private pension saving is provided in the next chapter on ‘A Legislative and Regulatory Framework for Pensions’.

161 Occupational pensions for the public sector are also considered ‘private pensions’ in this context and are referred to in discussions below. However, substantive detail on public service pensions is also provided in the final chapter of this paper.

Overview of private pensions

162 Private pensions fall into two basic categories.

- First, occupational pensions form part of the remuneration package provided by public or private sector employers;
- Second, personal pensions are arrangements between an individual and a private pension provider, and can also form part of workplace provision.
There are two main types of occupational pension schemes, Defined Benefit and Defined Contribution.

**Defined Benefit (DB)** schemes pay the individual a specific pension income at retirement. The pension benefits paid out are linked to pensionable service (the number of years of membership of the scheme), pensionable earnings (this could be the scheme member’s final salary, average salary over their career or some other formula) and the proportion of earnings received as a pension for each year of membership. In a DB scheme, the employer has an obligation to ensure that there are sufficient funds in the pension scheme to pay the accrued pension benefits to members. The employer, rather than the employee, bears the financial and investment risk. Member benefits in eligible DB schemes are protected by the Pension Protection Fund.

Defined Benefit schemes account for almost all public sector schemes, but only 10 per cent of private sector schemes. Most private sector schemes are now Defined Contribution.

**Defined Contribution (DC)** schemes are based on the performance of the investment of contributions to the pension fund. The accumulated funds purchase an annuity from pension providers for an individual which gives an income in retirement. The value of the annuity depends on a wide range of factors, including life expectancy, the age and health of the person buying the annuity and annuity rates at the time of purchase (these depend on interest rates generally as well as on government gilt prices). In contrast to DB schemes, there is no guaranteed value of the pension benefits on retirement, which depend on the investment performance of the fund and the annuity rate offered by the market on retirement. The employee, rather than the employer, bears the financial and investment risk.

Note that there are also Hybrid schemes, which involve a combination of DB and DC schemes, but these are less common. Hybrid schemes come in many forms, for example a DB scheme may be underpinned by a DC scheme. In this case, although a level of payment is guaranteed under the DB scheme, if the
contributions made by the scheme member and their employer accrue a higher level of benefit under a DC scheme, the pension is paid on this basis.

168 As noted above, with personal pensions the arrangement is between an individual and a private pension provider, although in some cases employers use personal pensions as a form of occupational pension scheme.

169 Personal pensions are DC schemes. There are three main types of personal pensions:

- Group Personal Pensions
- Individual Personal Pensions
- Stakeholder Pensions

170 In the case of Group Personal Pensions (GPP), an employer chooses the pension provider and almost always commits to paying certain contributions (usually as a percentage of the individual’s earnings). The provider offers terms based on the demographics of the employer’s workforce and intended contributions. However, as noted above, the contract is between the pension provider and the individual.

171 Individuals can also arrange their own personal pensions, to which they contribute. Individual personal pensions can be used by anyone, including those who want to save for retirement by supplementing their occupational pension scheme, those who are self-employed and do not have access to workplace pension scheme and those who are not working but can afford to pay into a pension.100 An employer can also pay into an individual’s personal pension.

172 Stakeholder pensions are a type of personal pension but are required to meet minimum standards set by government. These include limits on the charges

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100 For more information on Personal Pensions see [https://www.gov.uk/personal-pensions-your-rights/overview](https://www.gov.uk/personal-pensions-your-rights/overview)
which can be imposed and no penalties for starting or stopping payments or for
switching providers and they are required to meet certain security standards; for
example, regarding independent trustees and auditors.\textsuperscript{101} Companies can also
use stakeholder pensions for their employees as a form of group personal
pension; these are known as Group Stakeholder Pensions (GSPs).

173 In 2011/12, 54 per cent of employees were active members of an occupational
and/or personal pension scheme in Scotland. This is the highest rate in the UK
(Table 4.1).

\begin{table}
\centering
\begin{tabular}{|l|c|}
\hline
Pension Type & Proportion of employees \\
\hline
Employer-sponsored pension scheme & \\
Occupational pension & 35\% \\
Group Personal pension & 11\% \\
Group Stakeholder pension & 3\% \\
\hline
Any employer-sponsored pension & 51\%* \\
\hline
Personal Pensions & \\
Personal pension & 5\% \\
Stakeholder pension & 1\% \\
\hline
All private pension participation & 54\%** \\
\hline
\end{tabular}
\caption{Active membership of private pensions in Scotland by employees}
\end{table}

Source: Family Resources Survey 2011/12\textsuperscript{102}

* Note: Includes pensions where type of pension is unknown.
** Note: Individuals may belong to an employer sponsored scheme and have their own personal pension.

\textsuperscript{101} https://www.gov.uk/personal-pensions-your-rights/stakeholder-pensions
Twenty seven per cent of self-employed people in Scotland are also active pension scheme members, as are one per cent of economically ‘inactive’ adults.

Private pensions in an independent Scotland

The rest of this chapter sets out the policy positions of this Scottish Government for encouraging private pension saving in an independent Scotland.

An individual’s occupational or personal pension already sets out what retirement benefits will be granted under the particular scheme and under what conditions. This would not change in the event of a vote for independence: the payment of benefits which have accrued in existing occupational pensions and personal pensions would not be affected by a change in constitutional arrangements.

An independent Scottish Government would want to consider how it could act to further boost saving for retirement.

Although there are a range of products associated with personal pensions, and occupational pensions have a long history in Britain, the number of people saving via these routes has been in decline in recent years. Indeed, successive UK Governments have allowed a situation to develop where 13.2 million people in the UK are under-saving for their retirement.

This is of serious concern and particularly affects private sector pensions, as follows. Note that these are UK figures unless stated otherwise:

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103 ‘Inactive’ includes the following groups: unemployed; retired; student; looking after home/family; permanently sick/disabled; temporarily sick/injured; and other.

104 The Pension Archive notes: “Occupational pensions were provided for a limited number of government employees in the seventeenth and eighteenth centuries. Some private companies began to follow suit in the nineteenth century. The majority covered middle class workers in clerical and administrative positions.” [http://www.pensionsarchive.org.uk/77/](http://www.pensionsarchive.org.uk/77/)


In 2012, 83 per cent of public sector employees were members of an occupational pension scheme, but only 32 per cent of private sector employees;\(^{107}\)

In 2011, active membership of private sector occupational pension schemes reached its lowest level since 1953, with 2.9 million active members, falling from a peak of 8.1 million in 1967;\(^{108}\)

More than half (3,623; 57%) of DB schemes have closed to new members;

1,667 (26%) DB schemes were closed to future accruals;

Only 908 (14%) DB schemes were open to new members;\(^{109}\)

In October 2012, only one of the FTSE 100 major companies was offering a final salary scheme to new members; and,\(^{110}\)

There has been a decline over the last decade in the number of individuals in Scotland contributing to personal pensions.\(^{111}\)

Analysis by Scottish Widows has recently suggested that a higher proportion of individuals are saving adequately for retirement in Scotland compared to the UK average.\(^{112}\) The analysis also suggests that, of the constituent UK countries, Scotland has the lowest proportion of individuals not saving at all for retirement.\(^{113}\) However, this slightly better picture offers no room for complacency. The basic fact is that many people in Scotland - more than half of

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\(^{107}\) ONS (2013) 2012 Annual Survey of Hours and Earnings: Summary of Pension Results
http://ons.gov.uk/ons/dcp171778_299511.pdf

\(^{108}\) ONS (2013) Pension Trends – Chapter 7: Private Pension Scheme Membership
http://www.ons.gov.uk/ons/dcp171766_314955.pdf


\(^{110}\) Correct as at October 2012. LCP (2013) Accounting for Pensions 2013. LCP.

\(^{111}\) HMRC (2013) Personal pensions - estimate number of individuals contributing by country and region
http://www.hmrc.gov.uk/statistics/pension-stats/pen5.xls

\(^{112}\) According to Scottish Widows, 48% are saving adequately in Scotland, compared to 45% in the UK. See: Scottish Widows 2013 Pension Report Infographic
http://www.scottishwidows.co.uk/about_us/media_centre/reports_pensions_infographic.html

\(^{113}\) Scottish Widows also estimates that 13% in Scotland are not saving at all for retirement, compared to the UK average of 20%. This covers individuals over the age of 30, not retired and earning over £10,000 per year; those saving at least 12% of their income are deemed to be saving adequately for retirement.
those over 30 and earning more than £10,000 per annum - are currently not saving enough for their retirement.

181 It is important to recognise that, in tight financial times, people may struggle to put any savings away and that choosing to start paying into a pension or to increase pension contributions may be extremely difficult for many. Nevertheless, more could be done to help people save. This Scottish Government, if elected as the first government of an independent Scotland, would deploy a range of approaches to encourage retirement saving, as set out below. Some elements of this are already underway – for example, automatic enrolment began to be rolled out in 2012. Other elements would require further development by a future Scottish Government with the input of stakeholders. This next section of the paper describes the approaches that this Scottish Government would pursue in an independent Scotland.

**Maintaining automatic enrolment into a workplace pension**

182 The main way in which pensions under-saving in the UK is now being addressed is via automatic enrolment. The employer duty to enrol jobholders into a workplace pension, and to contribute to that pension, is being introduced in stages from October 2012. Automatic enrolment will see many more employees across Scotland enrolled in a workplace pension scheme, some for the first time.

183 On independence, the current arrangements for automatic enrolment in Scotland would continue. Its staged roll-out and the criteria for automatic enrolment and contribution levels would be the same. The provisions introduced as part of the Pensions Bill, ensuring that a person’s accrued rights to benefits under a pension scheme are automatically transferred to the scheme of which that person is an active member, would, if duly enacted, also apply in an independent Scotland.

184 The duty to automatically enrol jobholders applies to all employees who: are not already in a workforce pension scheme; are at least 22 years old; have not yet reached the SPA; work, or usually work, in the UK; and earn more than a
minimum earnings threshold (currently £9,440 per annum). The earnings thresholds for automatic enrolment for 2013-14 are shown below (Table 4.2).

Table 4.2: Current earnings thresholds 2013-2014

<table>
<thead>
<tr>
<th>Pay reference period</th>
<th>2013-2014</th>
<th>Annual</th>
<th>1 week</th>
<th>Fortnight</th>
<th>4 weeks</th>
<th>1 month</th>
<th>1 quarter</th>
<th>Bi-annual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower level of qualifying earnings</td>
<td>£5,668</td>
<td>£109</td>
<td>£218</td>
<td>£436</td>
<td>£473</td>
<td>£1,417</td>
<td>£2,834</td>
<td></td>
</tr>
<tr>
<td>Earnings trigger for automatic enrolment</td>
<td>£9,440</td>
<td>£182</td>
<td>£364</td>
<td>£727</td>
<td>£787</td>
<td>£2,360</td>
<td>£4,720</td>
<td></td>
</tr>
<tr>
<td>Upper level of qualifying earnings</td>
<td>£41,450</td>
<td>£797</td>
<td>£1,594</td>
<td>£3,188</td>
<td>£3,454</td>
<td>£10,363</td>
<td>£20,725</td>
<td></td>
</tr>
</tbody>
</table>


185 There is an optional period of up to three months\(^{114}\) before an employee must be automatically enrolled into a workplace pension. Employees can opt-in during that period. Employees may also opt-out of a workplace pension scheme altogether. However, employers are prevented from offering employees any incentive to opt out.

186 Employees can be enrolled in a range of schemes and different automatic enrolment arrangements apply depending on the type of scheme.

\(^{114}\) From the employer’s staging date (for existing employees) or the start of employment for new employees.
Where employees are enrolled into a DC scheme, employers and employees must contribute a set minimum percentage: this percentage will increase gradually until 1 October 2018 (Table 4.3). 

Table 4.3: Set minimum contributions from 1 October 2012

<table>
<thead>
<tr>
<th>Timing</th>
<th>Minimum total percentage that has to be contributed (including the employee’s contribution, the employer’s contribution and tax relief)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Oct 2012 to 30 Sept 2017</td>
<td>2%</td>
</tr>
<tr>
<td>1 Oct 2017 to 30 Sept 2018</td>
<td>5%</td>
</tr>
<tr>
<td>1 Oct 2018 onwards</td>
<td>8%</td>
</tr>
</tbody>
</table>

The minimum percentage contribution (including the employee’s contribution, the employer’s contribution and tax relief) must be made on ‘qualifying earnings’ – earnings above £5,668 up to a maximum limit of £41,450. Employees and employers may voluntarily contribute more than the minimum percentage.

Automatic enrolment into a DC automatic enrolment scheme is being rolled out in phases, depending on the size of the company (Table 4.4). This phased approach will give SME employers in Scotland longer to prepare for automatic enrolment. Those choosing a DB or hybrid scheme can choose to delay automatic enrolment until the end of September 2017.


As at March 2012, there were an estimated 341,360 private sector enterprises operating in Scotland. Of these, 98.3% were small (0 to 49 employees), 1.1% were medium-sized (50 to 249 employees) and 0.7% were large (250 or more employees). Small and medium-sized organisations operating in Scotland employed an estimated 1.09 million people.
### Table 4.4: Staging dates for roll out of automatic enrolment

<table>
<thead>
<tr>
<th>Staging date</th>
<th>Size of company</th>
</tr>
</thead>
<tbody>
<tr>
<td>From Oct 2012 to Feb 2014</td>
<td>Large employers (with 250 or more employees)</td>
</tr>
<tr>
<td>From April 2014 to April 2015</td>
<td>Medium employers (50 – 249 employees)</td>
</tr>
<tr>
<td>From June 2015 to April 2017</td>
<td>Small employers (49 employees or less)</td>
</tr>
<tr>
<td>From May 2017 to February 2018</td>
<td>New employers (established after April 2012)</td>
</tr>
<tr>
<td>From 30 September 2017</td>
<td>Employers who chose to use Defined Benefit or Hybrid Schemes</td>
</tr>
</tbody>
</table>


190 A future Scottish Government would, of course, be able to vary arrangements for automatic enrolment in order to ensure effective implementation of the policy, informed by analysis of the level of saving needed by people in Scotland to maintain their standard of living in retirement. In considering any changes to the current arrangements, it would be important to achieve a balance to ensure that the level of employee contribution is not onerous and that the impact on employers, particularly small and medium-sized enterprises, is proportionate and affordable.

191 It would also be important to monitor and evaluate automatic enrolment to ensure that the programme is working effectively and, in particular, that equality groups and lower income and part-time workers are able to take advantage of its benefits in the same way as other workers.

192 Employers can currently fulfil their automatic enrolment duty by making use of the National Employment Savings Trust (NEST), which provides a workplace
pension scheme focused on people with low to moderate earnings. NEST has a public service obligation to accept any employer wishing to use it and also to accept as members any employees who ask their employer to be enrolled into a qualifying pension scheme.\textsuperscript{117} NEST can also accept as members certain other individuals who do not have an employer but who ordinarily work in the UK and agree to NEST’s Member Terms and Conditions,\textsuperscript{118} for example people who are self-employed.

193 Following a vote for independence, the Scottish Government would work with the UK Government on transitional arrangements to ensure that \textbf{individuals and employers in Scotland continue to have access to NEST and that individuals’ rights and entitlements which have accrued in NEST would continue to be accessible.}

194 \textbf{However, the Scottish Government also proposes that a Scottish equivalent of NEST – the Scottish Employment Savings Trust (SEST) - should be established} to assist smaller employers in particular to meet their obligations under automatic enrolment. It would be for a future Scottish Government to work with the pensions industry in Scotland and all other stakeholders on the design of SEST to ensure that it was fit for purpose – minimising the cost and bureaucratic burden on small businesses, whilst maximising the benefits to individuals. Independence would provide an opportunity to design a new scheme in Scotland, aligned with the Scottish Government’s policy on automatic enrolment.

\textbf{A Financial Capability Strategy}

195 This Scottish Government would develop a Financial Capability Strategy in an independent Scotland to encourage pension saving.

\textsuperscript{117} As part of the policy of automatic enrolment
\textsuperscript{118} NEST, \textit{Order and rules summary},
Financial capability is defined as follows:\textsuperscript{119}

- The motivation to efficiently manage finances and effect change;
- Day-to-day management of finances; for example, effective budgeting and use of a bank account;
- Planning ahead for retirement, other life transitions and unexpected events; for example, by saving;
- Efficient selection of financial products and the ability to understand these products; for example, by comparing repayment costs before taking a loan;
- Knowing where, and how, to seek appropriate financial advice. This may be particularly important, for example, when buying an annuity, as recent comparisons of example annuity rates have suggested that, without good advice, the value of the final pot can be highly variable.\textsuperscript{120}

This strategy would have a dual focus on financial education - including pensions and savings - and on tackling poverty and would seek to make a range of interventions at various stages across the life-course, also taking equality considerations into account.

The Scottish Government has already taken action on financial capability under its devolved powers. Financial education, including issues about money and debt management, is delivered as part of a wider programme of numeracy across learning. When individuals have control over their money, they can gain a greater sense of self determination as they deal with daily life, face financial "shocks" and plan to achieve positive future outcomes.

Financial capability is also promoted through a range of interventions by money advisors working in organisations such as Citizens Advice, Housing Associations and across local government. The Scottish Government and Money Advice

\textsuperscript{120} https://www.abi.org.uk/Insurance-and-savings/Products/Pensions/Annuity-rates/Example-rates
Service have provided funding between 2013 and 2015 to assist people’s transition to the new benefits system, also promoting financial capability and sustainable preventative approaches to household finances.

200 There is scope to do more. A particularly important element of this strategy would be that it would be developed and delivered in collaboration with a range of partners, and would make the most of the expertise in the highly successful pensions and wider financial sector that exists in Scotland.

**Improved pensions information**

201 Key to financial capability is the provision of regular, high quality information about the value of a pensions pot. Some progress has been made on this over recent years in relation to occupational pensions, where more detailed information is now widely available on the amount people can expect to receive on retirement under various scenarios. There is also, on the DWP website, a State Pensions calculator and a form by which individuals can apply for a State Pensions Forecast, which enables an estimate of how much the state may provide and therefore the extent to which additional saving is required. In addition, the Pensions Advisory Service provides free information and guidance to members of state, company, personal and stakeholder schemes and provides support and advice for members of the public in dispute with their occupational or private pension arrangement.

202 However, still more could be done to ensure individuals and households are fully aware of what they are likely to receive on retirement.\(^\text{121}\) Research on how best to communicate State Pension forecasts, for example, has already been undertaken and this clearly shows a desire for individualised information and a

\(^{121}\) For example, stakeholders have informed that some women approaching 60 are unaware that their SPA is already increasing towards 65 and have not planned for this change.
clear estimate of State Pension income.\textsuperscript{122} The accessibility of the information provided is also a key factor that would need to be addressed, again with equality considerations in mind. A future Scottish Government could therefore ensure that individualized, accessible Scottish State Pension forecasts are provided direct to individuals on a regular basis from early in most people’s working lives (for example, from age 25). Further development of private pension information could also be encouraged, making it easier to take decisions regarding any additional pension saving that might be required.

203 Currently, provision of education and advice to consumers on financial services is spread across a range of services and organisations, including the Money Advice Service, Money Advice Scotland and the Pensions Advisory Service, creating confusion for consumers. A key function of the proposals outlined in the Scottish Government’s paper on “Consumer Protection and Representation in an Independent Scotland: Options”\textsuperscript{123} would be to drive up the standard of education and advice to consumers. That paper proposes a model which would include better co-ordination at a national level, with education and advice at a local level provided by local hubs.

Innovative financial products

204 \textbf{In an independent Scotland, a future Scottish Government would be able to work with the pensions industry, employers and other stakeholders on proposals to develop innovative pensions and other savings products.}

205 These could be targeted towards under-saving in general and at specific groups within the population.

\textsuperscript{122} The Futures Company (2010) \textit{How best to present State Pension information and support retirement planning}. DWP. 

\textsuperscript{123} http://www.scotland.gov.uk/Publications/2013/08/2253
One example of an innovative product is the Defined Ambition pension, which would allow the risks associated with private pensions to be shared.\textsuperscript{124} Such pensions would offer greater certainty to savers about the final value of their pension than is delivered by DC schemes and less cost volatility for employers than in DB schemes. This could be achieved by sharing the longevity and investment risks between a number of parties, including employers, individuals, insurance and investment businesses.

Although the DA pension has been subject to criticism, it is nevertheless a development that the Scottish Government is watching with interest. Risk sharing schemes already exist in a number of countries, including the Netherlands and Denmark. There are also some extant examples in the UK, including career average or cash balance schemes.

Tax relief

While this Scottish Government plans no immediate changes to the tax treatment of private pensions at the point of independence, future Scottish Governments will wish to consider whether adjusting tax relief arrangements would improve incentives to save.

Tax relief is provided in the form of foregone income tax receipts at the individual's marginal tax rate. The main limits that apply to tax relief for pension contributions are the lifetime and annual allowance, which were introduced in April 2006 as part of the pension tax simplification regime. In 2013-14, the annual allowance is £50,000 and the lifetime allowance is £1,500,000.\textsuperscript{125}


\textsuperscript{125} HMRC website - Rates and Allowances http://www.hmrc.gov.uk/rates/pensionsschemes.htm
210 Any pensions saving in excess of the lifetime allowance is liable for tax. This ‘Lifetime Allowance charge’ is set at 25% if the additional savings are taken as a pension, and 55% if taken as a lump sum.

211 In 2011-12, the value of tax relief in the UK was estimated to be £34.9bn. In addition, employer contributions are exempt from National Insurance contributions. The cost of this exemption is estimated to be £15 billion. Tax relief is a form of deferred taxation with tax paid on pensions in payment rather than on pension contributions. In 2011-12, tax paid on pensions in the UK was estimated to be £11.5 billion.

212 The value of tax relief on pension contributions in Scotland was estimated to be £1.5bn in 2011-12. The value of the National Insurance contribution exemption for employer contributions was estimated to be around £800m. A further £370m of tax relief was estimated to be given on the investment income of funds.

213 The First Report of the Fiscal Commission Working Group recommended that: “The Scottish Government should take forward a programme of work to scope out and design an efficient and cost effective tax system.” Any such programme may therefore wish to consider the tax treatment of private pensions, with a view to achieving the most appropriate balance between the following objectives:

- Incentivising saving for pensions by individuals, employees and employers;

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126 From April 2014 the lifetime allowance is due to be reduced to £1,250,000. The UK Government is currently consulting on protection arrangements for individuals with pension savings close to or greater than the limit. [Link](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/205777/130607_IP14_Condoc_Final.pdf)

127 [Link](http://www.hmrc.gov.uk/rates/pensionsschemes.htm)

128 [Link](http://www.hmrc.gov.uk/statistics/pension-stats/pen6.xls) HMRC Cost of Registered Pension Scheme Tax Relief

129 Based on HMRC Cost of Registered Pension Scheme Tax Relief [Link](http://www.hmrc.gov.uk/statistics/pension-stats/pen6.xls) The distribution of tax relief is based on the answer to parliamentary question 95617 on 20 February 2012 [Link](http://www.publications.parliament.uk/pa/cm201213/cmhansrd/cm120220/text/120220w0006.htm) and Scotland’s share of income tax liabilities taken from PTM model estimates using projections based on Survey of Personal Incomes 2009-10 dataset, using economic assumptions consistent with the OBR’s March 2012 Economic and Fiscal Outlook.
• Improving social equity by equalising rates and application of tax relief; and
• Achieving acceptable levels of tax revenue.
5. A Legislative and Regulatory Framework for Pensions

Key points

- The body of law governing pensions would apply in an independent Scotland until amended, replaced or repealed by the Scottish Parliament.
- On independence, Scotland would become an EU member state in its own right and would retain Sterling as its currency within a Sterling Zone. These factors, and agreements to be negotiated with the rest of the UK and EU, would shape the regulatory framework in Scotland.
- The Scottish Government proposes that the structure and activities of the regulatory framework in Scotland for private pensions should be closely aligned with the regulatory framework in the UK, post-independence.
- Following independence, a dedicated Scottish Pensions Regulator would be established. The Scottish Pensions Regulator would work closely with the UK Pensions Regulator and the Financial Conduct Authority to maintain a pan-UK approach to the regulation of private pensions.
- The Scottish Government’s preference is for current arrangements for the protection of individuals’ pensions by the Pension Protection Fund (PPF) to continue, with Scotland playing its full part. However, it would be entirely possible for the Scottish Government to establish a Scottish equivalent to the PPF. Individuals would have the same level of protection as they do now.
- This Scottish Government would ensure that arrangements for an effective compensation scheme were established, mirroring the level of protection provided in the UK Financial Services Compensation Scheme.
- The Scottish Government proposes that discussions with the UK Government and the European Commission on the application of the IORP Directive should start immediately, with a view to agreeing appropriate transitional arrangements for pension schemes that would become cross-border on independence. The priority would be to provide sufficient flexibility for employers, whilst ensuring that members and beneficiaries were protected in the way intended by the Directive.
Introduction

214 This chapter focuses on the legislative framework for private pensions and the framework for regulation and consumer protection, both in the UK and in an independent Scotland.

215 It begins by setting out the landscape that currently exists in the UK. It then moves to describe how this regulatory landscape would be tailored to an independent Scotland.

216 Finally, the chapter considers a specific issue – the implications of independence for Defined Benefit (DB) occupational schemes that currently operate in Scotland and the rest of the UK and that would become ‘cross-border’ schemes on independence.

Legislative framework

217 The body of law applying to private pensions in the UK is extensive and complex. The framework for these pensions in the UK comprises rules established at the EU level and via country-specific regulation.

218 Rules governing the activities of institutions providing occupational pensions in all EU countries are set out in Directive 2003/41/EC (the IORP Directive). The Directive requires each Member State to have one or more competent authorities with powers to intervene and carry out the duties specified in the Directive. The competent authority in the UK is currently the Pensions Regulator, supported by the Payment Protection Fund.

219 The Directive sets out strict rules to protect beneficiaries and members of occupational pensions by ensuring that they have sufficient information on the rules of the pension scheme, the institution’s financial situation and their rights. It

also sets out investment rules to ensure efficient management of occupational pension schemes.

The European Commission has undertaken a review of the IORP Directive and has announced that it intends to bring forward a legislative proposal in autumn 2013 which will focus on improving governance arrangements and transparency and reporting requirements.131

Framework for regulation and consumer protection

Private pension provision in the UK is currently regulated by the Pensions Regulator and the Financial Conduct Authority (FCA). The division of responsibility between the Pensions Regulator and the FCA overlaps to an extent, as shown in Table 5.1.

Table 5.1: Current Regulatory Arrangements

<table>
<thead>
<tr>
<th>Occupational DB trust-based schemes</th>
<th>Occupational DC trust-based schemes</th>
<th>Work-based personal pensions</th>
<th>Individual personal pensions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Occupational</td>
<td>Personal</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employer-sponsored</td>
<td>Non-sponsored</td>
<td></td>
<td></td>
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<tr>
<td><strong>The Pension Regulator’s remit</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(work-based pension schemes)</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td><strong>FCA’s remit</strong></td>
<td></td>
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</tbody>
</table>

Source: The Pensions Regulator

222 The **Pensions Regulator** is a non-departmental public body accountable to the UK Parliament through DWP. The role of the Pensions Regulator is to ensure that work-based pension products are effectively governed while making pension provision easier for employers and, crucially, improving pension protection for members. The Pensions Regulator provides guidance to trustees, employers, pension specialists and business advisers. It also has substantial powers to intervene and take action where the security of pensions is under threat or where employers attempt to avoid their pension responsibilities, including their obligations under automatic enrolment.

223 The Pension Regulator defines its regulatory powers as falling into three broad categories: investigation, putting things right and acting against avoidance, as follows.\(^{132}\)

224 **Investigation** – the Pensions Regulator requires all but the smallest schemes to complete a ‘scheme return’ every year. This includes details of membership, sponsoring employers, trustees, advisers, administration, funding and investment. It receives reports of significant breaches of the law and ‘notifiable’ events,\(^{133}\) as well as scheme funding information. It also has the power to demand documents or other information relevant to its work.

225 **Putting things right** – the Pensions Regulator can take a range of actions in order to protect the security of members’ benefits. For example, it can:

- Issue an improvement notice to individuals or companies, or a third party notice, requiring specific action to be taken within a certain time;
- Take action, on behalf of a scheme, to recover unpaid contributions from the employer if the due date for payment has passed;

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\(^{133}\) There are a number of notifiable events designed to give the Pensions Regulator early warning of a possible call on the Pension Protection Fund. If an event occurs it must be notified in writing to the Pensions Regulator as soon as reasonably practicable.
o Issue a freezing order, where wind-up is pending and it believes that members' interests may be at risk.\textsuperscript{134}

226 \textbf{Acting against avoidance} – the Pensions Regulator has powers to act where it believes that an employer is deliberately attempting to avoid its pension obligations, leaving the Pension Protection Fund to pick up its pension liabilities. To protect the benefits of scheme members, and to reduce the Pension Protection Fund's exposure to claims for compensation, it may issue:

\begin{itemize}
  \item A contribution notice – where there is a deliberate attempt to avoid a statutory debt, the Pensions Regulator may direct those involved to pay an amount up to the full statutory debt;
  \item Financial support directions – requiring financial support to be put in place for an underfunded scheme;
  \item Restoration orders – if there has been a transaction at an undervalue involving the scheme's assets, the Pensions Regulator can take action to have the assets (or their equivalent value) restored to the scheme.
\end{itemize}

227 Some of these powers can be exercised by the Pensions Regulator's staff. Certain decisions, however, can only be exercised by the Determinations Panel, which consists of a chair and at least six other people with legal, business and/or pensions knowledge.

228 The Pensions Regulator also has the power to issue a prohibition notice preventing a person or company from being a pension scheme trustee if it is satisfied that they are not ‘fit and proper persons’.

229 The Pensions Regulator also works in partnership with a number of other bodies, as set out below and in the next section.

\textsuperscript{134} A freezing order temporarily halts all activity within the scheme, so that the Pensions Regulator can investigate concerns and encourage negotiations.
230 The **Pensions Ombudsman** has powers to decide on pensions complaints that affect individual members and where an internal disputes resolution process has been followed but has failed to resolve the complaint. The Pensions Ombudsman also acts as the Pension Protection Fund Ombudsman.\(^{135}\)

231 The **Prudential Regulation Authority** is part of the Bank of England, and is the prudential regulator for deposit-takers, insurers and designated investment firms.

232 The **European Insurance and Occupational Pensions Authority** is an EU supervisory authority set up to promote greater harmonisation and coherent application of regulatory standards across the European Union, and to establish a single internal market for both insurance and pensions.

### The Financial Conduct Authority

233 The **Financial Conduct Authority (FCA)** works with the Pensions Regulator under a Memorandum of Understanding to deliver good quality standards across all work-based pension arrangements.\(^{136}\) The FCA is an independent body, funded by the financial services firms it regulates. It is accountable to the Treasury and the UK Parliament.

234 The FCA’s functions in relation to private pensions can be summarised as follows. The FCA:

- Regulates firms that provide, promote, market, advise on or sell personal, including stakeholder, pensions and annuities.\(^{137}\)

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\(^{135}\) The Pension Protection Fund Ombudsman considers applications made by the Board of the PPF under their internal procedures and appeals against decisions made by the Scheme Manager under the Financial Assistance Scheme’s internal review procedure.


\(^{137}\) Occupational trust based pension schemes are specifically excluded from the FCA’s remit.
Regulates the establishment, operation and winding-up of personal pension schemes;

- Supervises the prudential risks of firms that are not regulated by the Prudential Regulation Authority, which provides personal, including stakeholder, pensions;

- Has an indirect interest in occupational trust-based pension schemes because it regulates firms which provide investments and investment services to occupational trust-based pension schemes (e.g. investment managers, insurers selling insurance-based pension products, advisers responsible for advice given to scheme trustees on investments);

- Is accountable, in a number of significant respects, for the Financial Ombudsman Service (FOS), which handles complaints about personal, including stakeholder, pensions – FOS shares this complaints handling role with the Pensions Ombudsman; and

- Is responsible, in conjunction with the Prudential Regulation Authority, for the Financial Services Compensation Scheme, which covers, amongst other things, the liabilities of FCA-authorised firms which provide or advise on personal, including stakeholder, pensions.

The Pension Protection Fund

EU law\textsuperscript{138} requires Member States to protect the benefits in DB occupational pensions. This requirement is currently met in the UK by the Pension Protection Fund (PPF) which is a statutory fund run by the Board of the Pension Protection Fund (a statutory corporation established under the provisions of the Pensions Act 2004). Its main function is to provide compensation to members of eligible DB pension schemes if their employers become insolvent and their pension schemes cannot afford to pay what they promised. The PPF pays different levels

of compensation, depending on an individual’s circumstances. Levels of compensation are set by the Pensions Act.

236 The PPF is funded from four separate sources: a compulsory annual pension protection levy paid by all eligible pension schemes from across the UK; money and other assets recovered from insolvent employers of schemes that it takes on; the assets of schemes that transfer to the PPF; and returns on its own investments. Funding from these sources leads to the building up of a fund which is invested in accordance with an investment strategy aimed at achieving a balance between protecting compensation payments for actual and potential members of schemes whilst setting a fair and proportionate levy.

237 The PPF is also responsible for administering the Financial Assistance Scheme (FAS) – a government-funded scheme which provides financial assistance to people who have belonged to certain under-funded DB pension schemes which started to wind up between 1 January 1997 and 5 April 2005 or which started to wind up after that period but are ineligible for compensation from the PPF. The levels of financial assistance payable to individuals are set by regulation.

238 About 128,000 people across the UK have transferred to the PPF since the fund began in 2005. The Board of the PPF estimates that, by 2015, it will be directly protecting approximately 500,000 PPF and FAS members.\(^{139}\) The PPF estimates that approximately 17,500 people in Scotland currently have their pensions paid by the PPF.

239 In 2011/12, the PPF made compensation payments of £203.3 million. Figure 5.1 shows pensioner and deferred member compensation by UK region for members who had transferred to the PPF by 2011/12.\(^{140}\) Individuals in Scotland received approximately 8% of the total pensioner compensation paid by the PPF.


\(^{140}\) It is worth noting that the 2011/12 payments were shaped by large payments in the West Midlands, something that will change as more schemes will transfer to the PPF.
240 In addition, the PPF is responsible for the Fraud Compensation Fund (FCF). This fund provides compensation to occupational pension schemes, with insolvent employers, that suffer a loss that can be attributable to an offence involving dishonesty. The FCF applies to most DB and DC occupational pension schemes and is funded from the Fraud Compensation Levy raised on eligible pension schemes.

The Legislative and Regulatory Framework in an Independent Scotland

241 This section sets out Scottish Government’s view of the body of law and the regulatory framework relating to pensions in an independent Scotland.

242 The body of law governing pensions would continue to apply in Scotland, until amended, replaced or repealed by the Scottish Parliament. As noted above, there is a complex body of law currently in place governing occupational and personal pensions. Arrangements would be in place from independence day to consolidate the existing rights of citizens and give the Scottish Parliament
and/or the Scottish Government the relevant legal, financial and other powers necessary to govern Scotland effectively across the full range of national issues. These arrangements – which would form Scotland’s constitutional platform – would provide for Scots law, including laws in all currently reserved areas, to continue after independence unless specifically amended by the Scottish Parliament.\textsuperscript{141}

243 The first report of the Fiscal Commission Working Group\textsuperscript{142} sets out proposals for a macro economic framework designed to help maintain an integrated financial services market. The Scottish Government agrees that sterling should be retained as part of a formal monetary union in the interests of both Scotland and the rest of the UK. The Working Group has also recommended that prudential regulation should be discharged in a consistent way across the Sterling Zone as part of an integrated market.

244 The Scottish Government proposes that financial stability policy should be co-ordinated between Scotland and the UK post-independence. There would be a number of institutional options to discharge the prudential regulation of significant firms across the Sterling Zone, for example, the Bank of England Prudential Regulation Authority could be tasked with regulatory duties or, alternatively, a Scottish body would have this role (applying equivalent regulatory rules). For other aspects of financial regulation, the Fiscal Commission Working Group has considered that a Scottish regulator could be established.

245 The Scottish Government similarly proposes that the structure and activities of the regulatory framework for private pensions should be closely aligned with the regulatory framework in the rest of the UK. The Scottish Government proposes to establish its own Pensions Regulator with responsibility for regulating pension provision, ensuring that consumers are protected and the benefits they receive are maximised, whilst promoting an effective pensions

\textsuperscript{141} Scotland’s Future: from the Referendum to Independence and a Written Constitution, February 2013: \url{http://www.scotland.gov.uk/Resource/0041/00413757.pdf}
\textsuperscript{142} Fiscal Commission Working Group (February 2013) \textit{First Report – Macroeconomic Framework} \url{http://www.scotland.gov.uk/Resource/0041/00414291.pdf}
market. It would work closely with the UK Pensions Regulator and the FCA to maintain a pan-UK approach to the regulation of private pensions.

246 Complaints are handled both by the Financial Ombudsman Service and the Pensions Ombudsman. The Scottish Government has published a separate paper on “Consumer Protection and Representation in an Independent Scotland: Options”\(^\text{143}\) which considers two options: an independent Scotland could create a single Scottish Ombudsman Service – a one stop shop where consumers could seek redress and dispute resolution through a single portal; alternatively, financial services complaints could be handled separately by a Scottish Financial Services Ombudsman, combining the current functions of the Financial Ombudsman Service and the Pensions Ombudsman.

247 Following a vote for independence, this Scottish Government would work with the UK Government on transitional arrangements to ensure that currently 'eligible schemes' for the purpose of the PPF continue to pay into the fund; the protection that the fund affords to current pension scheme members and pensioners in Scotland continues; and individuals who currently have their pensions paid by the PPF continue to receive their pensions from the Fund.

248 The Scottish Government would similarly work with the UK Government on transitional arrangements to ensure that the protection that the Financial Assistance Scheme affords to current pension scheme members and pensioners in Scotland continues and that individuals who currently have their pensions paid by the Scheme continue to receive their pensions, and that the protection afforded by the FCF continues.

249 It would be for a future Scottish Government and the UK Government to determine arrangements for the future of the PPF, the FAS and the FCF. The Scottish Government proposes that it is in the best interests of all parties

\(^\text{143}\) [http://www.scotland.gov.uk/Publications/2013/08/2253](http://www.scotland.gov.uk/Publications/2013/08/2253)
for current arrangements for the protection of individuals’ pensions by the PPF (including its responsibility for the FAS and the FCF) to continue, with Scotland playing its full part. However, it would also be possible for the Scottish Government to establish a Scottish equivalent to the PPF. The important assurance is that individuals will have the same level of protection as they do now.

250 The Scottish Government would ensure that arrangements for an effective compensation scheme are established, mirroring the level of protection provided in the UK Financial Services Compensation Scheme. Consistent with developments in Europe, the Scottish Government sees the merit, for both Scotland and the UK, of accepting the Fiscal Commission Working Group's proposition for a scheme to be commonly maintained across the Sterling Zone by all financial institutions in Scotland and the UK. Alternative arrangements are, however, possible.

Cross Border Schemes

251 As described at the start of this chapter, the IORP Directive sets out rules governing the activities of institutions providing occupational pensions. The Directive made it possible for institutions to operate across borders and was intended to be “a first step on the way to an internal market for occupational retirement provision organised on a European scale”.144

252 There are a number of benefits to successful operation of cross-border pension schemes. It can result in improved pension provision for employees, as well as benefits in terms of risk management, access to investment options, pooling of liabilities, reduction in costs through economies of scale and simplified governance arrangements. It enables companies to create a single pension fund for all their operations in Europe and to work with a single competent authority, rather than having to meet the different requirements of multiple authorities. As

of June 2013, the UK was home state to 28 cross-border schemes (34% of the total number of schemes operating cross-border within the EU).  

The Directive places specific requirements on schemes which operate across borders: pension schemes that wish to accept contributions from an employer located in another EU Member State must be ‘fully funded’ at all times; they must have prior authorisation and approval from the relevant competent authority; and they must comply with the social and labour laws of the host Member State. These requirements would apply to those schemes that currently operate in Scotland and the rest of the UK if they continued to operate, on independence, on a cross-border basis.  

A report by the Institute of Chartered Accountants of Scotland (ICAS) identified compliance with the funding requirements in the Directive as the main issue for such schemes. ICAS suggested that an independent Scotland would need to consider how the impact of the cross-border requirements on the funding of occupational pension schemes might be addressed, for example by seeking an exemption for existing UK-wide pension schemes or a grace period for the achievement of full funding. ICAS also suggested that schemes might choose to construct themselves differently, so that they operate separately in Scotland and the rest of the UK.

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146 Article 16(3) states that in the event of cross-border activity, the technical provisions (the value of a scheme’s liabilities) shall at all times be fully funded in respect of the total range of pension schemes operated. If these conditions are not met, the competent authorities of the home Member State shall intervene in accordance with Article 14.

147 Currently schemes which are registered in the UK and wish to engage in cross-border activity must be authorised to do so by the Pensions Regulator.

148 The requirements would apply equally to schemes in Scotland accepting contributions from an employer in the rest of the UK and schemes in the rest of the UK accepting contributions from an employer in Scotland.

149 http://icas.org.uk/News/ScotlandsPensionsFutureNewsrelease/
On the basis of our analysis, we consider that transitional arrangements will be deliverable in order to address the impact on funding arrangements for such schemes, for the following reasons.

First, the cross-border requirements in the Directive were not designed for application in an integrated financial services market, as proposed for an independent Scotland. These additional requirements were designed to protect members and beneficiaries whose pensions are located in a Member State where pension provision differs significantly from that in their home State. This would not be the case in this instance. Rather, the Scottish Government proposes that existing UK-wide pension schemes should, on independence, continue to operate in an integrated financial services market within a common regulatory framework.

Second, arriving at a common-sense solution would be strongly in the interests of the Scottish and UK Governments, the European Commission, employers and employees. Indeed, the European Commission’s aim in bringing forward the Directive was precisely to promote greater cross-border occupational pension provision. From within the pensions industry, it has been recognised that it is “inconceivable” that the EU would not allow transitional arrangements for schemes.\(^{150}\)

Third, the cross-border requirements in the Directive are already interpreted differently from country to country across Europe. Member States have interpreted the requirement for cross-border schemes to be fully funded ‘at all times’ in different ways. For example, the period allowed for cross-border schemes in Ireland to regain full funding is decided by the Irish Pensions Board on a case by case basis.\(^{151}\)

\(^{150}\) [http://www.engagedinvestor.co.uk/will-the-eu-bend-to-the-cross-border-pension-crisis/1472467.article](http://www.engagedinvestor.co.uk/will-the-eu-bend-to-the-cross-border-pension-crisis/1472467.article)

\(^{151}\) In its review of the Occupational Pension Schemes (Cross-border Activities) Regulations 2005, DWP noted that “where UK cross-border schemes, when underfunded, are permitted a two year period to regain a position of full funding, the period allowed for cross-border schemes in Ireland to regain full funding is decided by the Irish Pensions Board on a case by case basis”: [http://www.dwp.gov.uk/docs/rops-cba-regs05.pdf](http://www.dwp.gov.uk/docs/rops-cba-regs05.pdf)
The Scottish Government proposes that discussions on this issue should start immediately, with a view to undertaking a full impact assessment and agreeing appropriate transitional arrangements. These arrangements would set out how a scheme which became cross-border at the date of independence would be required to adjust from its previous status as a UK scheme and would provide much needed clarity for employers and pension schemes across the UK. The priority would be to agree arrangements which would provide sufficient flexibility for employers, whilst ensuring that members and beneficiaries were protected in the way intended by the Directive.

Transitional arrangements of this kind have been implemented previously. On the introduction of the Directive, the UK Government’s implementing legislation provided for a three year grace period for existing UK/Ireland cross-border schemes to reach full funding levels.

Many schemes in the UK are working to achieve a stable funding position over a period of time through the use of a recovery plan. In schemes where recovery plans are already in place, these set out how a position of full funding can be gained as quickly as the employer can reasonably afford. Requiring schemes which became cross-border on independence to achieve full funding over a shorter time period would not be proportionate. The Scottish Government considers that it would be appropriate, in this instance, to allow a scheme with an existing recovery plan to be allowed to implement that plan in accordance with the period originally set for it.
6. Public Service Pensions

Key points

- The Scottish Government remains fully committed to providing a pension and reward package to public sector employees that reflects their public service.

- In an independent Scotland, all public service pension rights and entitlements which have been accrued for fully or executively devolved schemes would continue to be fully protected and accessible.

- There would be no difference to individual contribution rates or benefit levels as a result of independence.

- Scotland already has the people and the infrastructure in place, delivering high quality public pensions.

- Public sector pensions policy has been imposed on Scotland with insufficient engagement and consultation. In an independent Scotland, the approach to negotiations about any future changes to public sector pensions would be positive and inclusive.

- On independence, the financial management of the Scottish NHS and Teachers' schemes would transition from HM Treasury to the Scottish Government.

- On independence, the public service pensions of members of currently reserved schemes who live in or work for Scotland – for example, the armed forces and civil servants – would continue to be paid in full.

- Independence would also give a future Scottish Government the powers to fully consider issues such as the pension terms of all ‘uniformed’ services, including whether they should be able to access their occupational pension at a consistent age and the impact SPA policy has on the working and retirement patterns of Scotland’s public servants, including doctors, nurses and teachers.

- The considerations of the Independent Commission on State Pension Age would also have implications for the Normal Pension Ages of public service workers.
Introduction

262 Public services are essential to Scotland. Nurses, doctors, teachers, fire fighters and police officers, amongst others, provide vital services we all rely on. Pension schemes for the public sector, as with private sector schemes, provide a firm basis for individuals to save for their retirement.\(^{152}\) They form part of employees’ total reward packages, so are both valuable and highly valued.

263 Public sector pensions are not, as is often believed, excessively generous. In fact, average\(^{153}\) pensions for the two largest public sector workforce groups, Local Government and the NHS, are around £4,700 (£90 a week) and £7,600 (£146 a week) respectively.\(^ {154}\) It is unsurprising, therefore, that the Independent Public Service Pensions Commission’s final report to Government (March 2011), which preceded current reforms, noted that the commission had “firmly rejected the claim that current public service pensions are ‘gold plated’.”\(^ {155}\)

264 The Scottish Government would also reject such a claim. This Scottish Government remains fully committed to providing a pension and reward package to public sector employees which reflects their service, is fair to the individual, the taxpayer and the communities they serve, and is affordable and sustainable in that context.

265 This chapter first sets out the current landscape for public service pensions, including discussion of on-going UK Government reforms in this area. It then goes on to describe public service pensions policy in an independent Scotland, as proposed by this Scottish Government.

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\(^{152}\) Although arrangements for these government-backed schemes are not identical to private sector schemes, they similarly offer scheme beneficiaries significant rights and protections; will shortly be independently regulated by the Pensions Regulator and are subject to complex legislative provisions.

\(^{153}\) The arithmetic mean of pensions in payment.

\(^{154}\) NHS average pension is based on Scottish scheme data as at 31/3/12; LGPS average pension is based on Scottish scheme data as at 31/3/11.

The public service pensions landscape in Scotland

Occupational pensions policy is primarily reserved. Decisions on the design, operation and financing of Civil Service and Armed Services pensions schemes, along with virtually all judicial pensions, lie entirely with Westminster.

Where public service pensions are devolved, this responsibility varies. The Scottish Government has executively devolved powers for five of the main public service schemes in Scotland: NHS, teachers, local government, police and fire. These schemes must comply with UK primary legislation and the powers the Scottish Government has over these schemes are not uniform. In contrast, occupational pensions policy for six public bodies, a small number of judicial office holders working in devolved roles, and for members of the Scottish Parliament are fully devolved to Scotland.

These differing arrangements mean that Scottish Ministers have full policy-making powers for less than 1% of the 965,000 members of Scotland’s public service pension schemes even though these schemes are wholly administered in Scotland (see Table 6.1 below).

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156 Scotland Act 1998 (Transfer of Functions to the Scottish Ministers etc.) Order 1999 (S.I. 1999/1750), article 2 and Schedule 1 Order 1999
157 Scottish Ministers can make secondary legislation for the Local Government, Police and Firefighters schemes in Scotland. Conversely, Scottish Ministers need formal approval from Her Majesty’s Treasury before they can make secondary legislation for the Scottish Teachers and NHS pension schemes.
158 Scottish Enterprise; Highlands and Islands Enterprise; Highlands and Islands Airports Ltd.; Caledonia MacBrayne Ltd.; David MacBrayne Ltd.; and the Scottish Legal Aid Board.
159 Stipendiary magistrates and tribunal chairs.
160 Pension schemes for which the Scottish Government has executively devolved or fully devolved powers. This excludes pension schemes reserved to the UK Government, such as those for Scottish Government civil servants.
<table>
<thead>
<tr>
<th>Scheme</th>
<th>Powers</th>
<th>Financial model</th>
<th>Management</th>
<th>Membership 2011-12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Teachers</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Police</td>
<td>Executively devolved. Can make secondary legislation without HMT approval, but must conform to UK primary legislation.</td>
<td>Unfunded scheme supported by Scottish DEL[^162]</td>
<td>Managed locally by 7 local authorities and the former Lothian &amp; Borders Police (now Police Scotland).</td>
<td>Total: 34,122</td>
</tr>
<tr>
<td>Firefighters</td>
<td></td>
<td></td>
<td>Managed locally by 8 local authorities.</td>
<td></td>
</tr>
<tr>
<td>Local Government</td>
<td></td>
<td>Funded scheme supported by payments under Scottish DEL</td>
<td>Managed locally by 11 local authorities.</td>
<td>Total: 457,378</td>
</tr>
<tr>
<td>Devolved public bodies</td>
<td>Fully devolved. Can make required legislation unfettered by UK Government.</td>
<td>Mixture of unfunded and funded schemes, supported by Scottish DEL</td>
<td>Managed locally, some services outsourced.</td>
<td>Total: 6,784</td>
</tr>
</tbody>
</table>

Source: Scottish Government statistics and pension scheme annual accounts

[^161]: Annually Managed Expenditure (AME) funding is spending which is set each year and contains those elements of expenditure that are not readily predictable.

[^162]: Departmental Expenditure Limits (DEL) funding forms the majority of the Scottish Government’s budget.
Scottish schemes are already wholly administered in Scotland by the Scottish Public Pensions Agency (SPPA), public service pension teams within eleven local authorities and by the Police Service of Scotland.

The SPPA is an Executive Agency of the Scottish Government, and has twenty years of experience in this field. SPPA’s mixture of multi-scheme policy and delivery responsibilities, unique in the public service pensions landscape, is a significant asset. No other body in the UK has such first-hand knowledge and experience of both designing and delivering public service pensions policy. This includes developing policy for and the management of two major sets of reforms of public service pensions in the last ten years.

That strategic focus is augmented by experienced operational staff whose management of the NHS and Teachers’ pension schemes has consistently been rated ‘low cost and high quality’ and which compares very favourably to peer service providers, according to independent, international benchmarking evidence.

Local authority pension scheme administrators in Scotland have developed experience over decades, delivering services to around half a million active, deferred and pensioner scheme members and managing multi-billion pound investment funds. It is widely accepted that, over recent decades, the average funding level of the LGPS scheme in Scotland has been significantly better than that of the scheme in England and Wales and is currently around 10% (or £2.5

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163 The Local Government Pension Scheme is administered by Aberdeen City, City of Edinburgh, Dumfries and Galloway, Dundee City, Falkirk, Fife, Glasgow City, Highland, Orkney Islands, Scottish Borders and Shetland Islands councils, a number of which also currently administer Scottish Firefighters’ and the majority of Scottish Police pensions.

164 Arrangements for administering Scotland’s Police and Firefighters’ pension schemes after April 2015 are currently under review.

165 The Agency’s predecessor, the Scottish Office Pensions Agency, was created in April 1993. Following devolution in 1999, the Agency was renamed as the Scottish Public Pensions Agency.


167 Annual participation in the independent CEM benchmarking exercise: http://www.cembenchmarking.com
billion) better funded than the scheme overall in England and Wales.\textsuperscript{168} This would suggest that the LGPS in Scotland is significantly more sustainable than its counterpart scheme in England and Wales.

273 The Scottish Government’s custodianship of public sector schemes has been able to rely on strong partnership foundations and their supporting governance structures. These include tri-partite partnership fora which have operated successfully for many years, in which scheme employer and employee representatives, including leading Trade Unions and staff associations, work alongside SPPA and other Scottish Government officials to advise Scottish Ministers on the shape of future pension scheme policy.

274 The Scottish Government continues to place great stock in such governance models. As well as the obvious significant financial implications for individuals, pensions policy helps shape individual aspirations and expectations, and so any difficulties that emerge - on making changes to scheme terms and conditions through reform, for example - are always better tackled in partnership.

Scheme types

275 As is the case elsewhere in the UK, public service pension schemes in Scotland are predominantly Defined Benefit (DB) final salary schemes.\textsuperscript{169} However, this is due to change from April 2015, as a result of wide-ranging reforms brought about by the 2013 Public Service Pensions Act. Although the UK Government has accepted the recommendation of Lord Hutton’s influential independent review of public service pensions that schemes should remain

\textsuperscript{168} This is a general estimate, as composite comparable figures for England and Wales are not readily available, a point noted by the new chair of the shadow Scheme Advisory Board for the LGPS in England and Wales, in a speech to the NAPF Local Authority Forum on 18 July 2013.

\textsuperscript{169} Exceptions for schemes under Scottish Ministers executively devolved control are arrangements for medical practitioners in the NHS scheme and for councillors in the Local Government Pension Scheme, both of which are Career Average Revalued Earnings (CARE) based. The reserved Principal Civil Service Pension Scheme has also provided a CARE scheme (Nuvos) for new employees since 2007.
Defined Benefit, it has ruled-out the continuation of final salary arrangements beyond April 2015.

276 In taking forward these reforms in Scotland, the Scottish Government has decided that the replacement schemes would be Career Average Revalued Earnings (CARE) schemes from April 2015. This recognises the fact that CARE schemes are demonstrably fairer to scheme members than final salary schemes, which tend to disproportionately reward higher paid workers. It is also in line with the recommendations of Lord Hutton’s review.

Financial models

277 There are two distinct financial models for meeting the costs of public service pensions across the UK – Unfunded, or ‘Pay As You Go’, schemes; and Funded schemes.

Unfunded (Pay As You Go) Schemes

278 Unfunded schemes are not backed by dedicated investment funds. Instead, Government receives contributions from active scheme members and their employers, which it uses as revenue to meet the cost of pensions to current pensioners. Under this model, which is unique to government-backed schemes, in-year cash surpluses of income (contributions) over expenditure (pension payments) are available for general government expenditure. Conversely, in-
year cash deficits require government to top-up the difference from other sources.

279 It is important to recognise, however, that scheme member contribution rates are set to reflect the cost of providing them with pensions in retirement. In that sense, contribution rates have no direct relationship to the amounts required for pensions currently in payment.

280 In line with Lord Hutton’s 2011 recommendations, unfunded schemes will remain the main model for underwriting the cost of public service pensions across the UK. The Scottish NHS, teachers’, police and firefighters’ schemes are unfunded schemes, as are their counterpart schemes for England, Wales and Northern Ireland, and the reserved UK civil service, armed forces and judicial schemes.

281 Although unfunded schemes provide occupational pensions for the broadest range of public sector employment types in Scotland, they account for just over half (52%) of the total number of members of Scotland’s schemes. This contrasts with the position across the UK in general, where over 60 per cent of members of public service pension schemes belong to unfunded schemes.

282 The UK Government meets any difference between income generated from pension contributions and the cost of annual pension payments for its unfunded schemes through Annually Managed Expenditure (AME), as it currently does for the Scottish NHS and teachers’ schemes. This is paid from general UK taxation, which includes contributions made by Scottish taxpayers. The Scottish

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175 A published compendium of total scheme membership for public service schemes across the UK is not currently available. This is an estimate, taken from Chart 1.A of the Independent Public Service Pensions Commission’s Interim Report: http://webarchive.nationalarchives.gov.uk/20130129110402/http://www.hm-treasury.gov.uk/d/hutton_pensionsinterim_071010.pdf. This will tend to underestimate the proportion of unfunded schemes, as it excludes a number of smaller unfunded schemes.

176 AME funding is spending which is set each year and contains those elements of expenditure that are not readily predictable.
Government currently meets the cost of its Police and Firefighters' pensions out of Departmental Expenditure Limits (DEL)\textsuperscript{177} expenditure. This is also the case for the considerably smaller unfunded Scottish Legal Aid Board scheme.

Like their counterpart schemes across the UK, the majority of Scottish unfunded schemes currently pay out more on pensions than they receive in contributions and the gap is forecast to grow in future years. The Scottish NHS scheme currently has an in-year cash surplus, but this is forecast to turn into an in-year cash deficit in 2015-16.\textsuperscript{178}

**Funded Schemes**

Unlike their unfunded counterparts, funded schemes invest employee and employer contributions to earn a return. Payments to current pensioners are paid out of cumulative investment income.

The largest Scottish scheme – the LGPS – is a funded scheme. As at 31 March 2011, its assets were valued at £23.7 billion against liabilities of £25.0 billion, giving an aggregate funding level\textsuperscript{179} of around 95% at that time. The LGPS is underpinned financially by eleven pension funds (each of which has multiple contributory investment funds). Each of these is managed separately by a specific lead local authority, on a regional basis.

All of the considerably smaller devolved public body schemes, apart from the Scottish Legal Aid Board pension scheme, are also funded schemes, similarly supported by dedicated investment funds.

\textsuperscript{177} DEL funding forms the majority of the Scottish Government’s budget, representing the provision it can plan and control over a Spending Review period.

\textsuperscript{178} Estimate provided by the Scottish Public Pensions Agency, based on assumptions as at July 2013. Those assumptions exclude the impact of HM Treasury directions on scheme valuations, which will determine employer contribution levels in public service schemes from April 2015. This is because the directions have not yet been finalised by HM Treasury.

\textsuperscript{179} The relationship at a specified date between the value of the assets and the actuarial liability.
Pension contribution rates vary from scheme to scheme. Employer contribution rates are based on actuarial reviews of each scheme (known as scheme valuations) and currently range from 11.5% to 24.7% of pensionable pay. Employee contribution rates are set by government policy (see section on public service reforms below); and/or are dependent on the outcome of scheme valuations if cost-sharing arrangements\(^\text{180}\) are in operation.

Average employee contribution rates in the main schemes in Scotland range from 6.3% for members of the LGPS in Scotland to 13.5% for members of the pre-2006 Police scheme, as shown in Table 6.2, below.

These significant differences reflect the different bases on which schemes were established. They also take account of the differential structuring of total reward packages provided to respective workforces; changes over time; and, in the case of Police and Firefighters’ pensions, shorter careers within which to build up occupational pension entitilements.

\(^{180}\) Systems for sharing the impacts of significant changes in scheme cost (upwards or downwards) between scheme employers and scheme members.
Table 6.2: Membership & contribution rates, Scotland’s main public sector schemes

<table>
<thead>
<tr>
<th>Scheme</th>
<th>Employee contribution (% pensionable pay)(^{181})</th>
<th>Employer contribution (% pensionable pay)(^{182})</th>
<th>Workforce Served</th>
<th>Active Members 2011-12</th>
</tr>
</thead>
<tbody>
<tr>
<td>NHS</td>
<td>9.2% average (Tiered by salary, from 5% to 13.3%)</td>
<td>13.5%</td>
<td>NHS Boards, GP and dental practices + direction bodies.</td>
<td>162,376</td>
</tr>
<tr>
<td>Teachers</td>
<td>8.9% average (Tiered by salary, from 6.4% to 11.2%)</td>
<td>14.9%</td>
<td>Educationalists employed by local authorities, independent schools, FE institutions and HE institutions</td>
<td>80,260</td>
</tr>
<tr>
<td>Police</td>
<td>13.5% average pre 2006 scheme (Tiered by salary from 13.5% to 14%)</td>
<td>24.7%</td>
<td>Police officers (support staff have access to the local government scheme)</td>
<td>17,596</td>
</tr>
<tr>
<td>Fire-Fighters</td>
<td>12.9% average pre-2006 scheme (Tiered by salary from 11% to 15%)</td>
<td>Pre 2006 scheme: 21.8% Post 2006 scheme: 11.5%</td>
<td>Fire-fighters (support staff have access to the local government scheme)</td>
<td>5,737</td>
</tr>
<tr>
<td>Local Government</td>
<td>6.3% average (Tiered by salary on a ‘banding’ basis, from 5.5% to 12.0%)</td>
<td>16.6% - 20.5%(^{183})</td>
<td>Local authorities, other public service bodies (such as Scottish Water) plus some third sector bodies.</td>
<td>202,338</td>
</tr>
</tbody>
</table>

Source: Scottish Government statistics and pension scheme annual accounts

\(^{181}\) Correct as at April 2013. The UK Government expects further increases in employee contributions of an average of 0.64% of pensionable pay to be applied to the main Scottish unfunded schemes from April 2014. The LGPS is exempted from these increases.

\(^{182}\) Rates for Police and Firefighters’ schemes exclude additional payments made by employers for each ill health retirement.

\(^{183}\) Contribution rates, dependent on which of the eleven LGPS funds employers belong to.
Table 6.3 sets out the most recently published full-year figures for contributions income and expenditure on pensions (2011-12). Against these is also shown the estimated net liability for all of these schemes. Because the LGPS and the majority of devolved public bodies are funded schemes, liabilities for those schemes are shown net of scheme assets. As explained above, unfunded schemes have no assets to offset against liabilities.

Table 6.3: Contributions Income, Pensions Expenditure and Net Liabilities, Scotland’s Public Sector Pension Schemes 2011-12

<table>
<thead>
<tr>
<th>Scheme(s)</th>
<th>Income from contributions (£m)</th>
<th>Expenditure on pensions (£m)</th>
<th>Net Est. Liability(^{184}) (£bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Employer</td>
<td>Employee</td>
<td></td>
</tr>
<tr>
<td>NHS</td>
<td>603.00</td>
<td>296.10</td>
<td>856.00</td>
</tr>
<tr>
<td>Teachers</td>
<td>352.30</td>
<td>151.30</td>
<td>930.70</td>
</tr>
<tr>
<td>Police</td>
<td>152.18</td>
<td>65.44</td>
<td>302.54</td>
</tr>
<tr>
<td>Firefighters</td>
<td>28.21</td>
<td>15.03</td>
<td>79.80</td>
</tr>
<tr>
<td>Local Government</td>
<td>1,029.49</td>
<td>262.81</td>
<td>1,018.26</td>
</tr>
<tr>
<td>Devolved public bodies</td>
<td>20.73</td>
<td>5.26</td>
<td>20.35</td>
</tr>
<tr>
<td>TOTAL</td>
<td>2,185.91</td>
<td>795.94</td>
<td>3,207.65</td>
</tr>
</tbody>
</table>

Source: Scottish Government statistics and pension scheme annual accounts

It should be noted that Table 6.3 takes no account of the 3.2 per cent average increase in contributions taking place between 12/13 and 14/15, which will add £250m to employee contributions.

\(^{184}\) Figures shown are taken from 2011/12 annual accounts, so do not take account of current reforms and are therefore likely to overstate liabilities. The impact of current reforms will be reflected in the next formal valuation of the PAYG schemes, as at March 2012. The net liability figure for the LGPS is taken directly from the last full actuarial valuation as at March 2011.
Public service pension reform

292 Public service pensions in Scotland are currently undergoing UK Government-driven reforms to implement a number of Lord Hutton’s recommendations, based on the UK Government’s response. These reforms overtake previous UK Government reforms introduced between 2006 and 2009, which increased Normal Pension Ages (the age at which scheme members can take the pension they have earned, unreduced), introduced cost sharing, and updated ill-health pension provisions.

293 The UK Government’s current reforms have immediate and longer-term components which introduce significant changes in:

- How schemes are valued and indexed;
- Scheme design;
- The amount public service workers pay for their pensions; and
- Scheme governance.

294 Since June 2010, policy changes include the keynote change in the basis of annual indexation for public service pensions in payment, which took effect from April 2011; a change in the Discount Rate used to value unfunded public service pensions; and increases in employee contributions by an average of 3.2% of pensionable pay in three annual increments between April 2012 and April 2014.

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186 In Scotland new Police and Firefighter schemes were introduced in 2006, with reform of the Teachers, NHS and LGPS schemes in 2007, 2008 and 2009 respectively.
187 The first two years of these increases have been implemented in Scotland for all main schemes, except the LGPS.
Longer-term reforms to be implemented from April 2015 will:

- Replace current Final Salary pension arrangements with Defined Benefit designs principally geared around Career Average Revalued Earnings (CARE) arrangements;¹⁸⁸
- Directly link Normal Pension Ages (NPA) to individuals’ SPAs; or, for Police and Fire services, setting NPA at age 60;
- Establish new cost control and sharing mechanisms to enable adjustments to be made to future benefits or contribution rates;
- Introduce a new governance regime, including a statutory role for the Pensions Regulator.

Public service pensions in an independent Scotland

Several points are clear from the discussion above.

- Scotland already has a wealth of experience and expertise in delivering public sector pensions;
- Scotland’s stewardship of public sector pensions can, in some areas, already be argued to be have delivered more sustainable schemes than their counterparts in England and Wales;
- Public sector policy has been imposed on Scotland with insufficient engagement and consultation;
- It is not possible, under devolution, to consider public sector pension scheme design strategically in the context of modern, flexible and community-focussed public services.

The rest of this chapter sets out the policy positions of this Scottish Government for public service pensions in an independent Scotland.

¹⁸⁸ The Public Service Pensions Act 2013 permits any type of scheme design other than a Defined Benefit, Final Salary scheme, though in practice all of the main schemes will be CARE schemes: http://www.legislation.gov.uk/ukpga/2013/25/contents/enacted
Public service schemes currently fully or executively devolved to the Scottish Government

298 In an independent Scotland, all public service pension rights and entitlements which have been accrued for fully or executively devolved schemes would continue to be fully protected and accessible. There would be no difference to individual contribution rates or benefit levels as a result of independence.

299 For scheme members and existing pensioners of Scotland’s schemes, there would be no change in their pension arrangements following independence. If, for example, a former NHS Scotland employee has retired, begun to draw their pension, and moves to live in England, the Scottish NHS pension scheme would continue to pay this pension, as it does at present.

300 Legislation and rules governing public service pension schemes for which the Scottish Government has full or executively devolved responsibility would continue to apply under the “continuity of law principle”. Continuity of law also means no automatic need for changes to, for example, the terms of schemes and the benefits they provide. The arrangements for these public service pension schemes would therefore continue to operate as at present, until and unless the Scottish Parliament decided to make changes.

301 Further, in the vast majority of cases, governance arrangements for these schemes would not need to change. Responsibilities would continue as they are at present, and would be carried out by organisations with significant experience of pensions administration, including the SPPA.

302 The cost of these schemes is currently met from budgets for which the Scottish Government is responsible. Independence would not require any change in the funding arrangements for the local government, police and fire schemes, or for any of the devolved public body schemes.
These are already financed from a mixture Scottish DEL budgets or, for funded schemes, the pension funds already in place.

303 **On independence, the financial management of the Scottish NHS and Teachers’ schemes would transition from HM Treasury to the Scottish Government.**

**Public service schemes currently reserved to the UK Government**

304 The Scottish Government will negotiate with the UK Government on the future operation of services that are currently delivered on a UK basis and on inward transfers of staff. Within that context, **the pensions of those staff within the current civil service and armed forces who work in Scotland’s public service would be taken on by the Scottish Government.** The Scottish Government would also take responsibility for existing pensioners and deferred members.

305 **For current UK-wide public service pension schemes, the Scottish Government proposes taking its fair share of commitments based on meeting the pension entitlements of pensioners who live in Scotland**\(^{189}\) Although the Scottish Government has set out a clear and unambiguous commitment on the pension responsibilities it will take on under independence, it also recognises that there would be a need for negotiation with the UK Government as part of the associated transfer of assets and liabilities.

306 **In the transition period to independence, arrangements would be made for the continued administration of pensions for Scottish members of reserved public service pension schemes,** allowing for a smooth transition to the relevant Scottish body.

\(^{189}\) These could include its share of liabilities related to schemes not already referred to in this paper, such as a share of public debt associated with Royal Mail pension liabilities.
On independence, the Scottish Government would ensure that the public service pensions of members of currently reserved schemes who live in or work for Scotland – for example, the armed forces and civil servants - continued to be paid in full. These pensioners would see no difference in the pension they received as a result of independence other than, at the appropriate time, a change in the body responsible for looking after those payments (the SPPA). The same applies to those who have deferred their public service pension – this would be fully honoured in an independent Scotland.

In sum, the Scottish Government considers that a key priority for an independent Scottish Government should be to ensure that public service pensions are affordable, sustainable and fair for the public service workers and their dependents who benefit directly from their provision. Doing so will help ensure that the public sector remains well-skilled and well-motivated as its employees deliver essential services across Scotland. This Scottish Government will continue to work in partnership with its key stakeholders to maintain such provision.

Future pensions policy in an independent Scotland

On independence, the pensions expertise that Scotland benefits from at the moment would be retained and it would be for future Scottish Governments to set policy for public service pensions. Scotland would have in its own hands the powers to undertake a strategic consideration of scheme design to produce a fair and flexible system that works for public sector employees, public service provision, the tax-payer, and the overall public finances. This may, of course, be a long-term prospect, bearing in mind the current substantive changes to public sector pensions. So in the short term, continuity and stability would be prioritised to reassure public servants of their current financial position as regards pensions.
310 There are a number of areas where future governments with full powers over public service pensions might wish to develop new policy.

311 Independence would make it possible for a future Scottish Government to consider the pension terms of all ‘uniformed’ services, including whether they should be able to access their occupational pension at a consistent age. For example, this would enable proper consideration of whether, as now, it is right that Prison Officers should wait until SPA to draw their occupational pensions, in common with Civil Servants and Local Government workers, or whether it would be more equitable for their Normal Pension Age to be in line with that of Police Officers and Firefighters. Independence would enable a future Scottish Government to consider such issues for other workers in ‘blue light’ services such as Ambulance staff and paramedics.

312 A future Scottish Government with a full range of powers at its disposal could also more fully consider the impact SPA policy is having on the working and retirement patterns of Scotland’s public servants, including hard-working nurses, teachers and doctors.

313 This Scottish Government’s proposal to establish an Independent Commission on the State Pension Age, which would examine the UK Government’s timetable for increasing SPA to 67 between 2026 and 2028, would also have implications for the Normal Pension Age of public sector workers.

314 A wide range of differing arrangements apply to public service pension schemes in Scotland. The Scottish Government considers that, despite the findings of the UK Government’s own independent Commission, the current round of reforms implemented by the UK Government has done little to simplify the public service pensions landscape and that those reforms bring greater divergence in individual schemes’ revaluation and accrual rates, making it harder for people to understand how the benefits on offer would change over time. Independence would allow a future Scottish Government to make it

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190 [http://cdn.hm-treasury.gov.uk/hutton_final_100311.pdf](http://cdn.hm-treasury.gov.uk/hutton_final_100311.pdf)
easier and more attractive for public service workers to save for retirement. It could also work with stakeholders to examine policies to improve transparency and remove unnecessary differences between schemes, while continuing to recognise the unique nature of the various arms of public service.
<table>
<thead>
<tr>
<th>Issue</th>
<th>Status Quo</th>
<th>Proposals for Independence</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. State Pensions</strong></td>
<td>Basic State Pension retained for those over retirement age. From April 2016, new pensioners will receive the single-tier pension.</td>
<td><strong>Basic State Pension</strong> retained for those over retirement age. The value of the BSP is estimated to be at least £118.60 in 2016/17. From April 2016, new pensioners will receive the Scottish single-tier pension.</td>
</tr>
<tr>
<td><strong>2. State Pensions</strong></td>
<td>All Additional State Pension will be paid and uprated in line with CPI inflation as now.</td>
<td>All <strong>Additional State Pension</strong> will be paid and uprated in line with CPI inflation as now.</td>
</tr>
<tr>
<td><strong>3. State Pensions</strong></td>
<td>Basic State Pension will be uprated by Triple Lock to 2015.</td>
<td>The <strong>Basic State Pension</strong> will be <strong>uprated by Triple Lock</strong>, for at least for the first term of an independent parliament.</td>
</tr>
<tr>
<td><strong>4. State Pensions</strong></td>
<td>The single-tier pension would be uprated by average earnings.</td>
<td>The <strong>single-tier pension</strong> will be <strong>uprated by the Triple Lock</strong> for at least for the first term of an independent parliament.</td>
</tr>
<tr>
<td><strong>5. State Pensions</strong></td>
<td>The single-tier pension is estimated to be at £158.90 per week, if uprated by at least 2.5 per cent up to 2016/17.</td>
<td>The <strong>single-tier pension</strong> is to be <strong>set initially at £160 per week</strong>, or at the level of the UK single-tier pension if this is higher.</td>
</tr>
<tr>
<td><strong>6. State Pensions</strong></td>
<td>Guarantee Credit uprated by average earnings.</td>
<td><strong>Guarantee Credit</strong> would be <strong>uprated by the Triple Lock</strong> for at least for the first term of an independent parliament.</td>
</tr>
<tr>
<td><strong>7. State Pensions</strong></td>
<td>Savings Credit to be abolished for new pensioners from 2016 on the move to the single-tier.</td>
<td><strong>Savings Credit</strong> would be retained for all pensioners and uprated by earnings.</td>
</tr>
<tr>
<td>Issue</td>
<td>Status Quo</td>
<td>Proposals for Independence</td>
</tr>
<tr>
<td>------------</td>
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</tr>
<tr>
<td>8. State</td>
<td>UK White Paper sets out review of SPA every five years.</td>
<td>An Independent Commission would be established in the first year of an independent parliament. This would advise on the appropriate pace of increase in the Scottish SPA (beyond 66).</td>
</tr>
<tr>
<td>Pensions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>9. State</td>
<td>UK SPA will increase for women to 65 (equalisation) by Dec 2018. SPA for</td>
<td>The Scottish Government will reserve judgment on the UK Government’s timetable for the increase in SPA to 67 until it has considered the findings of the Independent Commission.</td>
</tr>
<tr>
<td>Pensions</td>
<td>men and women will increase to 66 by Oct 2020. And to 67 between 2026-2028.</td>
<td></td>
</tr>
<tr>
<td>10. State</td>
<td>Some spouses will be worse off because husband/wife State Pension</td>
<td>Provision would be retained based on spouse contributions for 15 years after the introduction of the single-tier pension.</td>
</tr>
<tr>
<td>Pensions</td>
<td>entitlement will not be able to be used under the single-tier pension.</td>
<td></td>
</tr>
<tr>
<td>11. State</td>
<td>Individuals will continue to be able to defer their BSP and single-tier</td>
<td>Individuals will continue to be able to defer their BSP and single-tier pensions to receive a higher payment at a later date.</td>
</tr>
<tr>
<td>Pensions</td>
<td>pensions to receive a higher payment at a later date.</td>
<td></td>
</tr>
<tr>
<td>12. State</td>
<td>DWP Pension Centres in Motherwell and Dundee are responsible for paying</td>
<td>Pension Centres in Motherwell and Dundee will remain responsible for paying State Pensions to everyone in Scotland (and some in England, for a transitional period).</td>
</tr>
<tr>
<td>Pensions</td>
<td>State Pensions to everyone in Scotland and some in England.</td>
<td></td>
</tr>
<tr>
<td>Issue</td>
<td>Status Quo</td>
<td>Proposals for Independence</td>
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</tr>
<tr>
<td><strong>13. State Pensions</strong></td>
<td>Entitlement to a UK State Pension is based on years of NI credits built up in the UK.</td>
<td>People living in Scotland on independence would be entitled to the Scottish State Pension based on years of NI credits built up in the UK. After this date, entitlement built up in Scotland would accrue to the Scottish State Pension.</td>
</tr>
<tr>
<td><strong>14. Private Pensions</strong></td>
<td>Entitlements to private pensions as now.</td>
<td>No change to individuals’ private pension rights and accrued entitlements.</td>
</tr>
<tr>
<td><strong>15. Private Pensions</strong></td>
<td>UK-wide pension schemes do not operate as cross-border unless shared with another EU State.</td>
<td>UK-wide pension schemes would qualify as cross-border schemes, where at least some scheme members were employed in Scotland. <em>This would be resolved by negotiating sensible transitional arrangements.</em></td>
</tr>
<tr>
<td><strong>16. Private Pensions</strong></td>
<td>Pensions Regulator and Financial Conduct Authority provide protection for private sector pension scheme members.</td>
<td>The Scottish Government would set up a Scottish Pensions Regulator which would maintain a pan-UK approach to the regulation of private pensions.</td>
</tr>
<tr>
<td><strong>17. Private Pensions</strong></td>
<td>Pension Protection Fund (PPF) continues.</td>
<td><em>This Scottish Government’s preference is to maintain current arrangements for the PPF, but with the option of establishing a Scottish PPF.</em></td>
</tr>
<tr>
<td><strong>18. Private Pensions</strong></td>
<td>Financial Assistance Scheme (FAS) continues.</td>
<td><em>This Scottish Government’s preference is to maintain current arrangements for the FAS.</em></td>
</tr>
<tr>
<td>Issue</td>
<td>Status Quo</td>
<td>Proposals for Independence</td>
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<tr>
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</tr>
<tr>
<td><strong>19. Private Pensions</strong></td>
<td>Complaints are handled by both the Financial Ombudsman Service and the Pensions Ombudsman.</td>
<td>An independent Scotland could create a single Scottish Ombudsman Service; OR, financial services complaints could be handled separately by a Scottish Financial Services Ombudsman, combining the current functions of the Financial Ombudsman Service and the Pensions Ombudsman.</td>
</tr>
<tr>
<td><strong>20. Private Pensions</strong></td>
<td>Automatic enrolment being rolled out across UK from Oct 2012.</td>
<td>Arrangements continue in Scotland as planned for UK. Future choices on this for future Scottish Governments.</td>
</tr>
<tr>
<td><strong>21. Private Pensions</strong></td>
<td>National Employment Savings Trust (NEST) provides a workplace scheme for people on low / moderate incomes.</td>
<td>A Scottish equivalent of NEST would be set up.</td>
</tr>
<tr>
<td><strong>23. State, Private and Public Pensions</strong></td>
<td>Limited pension information is provided.</td>
<td>An independent Scottish Government would be able to act to improve pension information.</td>
</tr>
<tr>
<td><strong>24. Private Pensions</strong></td>
<td>No announced plans for changes to tax relief.</td>
<td>Tax relief arrangements continue at point of independence. However, there will be opportunities for a future Scottish Government to reform tax relief arrangements.</td>
</tr>
<tr>
<td>Issue</td>
<td>Status Quo</td>
<td>Proposals for Independence</td>
</tr>
<tr>
<td>-------</td>
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<td>---------------------------</td>
</tr>
<tr>
<td>25. Public Sector Pensions</td>
<td>All rights and entitlements to public service pensions continue to be protected.</td>
<td>All rights and entitlements to public service pensions continue to be protected.</td>
</tr>
<tr>
<td>26. Public Sector Pensions</td>
<td>Responsibility for the financial management of the Scottish NHS and Teachers schemes is held by HM Treasury.</td>
<td>Responsibility for the financial management of the Scottish NHS and Teachers schemes is held by the Scottish Government.</td>
</tr>
<tr>
<td>27. Public Sector Pensions</td>
<td>UK Government has responsibility for the pensions of some public servants working in Scotland.</td>
<td>The Scottish Government has responsibility for the pensions of all public servants working in Scotland, including civil servants and military staff.</td>
</tr>
<tr>
<td>28. Public Sector Pensions</td>
<td>The normal pension age for most public servants is their State Pension Age.</td>
<td>Future Scottish Governments could more fully consider the impact State Pension Age policy is having on the working and retirement patterns of Scotland’s public servants.</td>
</tr>
<tr>
<td>29. Public Sector Pensions</td>
<td>Uniformed services receive pensions at different ages.</td>
<td>Future Scottish Governments could consider the pension terms of all ‘uniformed’ services, including whether they should be able to access their occupational pension at a consistent age.</td>
</tr>
<tr>
<td>30. Public Sector Pensions</td>
<td>Normal Pension Age begins to increase to 67 from 2026.</td>
<td>This Scottish Government would reserve judgement on the SPA move to 67 until an independent commission on SPA had reported. This would have implications for Normal Pension Age.</td>
</tr>
</tbody>
</table>
ANNEX B: Summary of Cost Implications

The table below provides a summary of the costs of the policies proposed by the current Scottish Government for State Pensions in an independent Scotland. These figures are provisional and the Scottish Government asks DWP to make its models available to enable production of final costings.

<table>
<thead>
<tr>
<th>Policy proposal</th>
<th>Cost Implications</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maintaining Savings Credit</td>
<td>The estimated cost for this is £8.5m in 2016-17, relative to a baseline where Savings Credit is abolished. Total costs will increase over time.</td>
</tr>
<tr>
<td>Uprating the Basic State Pension and single-tier pension using the Triple Lock</td>
<td>According to the DWP White Paper on the single-tier pension, cost implications from uprating the Basic State Pension and the single-tier pension using the triple lock are only significant as a proportion of GDP from around 2040. At this point, State Pension expenditure based on the single-tier with the Triple Lock is projected to be 7.5 per cent of GDP in Great Britain (the same as under the current system with the triple lock) compared to 7.3 per cent if the single-tier was uprated by average earnings. ¹⁹¹</td>
</tr>
<tr>
<td>Uprating Guarantee Credit using the Triple Lock</td>
<td>Moving to the triple lock would increase costs in the long-run, with the cost increases dependent on the path of earnings growth and inflation. In the short-run to 2017-18, this policy is unlikely to increase costs compared to the current situation (uprating by earnings), as the earnings growth forecast is above the CPI forecast.</td>
</tr>
</tbody>
</table>

Those expecting to receive a State Pension based on their partner’s NI contributions should continue to do so for the 15 years following the introduction of the single-tier pension. Under the current system individuals can increase their State Pension entitlement based on their partner’s contribution record. This applies to current/former partners, alive or deceased. Under the single-tier pension, pension entitlement is based on an individual’s own contributions. In Scotland fewer than 2,600 women are estimated to receive a lower pension by 2020 as a result of this option being abolished. Therefore the cost of maintaining the option of increasing State Pension entitlement based on a partner’s contribution history is estimated to be low.

The latest available data on State Pension and Pension Credit expenditure in Scotland is for 2011-12. Expenditure in 2011-12, and the projected expenditure for 2016-17 under current UK Government plans, are set out below.

<table>
<thead>
<tr>
<th></th>
<th>2011-12</th>
<th>2016-17</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Pension Expenditure</td>
<td>£6,550m</td>
<td>£7,600m</td>
</tr>
<tr>
<td>Pension Credit Expenditure</td>
<td>£780m</td>
<td>£570m</td>
</tr>
</tbody>
</table>

Notes: all figures are 2013-14 prices. 2016-17 projections are based on Scottish share of GB expenditure in 2011-12
Source: DWP Benefit expenditure by country, region and local authority from 2000/01 to 2011/12
DWP Medium term forecast for all DWP benefits