

# Shetland Islands Council

## Active Members - Pensions Newsletter

### August 2024

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Welcome to the August 2024 Active Members' Newsletter. The purpose of this newsletter is to keep all of our active members informed about the Shetland Islands Council Pension Fund and Local Government Pension Scheme (LGPS) matters in general.

## FUND UPDATE – 2023 Actuarial Valuation

The results of the 2023 actuarial triennial valuation, undertaken by Hymans Robertson in 2023/24, saw a significant positive change to the Pension Fund's funding level. The valuation confirmed the Pension Fund had achieved a 120% funding level, up from 92% in 2020. The triennial valuation includes setting employers rates for the next three years. The increased funding level saw an approved reduction to employer contributions.

The actuarial triennial valuation has no effect on scheme members or their pensions. The healthy state of the Pension Fund should provide you with reassurance of the absolute security it provides for your pension.

## LGPS PENSION INCREASE 2024

This year, the most important thing is probably to remind you that your pension, when it comes into payment, is fully protected against inflation. The pension increase for 2024 was **6.70 %**. This follows increases of 10.1% for 2023, 3.10% for 2022, 0.5% for 2021 and 1.7% for 2020.

## McCLOUD JUDGEMENT

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

The Court of Appeal ruled that younger members of the Judges' and Firefighters' Pensions Schemes had been discriminated against because the protections did not apply to them.

The Government has confirmed changes will be made to all main public sector pension schemes, including the LGPS, to remove this age discrimination. This ruling is often called the "McCloud Judgement". On 1 October 2023 the retrospective remedy to address these age inequalities came into force.

**To aid review of eligibility, scheme members were written to in December 2023 asking to provide confirmation of any pension membership held in other public sector pension schemes that was not transferred to Shetland Islands Council Pension Fund. If this applies to you, it's important that you provide the pension membership details to us to check whether you qualify for protection. If you do not it may be to your disadvantage.**

**If you are identified as a protected member, you do not require to make a claim, we will automatically do the check. If you are contacted by a third party organisation selling a service to help you claim additional pension, you should not engage with them.**

## **PENSION DASHBOARD**

The Pension Dashboard is a major UK industry development which will allow individuals to access information about all their pensions, including the State Pension, for free, in one place online. The Pension Dashboard will also reunite savers with lost or forgotten pensions. This will help increase individuals' awareness and understanding of their pension information and estimated income at retirement, building a greater sense of individual control and ownership.

All pension schemes and providers in scope are legally required to be connected to the pensions dashboards ecosystem by 31 October 2026. A staged timetable for connection has been put in place. LGPS administering authorities require to connect to the digital architecture by 31 October 2025. We are in the process of preparing for this so we are ready for our connection slot.

## **PENSION SCAMS – Stay safe online and on calls**

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

- \* help you access your pension fund
- \* offer immediate access to cash
- \* provide a pension loan

### **Keep your pension safe**

If you are cold-called, emailed or text messaged with a deal to unlock or review your pension, don't touch it. Please read the enclosed leaflet to find out more information about the dangers of pension scams.

If you suspect a scam, call Action Fraud on 0300 123 2040 or visit their website at: [www.actionfraud.police.uk](http://www.actionfraud.police.uk)

You can stop cold-calling to your landline and mobile at:  
[www.tpsonline.org.uk/register](http://www.tpsonline.org.uk/register)

## **PENSION SCAMS – restrictions on pension transfers**

Regulations, introduced with effect from 30 November 2021, provides further legal restrictions on a member's statutory right to a transfer. These regulations give pension administering authorities tools to act if they have any suspicions about the circumstances that have led a member to request a transfer.

If you decide to transfer your pension benefits to another arrangement, your application will be assessed against certain checks. The checks are designed to protect pension scheme members and their savings from pension scams.

## STRONGER NUDGE TO PENSION GUIDANCE

The Nudge Regulations came into force on 1 June 2022. The Government has introduced this legislation to ensure that scheme members are made aware of Pension Wise Guidance as part of the application process for taking or transferring their defined contribution (DC) pension savings.

Pension Wise is a government service from Money Helper that offers free, impartial pension guidance about DC pension options. Members are able to opt out of taking Pension Wise Guidance.

In brief, being an LGPS member, the Nudge Regulations only apply if you have an in-house AVC Fund and you withdraw or transfer your AVC Fund.

## MONEY HELPER

The Pension Advisory Service, Pension Wise and the Money Advice Service have been replaced with a single service called Money Helper.

Money Helper is a free to use service, backed by the government providing independent support and guidance to help people understand their pension options. Visit the Money Helper Service:

- Website: <https://www.moneyhelper.org.uk/en>
- Phone: 0800 011 3797/ +44 20 7932 5780

## INCREASE IN NORMAL MINIMUM PENSION AGE

The Finance (No.2) Bill 2021/22 introduced an increase in the normal minimum pension age (NMPA) to age 57 from 6 April 2028. Members of registered pension schemes, who before 4 November 2021, had a right to take their entitlement to a benefit under their scheme before age 57, may have a protected minimum pension age. We do not know yet whether the LGPS rules will be amended to implement members earlier protected pension age.

## FREEDOM AND CHOICE - TRANSFERS

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

As the Local Government Pension Scheme (LGPS) is a public sector Defined Benefit (DB) Scheme, Freedom and Choice does **not** apply. However, if you have an Additional Voluntary Contribution (AVC) Fund, this is a Defined Contribution (DC) arrangement, and Freedom and Choice can apply.

Before retiring, members do have the right to transfer all of their pension rights out of the LGPS to a DC arrangement offering “flexible benefits” to then access their pension benefits from age 55. Members must elect for a transfer to proceed at least 12 months before their normal pension age (NPA) in the LGPS (this being the earliest NPA if they have more than one period of membership).

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

## ADDITIONAL VOLUNTARY CONTRIBUTIONS – (AVCs)

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

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

## TAX – LIFETIME ALLOWANCE (LTA) REPLACED WITH LUMP SUM ALLOWANCE (LSA) & LUMP SUM AND DEATH BENEFIT ALLOWANCE (LSDBA)

The government announced in its March 2023 budget that the Lifetime Allowance (LTA) would be abolished from 6 April 2024. This has been replaced with the following:

- \* Lump Sum Allowance (LSA), and
- \* Lump Sum and Death Benefit Allowance (LSDBA)

The LSA is set at £268,275 and limits the amount of tax-free cash an individual can take as a pension commencement lump sum. Members with a protected right to a higher pension commencement lump sum on 5 April 2023 will continue to be able to access this right.

The LSDBA is set at £1,073,100 and limits the amount of tax-free cash that can be paid in respect of an individual when they die

## TAX – ANNUAL ALLOWANCE (AA)

The Annual Allowance (AA) is the amount by which the value of your pension can grow from one year to the next without having to pay a tax charge. The AA for 2023/24 has increased to £60,000 (2022/23 £40,000). Anything that exceeds this amount is liable for a tax charge, although you can use any unused AA in the previous 3 years to offset any tax liability.

If you have accessed a Defined Contribution Pension in 2023/24 (e.g. Additional Voluntary Contributions (AVCs)) you will have triggered the Money Purchase Annual Allowance (MPAA) which is now set at £10,000 a year (2022/23 £4,000). The MPAA only applies to Defined Contribution Pension Schemes and not to Defined Benefit Pension Schemes (e.g. LGPS).

**We will inform you by 6 October 2024 if your LGPS pension savings in 2023/24 exceeds the £60,000 Annual Allowance amount.**

## LTA/AA - MORE INFORMATION

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

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

## MANAGING YOUR DATA

To comply with regulations the Pension Fund shares limited information with other public bodies to prevent and detect fraud.

### LGPS National Insurance Database

This is a data sharing project with all other Local Government Pension Funds in Scotland. It allows funds to identify if a member has any LGPS records elsewhere in the country; information which is necessary to help administer the pension scheme and calculate pension benefits.

### National Fraud Initiative (NFI)

The Fund has a legal obligation to participate in the NFI, a counter-fraud exercise led by Audit Scotland. It compares information about individuals held by different public bodies to identify circumstances that might suggest the existence of fraud or error.

## TELL US ONCE

This service allows the Fund to be automatically notified when a death is registered.

The Fund does not sell any information to third parties and data collected and shared is done in line with the Data Protection Act 2018 and the General Data Protection Regulations 2018. More information on how your data is held and processed can be found online in our Privacy Notice at:

<https://www.shetlandpensionfund.org/website-privacy-policy>

## ARE YOU PROTECTING YOUR LOVED ONES?

### Automatic Spouse's/Children's Pensions

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

### Lump Sum paid on Death

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

If you are also a deferred or pensioner member of the LGPS in Scotland, the death grant payable is the higher of your death grants. These amounts are not added together.

The LGPS regulations do not specify who a lump sum is paid to on death, and the lump sum does not form part of your estate even if you have a will. By completing a nomination form you can help us pay any lump sum quickly in line with your wishes.

Your current nomination details are included on your 2024 Pension Statement. Please check to ensure they are up-to-date.

***If you have not completed a nomination form or want to change your nomination details, a form can be obtained from our website at:***

- <https://www.shetlandpensionfund.org/media/plyjc0sl/nomination-form-beneficiary.pdf> , or
- by contacting the Pensions Section. Contact details are at the end of this newsletter.

## **THE LOCAL GOVERNMENT PENSION SCHEME (LGPS) AND STOCK MARKETS**

Towards the end of last year, there was a lot of uncertainty and talk around financial markets, the economy and pension funds. We'd like to reassure you that your pension with us is safe.

Your pension is not based on investments or their performance and any financial volatility will not affect its value. The Fund remains in a financially strong position and your pension is guaranteed by law.

### **SCHEME YEAR 2023/24**

In the course of the year the Shetland Islands Council Pension Fund's value increased from **£652 million** at 31 March 2023 to **£767 million** at 31 March 2024.

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

	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>
<b>ACTIVE</b>	3,634	3,625	3,547
<b>DEFERRED</b>	2,503	2,608	2,755
<b>PENSIONERS/DEPENDANTS</b>	2,321	2,429	2,528
<b>TOTAL</b>	<b>8,458</b>	<b>8,662</b>	<b>8,830</b>

## **INVESTMENT PERFORMANCE**

During the first half of the financial year the investment markets were focused on inflation figures which remained stubbornly high. The central banks in the UK, Europe and the US tried to combat inflation by raising interest rates, which led to economic recession concerns. The ongoing conflict in Ukraine was still a global concern, while also being a factor in the increase in global energy and food supply costs. These factors led to equity markets being rather subdued over the first half of the financial year. This is in contrast to the second half of the financial year, as investment markets rallied strongly as inflation started falling, and central banks paused interest rate rises. Markets believed that interest rates had peaked and could possibly start easing in 2024. During October saw the start of conflict between Gaza and Israel which is still ongoing, with concern that it might spread to other countries. Property markets struggled throughout the year as the cost of finance made investing more expensive for investors.

Equity markets produced the best returns in 2023/24. There were mixed returns between the main equity markets but North America was the best performing

market with a return of 26.3%, down to Pacific (Ex Japan) at 3.0%. Bond markets stabilised as interest rates came to an end. Property struggled as interest rates increased the cost of borrowing for potential investors. Cash returned 5.0% which was in line with interest rates. The Pension Fund's overall investment return for 2023/24 was 15.0%.

The start of the 2024/25 financial year continues to be dominated by concern over the outlook for interest rates, as economic figures point to interest rates possibly remaining higher for longer.

## PENSION FUND ACCOUNTS 2023/24

The Pension Fund accounts have been prepared with regard to statute and the Code of Practice on Local Authority Accounting in the United Kingdom and summarise the transactions and net assets of the Fund. An extract from the Pension Fund accounts is shown in this leaflet, with a full copy of the accounts being available from mid July 2024 on the Council's website at the following link: [http://www.shetland.gov.uk/about\\_finances/](http://www.shetland.gov.uk/about_finances/)

At the end of March 2024 the Pension Fund was invested as follows:

		£000	%
Equities	Actively Managed	312,447	40.8
	Passive	286,895	37.4
Infrastructure	Diversified Growth	67,147	8.8
Private Credit		27,661	3.6
Property	Property	62,205	8.1
	Property Debt	6,528	0.8
Cash		3,773	0.5
Total		<u>766,656</u>	<u>100.0</u>

## PERFORMANCE

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

	2019/20	2020/21	2021/22	2022/23	2023/24	3 Year Annualised	5 Year Annualised
	%	%	%	%	%	%	%
Fund Return	(7.3)	28.4	11.6	(0.5)	15.0	8.5	8.7
Benchmark	(3.6)	23.8	13.1	(0.5)	17.1	9.6	9.5
Performance	<u>(3.7)</u>	<u>4.6</u>	<u>(1.5)</u>	<u>0.0</u>	<u>(2.1)</u>	<u>(1.1)</u>	<u>(0.8)</u>

2022/23		Notes	2023/24	2023/24
£000			£000	£000
	<b>Dealings with members, employers and others directly involved in the scheme</b>			
(23,024)	Contributions	6	(24,769)	
(2,346)	Transfers in from other pension funds	7	(1,539)	
(4)	Other income		0	
<b>(25,374)</b>	<b>Total Additions</b>			<b>(26,308)</b>
17,543	Benefits payable	8	20,209	
2,188	Payments to and on account of leavers	9	1,702	
9	Other payments		6	
<b>19,740</b>	<b>Total Withdrawals</b>			<b>21,917</b>
<b>(5,634)</b>	<b>Net (additions)/withdrawals from dealings with members</b>			<b>(4,391)</b>
2,997	Management expenses	10		3,144
<b>(2,637)</b>	<b>Net additions including Fund Management Expenses</b>			<b>(1,247)</b>
	<b>Return on investments</b>			
(6,336)	Investment income	12		(8,019)
8,454	(Profits) and losses on disposal of investments and changes in market value of investments	15b		(98,253)
<b>2,118</b>	<b>Net return on investments</b>			<b>(106,272)</b>
<b>(519)</b>	<b>Net (increase)/decrease in the net assets available for benefits during the year</b>			<b>(107,519)</b>
<b>(659,948)</b>	<b>Opening net assets of the scheme</b>			<b>(660,467)</b>
<b>(660,467)</b>	<b>Closing net assets of the scheme</b>			<b>(767,986)</b>

As at 31 March 2023		Notes	As at 31 March 2024
£000			£000
	<b>Investment Assets</b>		
652,306	Investment Assets	13	766,656
<b>652,306</b>	<b>Total Investment Assets</b>		<b>766,656</b>
	<b>Non-current Assets</b>		
116	Long-term debtors	20a	109
<b>116</b>	<b>Total Non-current Assets</b>		<b>109</b>
	<b>Current Assets</b>		
1,925	Debtors	20	2,130
8,451	Bank current accounts	20	1,675

10,376	<b>Total Current Assets</b>	3,805
	<b>Current Liabilities</b>	
(697)	Sundry creditors	(593)
(1,634)	Benefits payable	(1,991)
(2,331)	<b>Total Current Liabilities</b>	(2,584)
660,467	<b>Net assets of the scheme available to fund benefits at the reporting year end</b>	767,986

*The 2023/24 figures are unaudited.*

## COMMENTS AND SUGGESTIONS

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

## ANY QUESTIONS?

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

## ARE YOUR PERSONAL DETAILS UP TO DATE?

Please do remember and let us know if you change your:

- Name, Marital Status, Gender or Address

## CONTACTING THE SHETLAND ISLANDS COUNCIL PENSIONS SECTION

**Telephone: 01595 74 4644**

**Email: [Pensions-FinanceServices@shetland.gov.uk](mailto:Pensions-FinanceServices@shetland.gov.uk)**

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

**Visiting:** Where possible, we ask that you call in advance to make an appointment so that the right person is available to speak with you regarding your pension query.

## USEFUL WEBSITES FOR LGPS INFORMATION

The Shetland Islands Council Pension Fund: [www.shetlandpensionfund.org](http://www.shetlandpensionfund.org)

The LGPS Scotland: [www.scotlgpsmember.org](http://www.scotlgpsmember.org)

***The information in our newsletters, website and letters do not override any legislation which will prevail in any dispute. These are not intended to constitute financial advice. Our leaflets and website provide a guide to the Local Government Pension Scheme in Scotland and does not cover every circumstance. They should be used as a guide only and are for information only.***