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HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

John Swinney MSP
Cabinet Secretary for Finance Employment
and Sustainable Growth
St Andrew's House
Regent Road
Edinburgh EH1 3DG

12 October 2012

Dear John,

PUBLIC SERVICE PENSION REFORM

Thank you for your letter of 7 September 2012 regarding the Public Service Pensions Bill which was introduced in Parliament on 13 September.

2. I understand that our officials have begun discussions on the Memorandum of Understanding. This Memorandum is intended to ensure that HM Treasury is kept appropriately informed of the pension arrangements in Scotland, and to provide assurance and certainty to the Scottish Government that the schemes created, and any amendments to them, will not lead to adjustments to Scottish budgets.

3. I hope that we will be able to reach agreement on a draft Memorandum in good time, in order to provide the necessary reassurance to both Governments and to enable Parliamentary debates on the Bill to take place against a background of greater certainty over the likely administrative arrangements.

4. The Public Service Pensions Bill sets out that a scheme's normal pension age must be the same as the person's state pension age, or 65 if that is higher (except for police officers, firefighters and the armed forces). Lord Hutton regarded this increase in pension age, and link to state pension age, as being essential for the equitable sharing of the risks and costs of public service pension provision between employees and employers, and ultimately taxpayers. Any

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proposal to allow unreduced pension to be taken before a person's state pension age is contrary to this principle of fairness.

5. You set out a proposal from stakeholders that suggested paying for this unreduced early retirement through reduced accrual or revaluation rates. I'm unclear if this is a position you support yourself. However, if you did proceed with this proposal, scheme members would receive an accrual or revaluation rate significantly less generous than otherwise. This would negatively affect the lowest paid in particular, as those public servants who cannot afford to retire before they receive their basic State Pension will subsidise those who can afford to forgo the last few years of accrual. This does not seem right. This is why I rejected this approach in the discussions in UK Government managed schemes, and it is why the Bill does not allow such adjustments to the normal pension age, as set out in Clause 9(5)(a).

6. You may wish to instead consider a compromise that mitigates these effects, and was welcomed in our discussions. This is to offer more generous early retirement factors such as those permitted in the UK schemes. For example, teachers with a NPA above age 65 will have early retirement factors of three per cent per year (instead of the actuarially fair value of around five per cent) for up to three years.

7. You also asked about the implementation date. You will have seen that the Bill requires all existing schemes to close on 5 April 2015. So from a legislative perspective there is no room for delay in the implementation of the new scheme designs. The UK administered final scheme designs provide an excellent basis for discussion in Scotland. However, if you should choose to vary from these scheme designs the Bill sets out clearly the broad constraints. I would be grateful if you could confirm your intentions, and I have instructed my officials to assist Scottish colleagues in this process.

8. As normal, Scottish budgets will be based on the funding position in England. As such, should you choose to provide more generous schemes in



Scotland, the Scottish Government would have to reallocate resources to pay for the difference. Similarly, if you provide less generous schemes in Scotland this would release additional resources to be deployed elsewhere to meet your priorities.

9. I wrote to you on 3 July to inform you of the Government's policy for reforming smaller public body pension schemes and asked if you could confirm whether you would like Scottish public body schemes to be reformed in line with that policy. Unfortunately I did not receive a response in time for any Scottish public bodies to be included in the Bill at introduction. However, it may be possible to add those schemes you wish to be included by Government amendment or once the Bill has commenced. I also note that I have not received a reply to my letter of 4 September requesting that an LCM be laid. I would be grateful to hear news of this as soon as possible to facilitate planning for the passage of the Bill through Parliament.

10. Finally, if there are any particular amendments the Scottish Government would like us to consider to the Bill, we would need to know of them by second reading of the Bill due by the end of October. Failing this they would need to be put forward in the New Year, once the Bill is in the House of Lords.

11. I am copying this letter to the Secretary of State for Scotland.

Bert wishes
A handwritten signature in black ink, appearing to read 'Danny Alexander'.

DANNY ALEXANDER

