Scottish Pensions Bulletin

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Transparency is the key to driving down pension costs

The Financial Conduct Authority’s final report confirms that price competition is weak in a number of areas of the investment industry. Despite a large number of firms operating in the market, the FCA’s analysis found evidence of sustained, high profits over a number of years. Average profit margins are a staggering 36% and average pay is £289,000 pa.

The FCA also found that investors are not always clear what the objectives of funds are, and fund performance is not always reported against an appropriate benchmark. Finally, the FCA found concerns about the way the investment consultant market operates.

> “For some consultants in our sample we have found a significant positive association between receiving gifts and/or hospitality and the likelihood of providing a high rating, as well as significant positive association between revenues received from asset managers and the likelihood of providing a high rating”. (FCA report)

The FCA has established a cost disclosure working group chaired by Chris Sier who has worked with UNISON on this issue for several years. They have published a policy statement requiring greater transaction cost disclosure for workplace pensions.

This builds on the earlier work done in the Local Government Pension Scheme (LGPS) with its transparency code. Scottish LGPS funds were asked a year ago to promote this code. At UNISON Scotland’s recent pension seminar, pension board members reported limited engagement on this issue by their funds. This is being followed up by the SLGPS Scheme Advisory Board. At a time when pension costs are under pressure, everything possible should be done to discover the true cost of investments. No one would buy a car on list data alone; you would want to know the actual performance. Investment costs are no different.

Pension age up again

The UK Government sneaked out its decision on the Cridland Review on the State Pension Age (SPA) before the summer recess. Under the current law, the State Pension Age (SPA) is due to increase to 68 between 2044 and 2046.

The government has announced plans to bring this timetable forward, which means the SPA will increase to 68 between 2037 and 2039.

The normal retirement age of all public sector pension schemes are linked to the SPA by UK legislation.

Same sex partner pensions

The court decision in Walker v Innospec Ltd looked at a defined benefit scheme where the survivor’s pension payable to a surviving civil partner or same sex spouse is restricted, so that it reflects only the member's pensionable service since 5 December 2005. The date on which the Civil Partnership Act 2004 (English legislation) came into force.

The Supreme Court overturned the Court of Appeal decision and held that this restriction is unlawful. Public service pension schemes provide for pensions equality, although there may be some issues around retrospection. All Scheme Advisory Board’s will be following this up.

Pension investments in fossil fuels and fracking

Friends of the Earth Scotland has published a briefing that shows Scottish Local Government Pension Scheme funds invest £406 million in 23 fracking companies. An earlier report written with Common Weal and UNISON Scotland, highlights SLGPS holding a £1,683 million stake in fossil fuel companies. 4.8% of the Scottish Local Government Pension Scheme is invested in fossil fuel companies – £3,300 for every scheme member.

The Pensions Regulator has also warned that savers face long-term financial risks because trustees are failing to take climate change, responsible business practices and corporate governance into account when making investments.

Pensions Seminar

This year's UNISON Scotland pensions seminar was attended by pension champions from across the country. The seminar had presentations on the work of scheme advisory boards and on the recent FCA report on investment cost transparency. There was a discussion on the recommendations of the governance review of pension boards in Scotland. There was broad support for strengthening training and communications between the different boards. Less support for some of the membership proposals that don't fully reflect the needs of the SLGPS.

The seminar agreed a number of actions. There has been some slippage in communications between pension board members and their constituencies. This will be strengthened by meetings and email networks in the multi-employer board areas. Some boards had agreed to improve the presentation of lengthy papers and ensure earlier circulation. Board members will also be asked to step up the pace on issues like cost transparency.

If your branch hasn't got a Pension Champion, raise the issue with your branch committee.

In Brief....

- The weakness in the case for extending the retirement age is highlighted in the latest retirement data. 58% of those planning to give up work in 2017 in Scotland are doing so earlier than their projected state pension age, or company pension scheme.

- While auto-enrolment continues to increase the numbers in pensions schemes, most are still not providing an adequate retirement income. The retirement income gap between households with a private pension income and those without is growing. By 2016, retired households receiving a private pension had disposable incomes around 1.6 times higher than households that were not.

UNISON Scotland

Pensions Scotland

For further information visit our dedicated pension website:
Pensions Scotland: http://www.pensionsscotland.org
Or contact: Dave Watson: d.watson@unison.co.uk