The Scottish Parliament
Pàrlamaid na h-Alba

FINANCE COMMITTEE

AGENDA

20th Meeting, 2014 (Session 4)

Wednesday 18 June 2014

The Committee will meet at 9.30 am in the Robert Burns Room (CR1).

1. **Decision on taking business in private:** The Committee will decide whether to take items 6 and 7 in private.

2. **Nominees for appointment to the Scottish Fiscal Commission:** The Committee will take evidence from—

   John Swinney, Cabinet Secretary for Finance, Employment and Sustainable Growth, and Alison Cumming, Head of Tax Policy, Scottish Government.

3. **Subordinate legislation:** The Committee will take evidence on the Public Appointments and Public Bodies etc. (Scotland) Act 2003 (Treatment of Revenue Scotland as Specified Authority) Order 2014 [draft] from—

   John Swinney, Cabinet Secretary for Finance, Employment and Sustainable Growth, Colin Miller, Revenue Scotland and Tax Powers Bill Team Leader, and Greig Walker, Solicitor, Scottish Government.

4. **Subordinate legislation:** John Swinney (Cabinet Secretary for Finance, Employment and Sustainable Growth) to move—S4M-10325—That the Finance Committee recommends that the Public Appointments and Public Bodies etc. (Scotland) Act 2003 (Treatment of Revenue Scotland as Specified Authority) Order 2014 [draft] be approved.

5. **Scotland's public finances post-2014:** The Committee will take evidence from—

   Professor David Bell, University of Stirling;

   Ann Flynn, Pensions Consultant;

Chris Curry, Pensions Policy Institute.

6. **Food (Scotland) Bill:** The Committee will consider a submission to the lead committee on the Financial Memorandum.

7. **Nominees for appointment to the Scottish Fiscal Commission:** The Committee will consider a draft report.

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Clerk to the Finance Committee
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The papers for this meeting are as follows—

Agenda Item 2

Note by the Clerk	FI/S4/14/20/1

Agenda Item 3

Note by the Clerk	FI/S4/14/20/2

Agenda Item 5

Note by the Clerk	FI/S4/14/20/3

Agenda Item 6

PRIVATE PAPER	FI/S4/14/20/4 (P)

Agenda Item 7

PRIVATE PAPER	FI/S4/14/20/5 (P)

Finance Committee

20th Meeting, 2014 (Session 4), Wednesday 18 June 2014

Nominees for appointment to the Scottish Fiscal Commission

Purpose

1. The purpose of this paper is to summarise the consideration that the Committee has previously given to the issue of potential conflicts of interest, or perceived conflicts of interest, in relation to two of the three nominees for appointment to the Scottish Fiscal Commission also being members of the Council of Economic Advisers (CEA).

Evidence taken from the nominees

2. The Committee took evidence from the two nominees, Lady Susan Rice and Professor Andrew Hughes Hallett, at its meetings on 28 May and 4 June 2014 respectively. In advance of giving evidence to the Committee all nominees were asked to submit a short written questionnaire which included the question “Do you hold any other roles or have any business or financial connections which might give rise to or be perceived as being a potential conflict of interest in carrying out your role as a member of the Scottish Fiscal Commission?”.

3. The responses to that question were as follows—

> **Lady Susan Rice:** “I don’t hold any other roles or have a business or financial connection which would give rise either to a genuine or perceived conflict of interest. I was asked to join the Council of Economic Advisers in 2011 and agreed to do that only if my political independence would be protected at all times. For professional reasons I must remain and be seen as being independent. This restriction was accepted willingly; the CEA is chaired by an independent member and my requirement has at all times been fully respected. As mentioned, I hold other roles with Scottish-based organisations. These include the Scottish Council for Development and Industry, several arts organisations and, recently, as a non-executive with Scotland’s Futures Forum. I do all of these things because I care greatly about Scotland as a country, about its people and its future and I would approach the role with the Scottish Fiscal Commission in exactly the same way. None of these roles poses a direct conflict with Commission activity and nor am I in any position where I would be subject to inappropriate influence.”

> **Professor Andrew Hughes Hallett:** “None. My policy and advisory work is strictly a matter of public service. As a result I have no extra-mural positions that would bring me financial, academic or political advantage. Specifically, I do not work with any research grants or contractual positions from the Scottish government. I am a member of their Council of Economic Advisors on the condition that my independence would be protected, as it has been when opinions differed. The same was true for my work for HMT and the Calman commission. I am often asked for advice or commentary on a “pro bono” basis, all four major parties in the UK have approached me at one time or another, but

I do not undertake to do so unless the independence of my analysis and advice can be honoured and guaranteed."

4. When giving oral evidence to the Committee both nominees were asked about the potential for conflicts to arise. Extracts of the Official Report from the evidence sessions are attached as annexe A to this note.

Correspondence with the Cabinet Secretary for Finance, Employment and Sustainable Growth

5. Following consideration of the evidence heard, the Committee wrote to the Cabinet Secretary for Finance, Employment and Sustainable Growth on 4 June to ask for clarification as to whether he agreed that, in relation to the nominees being members of the CEA, a conflict exists or that one could be perceived. The Cabinet Secretary responded on 6 June stating that "he is satisfied that no conflicts exist and there were any to arise there are or would be satisfactory arrangements for dealing with them". The letter from the Cabinet Secretary is attached as annexe B to this note.

Conclusion

6. The Committee is invited to consider the above in taking evidence from the Cabinet Secretary for Finance, Employment and Sustainable Growth.

Catherine Fergusson
Senior Assistant Clerk to the Committee

ANNEXE A

EXTRACT FROM THE FINANCE COMMITTEE OFFICIAL REPORT – 28 MAY 2014

Gavin Brown: Lady Rice, I wish to touch on question 5 in the questionnaire, which asks: "Do you hold any other roles ... which might give rise to or be perceived as being a potential conflict of interest"?

You sit on the Council of Economic Advisers. According to the council's remit, it has three key themes on which to advise the Government, one of which is economic levers, so you have an advisory role on that. However, the Scottish fiscal commission will have a challenge function regarding the application of those economic levers. How will you avoid the perception of a conflict of interest between those two very different roles?

Lady Rice: I have given a good deal of thought to that. If I felt that a conflict of interest developed, I would simply deal with it. The role of chairing the fiscal commission would take primacy in that instance. I would see how it went. What I add to the discussions at the Council of Economic Advisers draws on my business knowledge and my knowledge of our markets in Scotland. We do not develop policy in those discussions in any specific way. If there was a conflict, it would have to be addressed, pure and simple.

Gavin Brown: So, as things stand, your intention is to remain on the Council of Economic Advisers and to carry out both roles.

Lady Rice: My intention right now is to do both roles, unless there is an issue. I have known that I would be sitting here at the committee for only a couple of weeks or even days, so I have not thought through that issue or spoken to anyone regarding my Council of Economic Advisers role. If it was genuinely a problem, we would deal with it.

The Council of Economic Advisers has methods of dealing with such matters. If you will forgive me, I will tell a bit of a story. When I was invited to join the council in 2011, given my role at the Bank of England, I had to get permission from the governor for any external appointment. I had discussions at the Bank of England, which had similar questions, but it encouraged me to proceed, with the proviso that, if any matters came up that related to monetary policy, I would be excused because, even though I do not sit on the monetary policy committee, I am responsible for its proper running. That was put in writing to the Council of Economic Advisers, which accepted the proviso. It has used a sub-committee system to ensure that, in such instances, I have not had to be involved.

There are ways to address potential conflicts. If there really are conflicts, I will have to think the matter through properly. It is a good question to have raised, but I would address such issues.

EXTRACT FROM THE FINANCE COMMITTEE OFFICIAL REPORT – 4 JUNE 2014

Gavin Brown: Question 5 in the questionnaire asks: "Do you hold any other roles … which might give rise to or be perceived as being a potential conflict of interest"? How do you deal with having a role on the Council of Economic Advisers, where you advise on a number of issues, including—according to the annual report—economic levers while, at the same time, having a scrutiny and challenge function on the application of at least some of those economic levers?

Professor Hughes Hallett: As I said in response to the convener's question on the same matter, it is right and important that you should ask that question. I do not perceive any particular conflict of interest in the sense that, on the Council of Economic Advisers, we might discuss certain policy options in a general sense, but we do not set a policy. We do not say what tax rates should be. We do not even say that we should use one tax rather than another. We might say that it would be advantageous to consider the possibility of using a certain tax more generally.

The areas in which conflicts of interest might come up have not come up. That is the way that the council operates. The advice takes the form of asking whether the Government has thought about a particular approach rather than anything prescriptive or proactive, so I do not envisage there being a conflict.

Because the council is independent, it knows that it is independent and it is agreed that it is independent, the advice is given on a take-it-or leave-it basis. We ask, for example, whether the Government has thought about the possibility of supporting research and development in the high technology sector, which is one of the ones with which I was concerned. We do not say to the Government, "You must do it like this," so it is not that we say definitively that, in our judgment, the Government must follow a particular policy.

We are independent and it is difficult to imagine how somebody who is independent can have a conflict of interests, because they would not then be independent. The council is not beholden to anybody, nor do I imagine the commission would be—anyway, I would not want to be.

As I said before, the fiscal commission does not and should not involve any policy advocacy either—that is separate. I regard the roles as much more complementary. Whether or not I am in the Council of Economic Advisers, somebody on the council needs to have the forecasts. If the advice is that there is a need to think about how taxes are unfolding because, if we go too far, they will get unsustainable, or something of that kind, the council needs to have an understanding of the forecasts that have gone into that. I would feel rather uncomfortable if there were not people on the Council of Economic Advisers who were able to provide that or who had that information with them.
It is not so much a conflict, in which the person concerned feels that they might have to say one thing at the council and another at the commission. It is sequential. That is what makes the roles complementary, and that is how I view them.

There have been cases—not in Scottish matters—where I have been involved in this kind of policy analysis framework, and where conflicts have arisen and someone's independence has been challenged. The receiving party said that something must be changed—calculating the conversion factors for currencies going into the euro—

and that led to a parting of the ways. If someone gets locked into a case where there is a conflict, they must decide which way they are going to go. Will they keep one role, keep the other or, possibly, not do either? I do not foresee that happening at all in this context, but that would be the outcome if it did.

Gavin Brown: In your role on the Council of Economic Advisers, have you ever advised the Government or discussed with it the setting up of the Scottish fiscal commission?

Professor Hughes Hallett: Yes. I refer to the paper outlining what fiscal commissions in the rest of the world do and what I thought the framework should be. It is up to the Government to accept it or not. That sounds like a take-it-or-leave-it basis. In this case—as I am here—the Government obviously took it.

It is like giving a sketch. I am sorry for being pedantic, but it is like asking a student what the problem is, how they would solve it and what the advantages are, and then asking them to provide an outline of how their solution might work. It is entirely up to the Government whether it likes it or not. The model that the Government had in mind is not exactly the same, as it turns out, but it is the Government's prerogative to do that. I am saying how we might imagine the arrangements might work and I am providing a set of examples of how things work elsewhere. That provides a range of possibilities, and the Government chooses.

The word "conflict" suggests that there is an adversarial arrangement, but there is not. The arrangements are in evolution. That is how they work.

Gavin Brown: Can you see how there might be a perception of a conflict between somebody advising Government on economic levers and somebody having the challenge function on the application of those economic levers?

Professor Hughes Hallett: The fiscal commission can challenge the forecasts that are being used. It can say that if the work had been done properly, that would have produced different numbers, which should be taken into account, as opposed to saying that the policies that the Government plans to pursue are wrong for some reason and that it ought to be pursuing other ones.

The commission will not ever do that. There is no role for policy advocacy; it is a matter of asking whether certain things have been thought about.

I do not find that to be conflicting with what the Council of Economic Advisers might say. It might say that, on the basis of a certain factor, there is a possibility that the economy will be damaged if a certain policy is pursued, so it could ask whether other possibilities had been considered. It is up to the Government to take that up or to reject it.

Gavin Brown: I will leave it there.

Malcolm Chisholm: You say that the Council of Economic Advisers does not set policy, but were you not on the working group that came forward with the advice on monetary union?

Professor Hughes Hallett: There is a distinction between the policies and the framework, and this is a framework issue. I am talking about institutions and monetary arrangements, in that case. We are not in a position to say what the Government should adopt. We might say that, on the basis of the analysis that we or most other people would carry out, one option seems to be the most sensible one and that the Government should think about doing that. It is entirely up to the Government to take it or leave it.

Malcolm Chisholm: I observe that your group is the primary source that is invoked when that policy is defended.

Professor Hughes Hallett: Right, but you have to read carefully what we say. I take Mr Brown's point. Other people might think that we say other things.

Malcolm Chisholm: I do not know whether you have seen Bill Jamieson's rather long article about the issue this morning. He talks about the two roles as "running with the hare and hunting with the hounds", which I suppose is another way of expressing Gavin Brown's point. There are obviously significant concerns.

Professor Hughes Hallett: There is a perception there. You must be a little bit careful not to view this as Lenin would have done: that those who are not with us are against us. In the current atmosphere, that happens rather easily.

My argument is not about hare and hounds; the roles are complementary. One uses information from the other; each is independent and uses it in the way that they think is best.

Malcolm Chisholm: I certainly do not want to be compared to Lenin, which would not be very desirable.

Professor Hughes Hallett: It is not you—it is about the perception.

Malcolm Chisholm: Your fundamental point was about functioning independence being more important than political or personal independence. You can see why people might be concerned about the latter as well as the former.

Professor Hughes Hallett: Sure. I do not want to underplay that. When I say that, I am doing it to emphasise the functional independence, as that is the unusual part in this context. In another case, the emphasis is on the personal and political aspects. It is not that they do not matter; it is just to make the point.

Malcolm Chisholm: Is Bill Jamieson wrong to call you "a prominent SNP sympathiser"?

Professor Hughes Hallett: I take no view. I should make it clear on that particular issue. I anticipated that you might ask, and you have not done so, but you have got close to it. I take no view—I just consider the economics and I say what the logic says.

Malcolm Chisholm: We will come to today's main evidence session in a moment, but you would accept that your views are rather more aligned with the SNP's views than with those of people who are opposed to independence.

Professor Hughes Hallett: I would accept the view that my views are a little bit more realistic than many others.

Malcolm Chisholm: We shall pursue that further.

Professor Hughes Hallett: I am sure you will.

ANNEXE B

LETTER FROM THE CABINET SECRETARY FOR FINANCE, EMPLOYMENT AND SUSTAINABLE GROWTH – 6 JUNE 2014

Thank you for your letter of 4 June about evidence that the Committee has taken from the nominees for appointment to the Scottish Fiscal Commission.

I welcome the Committee's scrutiny of this matter. As you know, I consider it to be critical to the effectiveness of the Commission that it is not only independent of government, but is seen to be so. It is in that light that I respond to the Committee's request for clarification on whether I see a conflict of interest between the membership of the Council of Economic Advisers (CEA) and membership of the Commission.

In making nominations, I gave full consideration to the potential for conflicts of interest to arise, or be perceived to arise, between membership of the Commission and other roles and offices held by the nominees, including the CEA. I am satisfied that no conflicts exist and that were any to arise there are or would be satisfactory arrangements for dealing with them.
I give my reasons below.

The CEA is an independent advisory group to the First Minister. Members of the CEA are invited to provide advice to the First Minister relating to the Scottish economy and to discuss issues relating to Scotland's economic performance specifically in relation to recovery and jobs, internationalisation, and economic levers. Individuals who are invited to join the CEA have a detailed understanding of the Scottish economy, either from an academic standpoint or from practical experience. It is of course the case that similar knowledge and skills are relevant to the work of the Scottish Fiscal Commission in reviewing and providing assurance over Scottish Government tax forecasts.

The political independence of CEA members is protected and fully respected - as Lady Rice and Professor Hughes Hallett articulated to the Committee in both their written evidence and during the respective hearings. The terms and conditions of membership of the CEA require members to declare to the Chair of the CEA as a potential conflict of interest any personal or business interests which may, or may be perceived to, influence their judgements in providing advice. In giving evidence to the Committee on 28 May, Lady Rice demonstrated that she and the Bank of England were satisfied with the procedures which the CEA put in place to address any actual or perceived conflict with her role on the Court.

As far as the bodies themselves are concerned, the roles of the Commission and the CEA are not in conflict. The Commission will be responsible for scrutinising forecasts of tax revenue prepared by the Scottish Government, and reporting the outcome of that scrutiny to the Scottish Parliament and to the public. This is essentially a technical endeavour, requiring knowledge of and skill in interpreting economic data and trends, and in probing economic assumptions and relationships. The CEA will not have a role in the forecasting process. Furthermore, nor will it, or the Commission, take a view on setting rates for the devolved taxes.

Having considered the issues raised by the Finance Committee, I would propose that members appointed to serve on the Commission, including the Chair, will be subject to a code of conduct in line with the Model Code of Conduct for Members of Devolved Public Bodies, which was approved by the Scottish Parliament in December 2013 and published in February 2014. Robust procedures and exacting requirements will be put in place to ensure that, were any conflict to arise (or be perceived to arise) in future, it is identified in a timely fashion and managed appropriately.

I fully agree with the Committee that, in addition to the Commission adopting working arrangements that demonstrate objectivity and impartiality, the independence of individual Commission members from Government and indeed from any other source of actual or perceived conflict of interest must be demonstrated and safeguarded. I trust that this letter provides the Committee with helpful further assurance, and explains adequately why I believe that no conflict of interest exists or could reasonably be perceived to exist in relation to CEA membership.

In addition to these issues, I take the view that the nominees are highly respected, skilled, and authoritative individuals who would bring a strong set of skills and experience to bear on the work of the Commission, giving its work credibility and authority. I also believe that the
Committee shares the view that Lady Rice and Professors Leith and Hughes Hallett are eminently qualified for the proposed roles.

I would of course be very happy to discuss this matter further.

Finance Committee

20th Meeting, 2014 (Session 4), Wednesday, 18 June 2014

The Public Appointments and Public Bodies etc. (Scotland) Act 2003 (Treatment of Revenue Scotland as Specified Authority) Order 2014 [draft]

Introduction

1. The purpose of this paper is to set out background and procedural information for the Committee's scrutiny of the Public Appointments and Public Bodies etc. (Scotland) Act 2003 (Treatment of Revenue Scotland as Specified Authority) Order 2014 [draft] ("the Order") which was laid before the Parliament on 21 May 2014. A copy of the Order, along with the accompanying Policy Note is attached.

Purpose of the Order and the scrutiny procedure

2. The purpose of this Order is to make the appointment of members of Revenue Scotland subject to the regulation of the Commissioner for Ethical Standards in Public Life in Scotland. The 2003 Act provides that Scottish Ministers can designate a body that has not yet been established in law to be treated, for appointments purposes, as if it were already established. This means that, should the Parliament pass the Revenue Scotland and Tax Powers Bill, Scottish Ministers will have been able to conduct the appointments process to allow Revenue Scotland to commence operations immediately.

3. The Order is subject to the affirmative procedure under Rule 10.6 of Standing Orders. Under this procedure, the Parliament has a 40 day period in which to consider the Order, including consideration by a lead committee and the Delegated Powers and Law Reform Committee. The deadline for consideration of the Order is 5 August 2014. The DPLRC considered the Order at its meeting on 3 June 2014 and had no issues to report.

4. As lead committee for the Order, the Committee will be asked to consider the following motion from the Cabinet Secretary for Finance, Employment and Sustainable Growth—

> **S4M-10325 John Swinney: Public Appointments and Public Bodies etc. (Scotland) Act 2003 (Treatment of Revenue Scotland as Specified Authority) Order 2014 [draft]**—That the Finance Committee recommends that the Public Appointments and Public Bodies etc. (Scotland) Act 2003 (Treatment of Revenue Scotland as Specified Authority) Order 2014 [draft] be approved.

5. However, during formal consideration of the motion, Standing Orders provide that only the Cabinet Secretary and members may participate in the debate. In order to inform the Committee's consideration of the motion, there will therefore be an opportunity to take evidence on the Order from the

Cabinet Secretary and his officials before moving to formal consideration of the motion.

Conclusion

6. The Committee is invited to consider the Order

Alan Hunter
Assistant Clerk to the Committee

Draft Order laid before the Scottish Parliament under section 18(4) of the Public Appointments and Public Bodies etc. (Scotland) Act 2003, for approval by resolution of the Scottish Parliament.

D R A F T S C O T T I S H S T A T U T O R Y I N S T R U M E N T S

2014 No.

PUBLIC BODIES

The Public Appointments and Public Bodies etc. (Scotland) Act 2003 (Treatment of Revenue Scotland as Specified Authority) Order 2014

Made - - - -	*2014*
Coming into force - -	*2014*

The Scottish Ministers make the following Order in exercise of the powers conferred by section 3(3) of the Public Appointments and Public Bodies etc. (Scotland) Act 2003(**1**) and all other powers enabling them to do so.

In accordance with section 18(4)(**2**) of that Act, a draft of this Order has been laid before and approved by resolution of the Scottish Parliament.

Citation and commencement

1. This Order may be cited as the Public Appointments and Public Bodies etc. (Scotland) Act 2003 (Treatment of Revenue Scotland as Specified Authority) Order 2014 and comes into force on the day after the day on which it is made.

Treatment of Revenue Scotland as specified authority

2. Revenue Scotland is to be treated, for the purposes of or in connection with any appointment to that body, as if it were a specified authority within the meaning of section 2(1) of the Public Appointments and Public Bodies etc. (Scotland) Act 2003 (the Commissioner's functions).

Name
A member of the Scottish Government

St Andrew's House,
Edinburgh
Date

(**1**) 2003 asp 4.
(**2**) Section 18(4) was modified by paragraph 5 of schedule 3 to the Interpretation and Legislative Reform (Scotland) Act 2010 (asp 10).

EXPLANATORY NOTE

(This note is not part of the Order)

This Order provides that Revenue Scotland is, for the purposes of or in connection with appointments to that body, to be treated as if it were a specified authority listed in schedule 2 to the Public Appointments and Public Bodies etc. (Scotland) Act 2003.

POLICY NOTE

THE PUBLIC APPOINTMENTS AND PUBLIC BODIES ETC. (SCOTLAND) ACT 2003 (TREATMENT OF REVENUE SCOTLAND AS SPECIFIED AUTHORITY) ORDER 2014

SSI 2014/

1. The above instrument was made in the exercise of the power conferred by section 3(3) of the Public Appointments and Public Bodies (Scotland) Act 2003. The instrument is subject to the affirmative procedure.

Policy Objectives

2. Section 3(3) of the Public Appointments and Public Bodies etc. (Scotland) Act 2003 ("the 2003 Act") provides that where an office or body is to be established, and when established is to be specified in schedule 2 to that Act, the Scottish Ministers may by order provide that the office or body is to be treated, for the purposes of or in connection with any appointment to the office or body, as if it were one of the specified authorities.

3. The purpose of this power is to enable the Scottish Ministers to bring appointments to bodies which are not yet existing in law within the remit of the Commissioner for Ethical Standards in Public Life in Scotland, and therefore enable the Commissioner to regulate the appointments process under the powers conferred upon the Commissioner by the 2003 Act.

4. Section 2 of the Revenue Scotland and Tax Powers Bill provides for the establishment of Revenue Scotland, and schedule 1 to the Bill provides for the appointment of members of Revenue Scotland by the Scottish Ministers. Paragraph 4 of schedule 4 to the Bill amends schedule 2 to the 2003 Act by adding a reference to Revenue Scotland in the list of 'specified authorities' which are subject to the Commissioner's jurisdiction for the purposes of exercising the Commissioner's functions under the 2003 Act.

5. The effect of the draft order is therefore to enable Revenue Scotland to be treated as a specified authority for the purposes of the 2003 Act so that the process of appointing members of Revenue Scotland will be subject to supervision by the Commissioner for Ethical Standards in Public Life, which in turn will enable the public appointments process to begin before the Revenue Scotland and Tax Powers Bill has completed its Parliamentary passage.

Consultation

6. The Public Appointments and Public Bodies etc. (Scotland) Act 2003 does not require Scottish Ministers to consult on changes proposed under section 3(3) of the Act. The Commissioner for Ethical Standards in Public Life has been notified of these proposals.

Financial Effects

7. The instrument has no financial effects on the Scottish Government, local authorities or business.

The Scottish Government

Fiscal Responsibility Division

Finance Committee

20th Meeting, 2014 (Session 4), Wednesday 18 June 2014

Scotland’s public finances post-2014

Purpose

1. This paper provides copies of the written submissions that have been received from the witnesses who will be providing evidence at this meeting in relation to Scotland’s public finances post-2014. Members may wish to note that the submission from Ann Flynn will be circulated on Monday.

2. The topic for this session is pensions. The Committee has also agreed to hold an evidence sessions to specifically consider the Barnett formula.

Catherine Fergusson
Senior Assistant Clerk to the Committee

SUBMISSION FROM PROFESSOR DAVID BELL, STIRLING SCHOOL OF MANAGEMENT, UNIVERSITY OF STIRLING

1. Pensions are among the most important financial contracts that individuals are likely to enter. They provide insurance against the risk of income loss due to ageing or, in some cases, to other events such as disability. Since pension payments are potentially large, contributions are collected over a long period of time and usually according to some agreed schedule, such as a fixed proportion of income. Pension contracts therefore involve long-term relationships between the pensioner and the pension provider. Potential pensioners will not enter into such contracts unless they have confidence in the commitment of the pension provider to pay their pensions when they fall due, which could be several decades in the future. Government regulation of the industry gives further assurance to pensioners that their savings will be secure and that their retirement income will be safe.

2. The purpose of this paper is to consider some of the issues relating to pensions and constitutional change. The paper deals with pensions from the assets and liabilities perspective. We begin with the assets perspective.

Assets

3. The UK has one of the most sophisticated pension industries in the world. The Towers Watson survey of Global Pension Assets[1] shows that the UK is second only to the USA in the value of pension asset holdings. In 2013, its estimate is that these amounted to $3.26 trillion – larger than Japan, Germany and France. The value of assets was equivalent to 131% of GDP, a higher proportion than any of the G7 countries than Holland. The value of pension assets held in Ireland was $130bn – around 4 per cent of the value of those held by the UK pension industry.

4. The Towers Watson survey also shows that, among UK funds, 50 per cent of assets are invested in equities, 33 per cent in bonds, 14 per cent in other investments and 3 per cent in cash. This is broadly in line with the average asset splits for the world as a whole. This implies that UK pension funds hold around $1.1 trillion in government bonds. Over 80 per cent of these are UK government bonds. However, recent ONS data which uses a broader definition of pension wealth (rather than just the assets held by pension funds) suggests that the value of pension wealth in Great Britain is around £3.6 trillion[2].

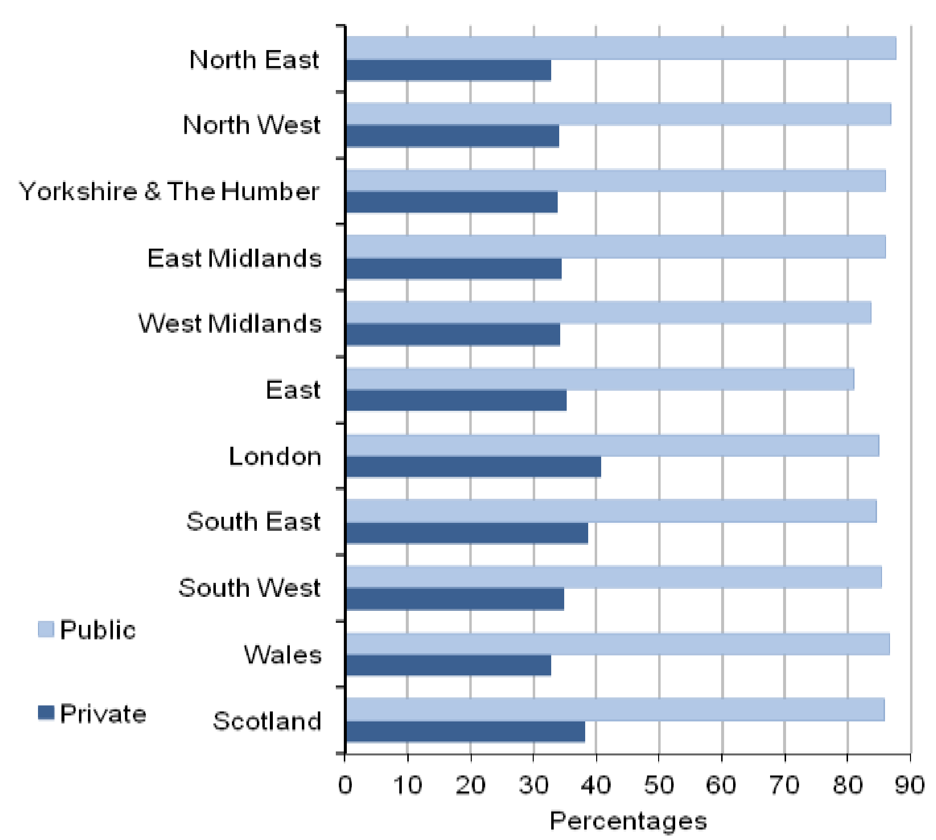
5. Scotland has a significant involvement in this industry both in relation to the demand and supply of pensions. On the demand side, the number of workers with workplace pensions is slightly above that in most other parts of the UK other than the South-East and London (see Figure1). In Scotland, 38 per cent of private sector employees and 86 per cent of public sector workers had workplace pensions in 2013. Pensions are clearly more widespread in the public sector: employees in the

[1] Towers Watson (2014) 'Global Pensions Asset Study 2014' Accessed at: http://www.towerswatson.com/en-GB/Insights/IC-Types/Survey-Research-Results/2014/02/Global-Pensions-Asset-Study-2014

[2] Office for National Statistics (2014) 'Wealth in Great Britain Wave 3, Chapter 6: Private Pension Wealth' Accessed at: http://www.ons.gov.uk/ons/rel/was/wealth-in-great-britain-wave-3/2010-2012/report--chapter-6--private-pension-wealth.html

private sector may have to invest in a private pension if no workplace pension is available.

Figure 1: Proportions of workers with workplace pensions 2013



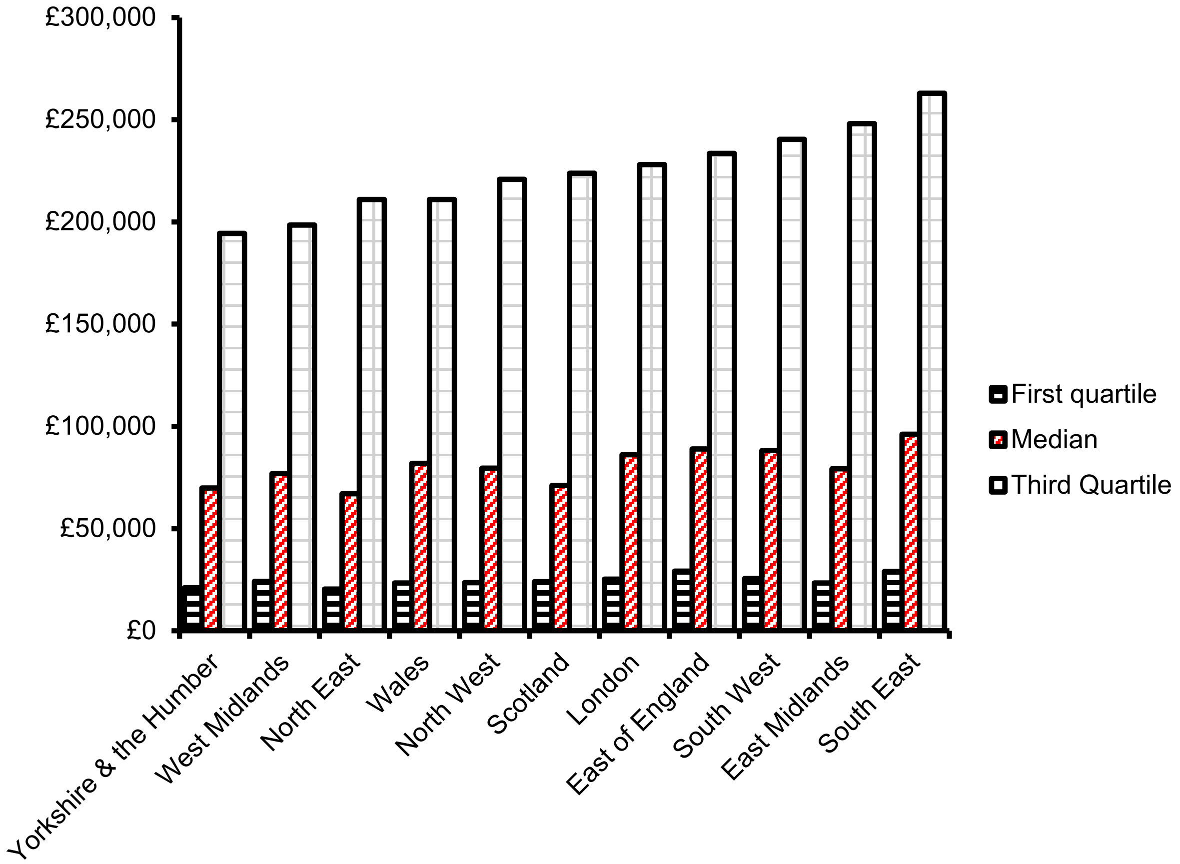
Source: Annual Survey of Hours and Earnings 2013, Office of National Statistics

6. A recent survey by Scottish Widows[3] found that 55% of people in Scotland are saving adequately in preparation for retiring and that the average amount saved is £119 per month, an increase of 133 per cent on 2007 levels. This substantial increase was partly caused by auto-enrolment – where workers are automatically recruited to a workplace pension.

7. ONS data on pension wealth shows that 25 per cent of Scots households have pension wealth exceeding £223,000. At the upper end of the distribution, Scottish household pension wealth exceeds that in the north of England and Wales, but is somewhat less than in the south of England and East Midlands. Median household pension wealth in Scotland is lower than in most of England with the exception of the North East, but at the third quartile, it is again closer to the middle of the group.

[3] Scottish Widows (2014) 'Scottish Widows Retirement Report – Press Release' Accessed at: http://reference.scottishwidows.co.uk/docs/2014-06-retirement-report.pdf

Figure 2: Household Pension Wealth 2010-12



Source: Office for National Statistics

8. These data suggest that average pension wealth among Scots households is not significantly different from that in the rest of Great Britain. In turn, this implies that Scottish households' implicit share of pension assets will not be substantially different from its population share. This would suggest that, in relation to pension assets, Scots must hold around 8 per cent (i.e. equal to the share of Scottish onshore GDP in UK GDP in 2012/13) of UK pension fund assets (131 per cent of UK GDP), which would have amounted to £165bn in 2012/13. Of this total, and given that there is no reason to believe that portfolio allocation for Scottish households is any different from that for households in the rest of the UK, around £55bn is held in government bonds, and, of that total, £44bn in UK government bonds. To put these sums in perspective, the OBR's[4] central estimate for the remaining tax revenues from North Sea Oil and Gas is also £56bn.

9. Those Scots who have contributed to a pension will expect these pensions to be paid, irrespective of the constitutional position. If Scotland became independent and establishes its own currency, then one would expect pension funds to largely hold domestic rather than foreign assets (some funds only permit domestic investment). If Scotland is part of a currency union with rUK, then Scottish bonds will

[4] Office for Budget Responsibility (2013) 'Fiscal sustainability report', Accessed at: http://budgetresponsibility.org.uk/category/topics/long-term-sustainability/

have to compete with rUK bonds to generate investor demand. Scottish and rUK pension companies would be able to buy bonds from the Scottish and rUK governments. The relative price of these bonds would depend on the market evaluation of their relative risk – liquidity risk, default risk etc. It could include redenomination risk for Scottish bonds, reflecting market assessment of the risk that Scotland might leave the currency union.

10. To establish efficient bond trading, the Scottish Government would have to set up a bond market. This would be the major priority immediately after-independence. The World Bank describes the economic conditions and institutions that are necessary for the establishment of a successful market in government securities[5]. Meeting these criteria would be an essential pre-requisite for the efficient handling of Scottish debt. Pension funds would have an important role in this market. However, assuming that they wished to continue to operate in both jurisdictions, their immediate priority would be the disentangling of assets and liabilities on either side of the border. Previous state break-ups have not involved dividing such a complex set of assets and liabilities.

11. In the case of a currency union, the Scottish government might wish to promote a British equivalent of ‘eurobonds’ issued jointly by the rUK and Scottish governments, rather than relying on purely Scottish bonds. However, this would require the acceptance of the shared risk that joint bond issuance implies. This would obviously promote the stability and integration of the bond markets, which would be beneficial for the pension companies, but it creates an asymmetric moral hazard[6] that might cause the rUK government to veto such a development.

Liabilities

12. On the other side of the balance sheet the Scottish Government would have an interest in ensuring that commitments to exiting public sector pension scheme members are met. Bell (2012)[7] discusses the structure of public sector pensions in Scotland. His key findings include:

- Public sector pensions are, on average, higher than those in the private sector.
- Employer and employee pension contributions are greater in the public sector.
- Public sector pensions comprise a mixture of funded and unfunded schemes.
- Defined benefit schemes still cover a large share of public sector workers, but have largely disappeared from the private sector.
- UK Governments have sought to reduce taxpayer support for public sector pensions by increasing employee and employer contribution rates

[5] World Bank (2001) ‘Developing Government Bond Markets: A Handbook’ Accessed at: http://elibrary.worldbank.org/doi/book/10.1596/0-8213-4955-4

[6] Armstrong, A. and Ebell, M. (2014) ‘Public sector debt, borrowing, taxation and fiscal rules’ Evidence presented to Scottish Parliament’s Finance Committee (April), Accessed at: http://niesr.ac.uk/sites/default/files/publications/SP_fiscal_NIESR.pdf

[7] Bell, D.N.F. (2012) ‘Public Sector Pensions’ in ‘Public Sector Remuneration in Scotland’, David Hume Institute, May, Accessed at: http://niesr.ac.uk/sites/default/files/publications/270512_132802.pdf

- The Scottish Government opposed the increase in contribution rates, but was threatened with a loss of grant if it failed to implement them.
- Aside from Departmental Expenditure Limit (DEL)-derived employee and employer contributions, other financial flows, known as balancing payments, are made by HM Treasury to ensure that pension schemes meet their current obligations. These arise because the liabilities of any scheme cannot be predicted with certainty, even on a short-term basis. Taxpayer support for public sector pensions, including balancing payments, is part of Annually Managed Expenditure (AME).

13. Table 1 below shows the current outstanding liabilities for major public sector schemes in both Scotland and the UK as a whole. These are divided into funded and unfunded schemes.

Table 1: Public service pension liabilities in UK and Scotland (£bn)

	UK	**Scotland**	**Scotland as % UK**
Unfunded (gross)			
Teachers	233.3	23.6	10.1%
NHS	282.6	25.3	9.0%
Civil service	155.1	Not Avail	
Armed forces	105.6	N/A	
Police	101.6	9	8.9%
Fire	21.2	2.3	10.8%
Other unfunded	20	0.7	3.5%
Total unfunded	**919.3**	**60.9**	**6.6%**
Funded (net)			
Local government	78.4	25.1	32.0%
Other funded	10	Not Avail	
Total funded	**88.5**	**25.1**	**28.4%**
TOTAL	**1007.8**	**86**	**8.5%**

Source: Whole of Government Accounts (UK) and Scottish Public Pension Authority

14. Scotland is exposed to broadly its population share of public sector pension liabilities. Their value clearly adds to the overall indebtedness of the public sector. Liabilities for public sector pensions are included within the Whole of Government Accounts (WGA), but not within Public Sector Net Debt (PSND) – the measure usually reported both in relation to the debt of the UK as a whole and to the prospective debt of an independent Scotland. Armstong and Ebell (forthcoming) [8] estimate that Scotland's debt would be in the range £100bn to £127bn in 2015-16 depending whether this debt is allocated based on historic deficits or population share. Clearly, the value of public sector pension liabilities is substantial in relation to these estimates of Scotland's net debt. However, the Institute for Fiscal Studies' longer term projections[9] both for Scotland and the UK as a whole show the annual

[8] Armstrong, A. and Ebell, M. (2014), 'Assets, liabilities and adjustment in an independent Scotland', *Oxford Review of Economic Policy* (*forthcoming*).
[9] Amior, M, Crawford, R. and Tetlow, G. (2013) 'The UK's public finances in the long run: the IFS model', Institute for Fiscal Studies Working Paper W13/29 Accessed at: http://www.ifs.org.uk/publications/6951

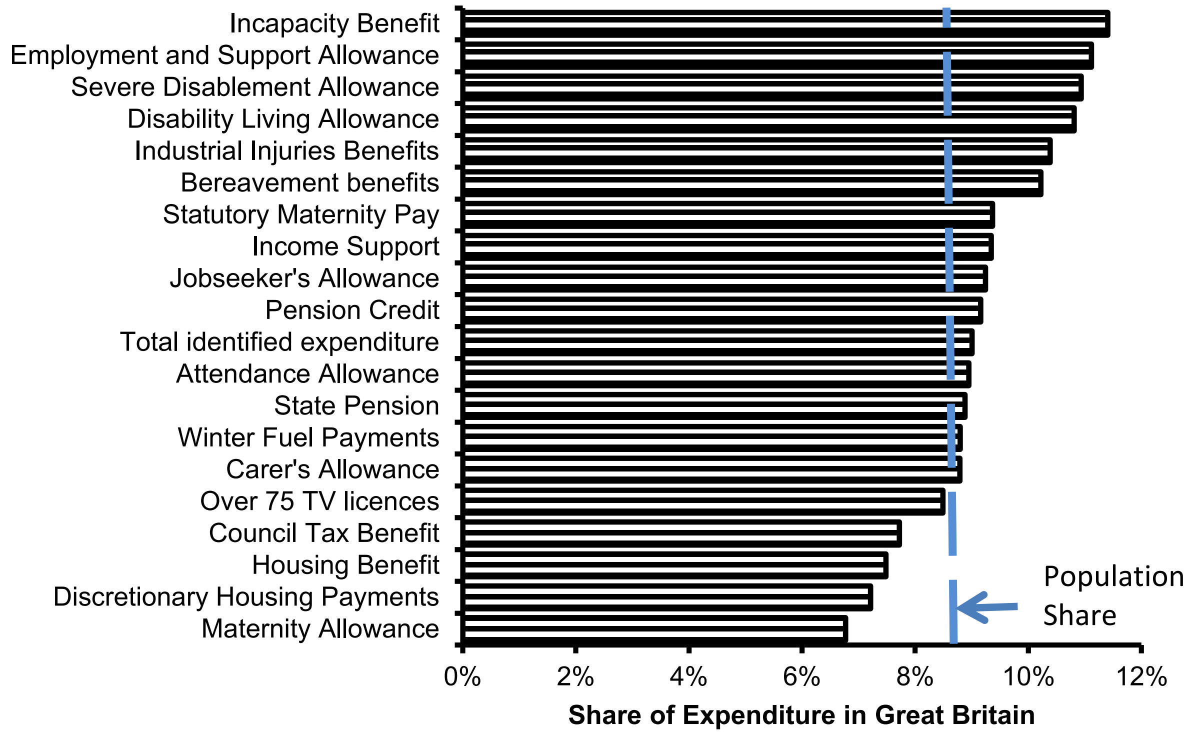
cost of funding these pensions (around 2 per cent of GDP per annum in both cases) declining slowly over the long term, perhaps based on an assumption that the reduction in the size of public sector resulting from austerity policies will be permanent.

15. The issue of meeting these pension commitments is not directly related to the constitutional issue. It will arise irrespective of the referendum outcome. However, Bell, Comerford and Eiser (2014)[10] point out that if interest rates on government debt are higher in Scotland, then it will become cheaper to fund pension liabilities in Scotland because pension funds holding Scottish bonds will receive a larger coupon than those holding rUK bonds. However, the corollary of this is that taxpayers who are effectively borrowing from these pension funds will have to pay higher debt interest charges. This implies that current taxpayers will be making a larger contribution to maintain the previous generation's living standards, which may have an adverse effect on the labour supply among the present generation. In addition, the net outflow of funds from Scotland to foreign holders of Scottish bonds will be greater than it would be were interest rates lower, weakening the balance of payments.

16. The final issue is the state pension. Liability for the state pension is not included in the WGA, but estimates of this liability for the UK as a whole have been made by Levy (2011)[11]. At the individual level, Bell, Comerford and Eiser (2014) show that on average state pension costs are around 6 to 8 per cent less per pensioner in Scotland due to lower life expectancy. On the other hand, given that Scotland has even lower healthy life expectancy, benefit costs associated with disability and illness are relatively higher in Scotland (see Figure 3). Whereas Scotland accounts for approximately its population share of the state pension, payments for incapacity benefit, severe disability allowance and disability living allowance are well above Scotland's population share.

[10] Bell, David, David Comerford, and David Eiser. "Funding Pensions in Scotland: Would Independence Matter?." National Institute Economic Review 227.1 (2014): R21-R31.
[11] Levy (2011) 'Pensions in the National Accounts, Compiling Estimates of State Pension Obligations for the National Accounts' Accessed at: http://www.ons.gov.uk/ons/dcp171766_263808.pdf

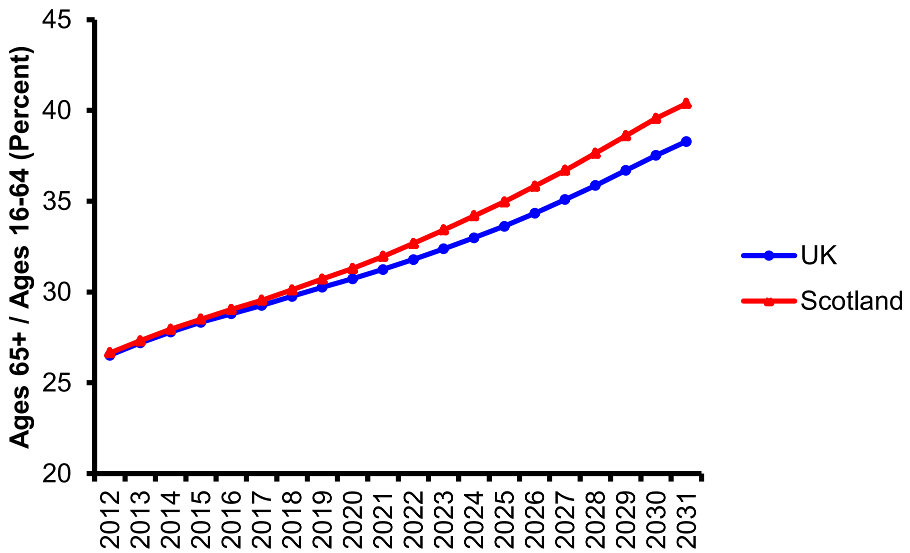
Figure 3: Scotland's Share of State Benefit Payments in Great Britain 2012-13



Source: Department for Work and Pensions

17. The future costs of the state pension look slightly less favourable to Scotland, based on ONS central population projections. These are captured by the age-dependency ratio (the share of those aged 65+ to those 16-64). Approximately equal in 2012, these diverge until 2031, after which they tend to converge once more.

Figure4: Projected Old Age Dependency Ratio, Scotland and UK 2012-2031



Source: ONS and author's calculations

18. Discussion of the relative costs of the state pension for Scotland and rUK has tended to focus on the accuracy of the migration assumptions which underpin these population projections. Given the volatility of migration flows in recent years, any such predictions must be subject to large margins of error. What is perhaps more important in relation to calculating the share of Scottish GDP that would have to be allocated to state pension in the future is whether productivity in Scotland can return to the rates of growth that it enjoyed prior to the recession and whether employment (including the employment of older workers) can be expanded to also enhance GDP growth.

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These details have been provided to comply with Schedule 4 of the Scottish Independence Referendum Act 2013 as any material wholly or mainly relating to the referendum and published between 30 May and 18 September 2014 must contain the publisher's name and address as well as of any other person on behalf of whom the material is published.

SUBMISSION FROM ANN FLYNN, PENSIONS CONSULTANT

Introduction

I have worked in the UK pensions industry for over 30 years in both the consultancy field, with employers and for major pension providers. In that time I have seen many significant changes to the UK pensions regulatory and legislative regime, which have had a major impact on legislators, providers and employers. However, the industry has successfully implemented these changes although at times it was considered too great a challenge.

I believe that there will need to be change for pensions in an iScotland but given the impact of other changes I don't believe it to be impossible. The opportunity is for Scotland to build on the current framework to develop a socially inclusive and progressive approach to pensions provision. In fact, independence will facilitate the fixing of some of the issues of the current system.

This document focuses mainly on private provision of pensions, both in the workplace and individually but it will touch on State and Local Authority pensions where relevant.

Legislative issues

My understanding is that many are concerned that as UK pensions legislation grants the tax reliefs/benefits based on UK residency for tax purposes that this would not apply to iScottish citizens. Also, both the Salary Sacrifice and Auto-enrolment regulations are embedded in UK primary law so again they wouldn't apply to an iScotland. However, I would argue that the existing legislation could be replicated to redefine the classifications for iScotland. In 2006, we saw Pensions Simplification introduced in the UK and it had a huge impact on the industry. I challenge that the platform created by that change would allow Scotland to adopt it's own pensions legislation and deliver a strong and socially inclusive approach to workplace pensions.

Auto-enrolment is now firmly established across the UK and is proving to be successful which can only be a good thing. An interesting aspect of this has been the way in which the non-traditional providers have stepped up to the mark. I believe an iScotland does not need to establish an equivalent to NEST (National Employer Savings Trust) but could negotiate a workplace pensions scheme design via one of the established master trusts for operation in Scotland. In addition, Scotland could build on the success of Auto enrolment and improve the approach from the lessons learned so far.

State pensions have always been managed very much on a 'money-in, money-out' basis in the UK. The level of pension payable to an individual being defined by their NI history. This could continue as is. Rights to State pension should not change and administration and records infrastructure already exist in Scotland. The main change will be the fiscal support of these payments. Surely the UK Government will be able to assess the Scottish citizen's 'share' of the State pension NI contributions and make this available (which they would have to do if Scotland remains part of the UK).

If Scotland remains in the UK we will be faced with the current UK Government's proposals on collective defined contribution (CDC) workplace schemes. Again, this will be a significant and expensive change to pensions legislation at a time when auto-enrolment is bedding in (very successfully) and there are more people saving towards pension in Scotland than ever before (Scottish Widows Pensions Report 2014). Ironically the whole issue of CDC is being questioned by countries who run these arrangements today in terms of the cross subsidization etc.

Cross border

This is another area of contention with many seeing this as a showstopper for many UK employers. The concern is that current UK employers may be faced with having to provide 'different' pension provision for workers depending on where they are based. I don't disagree this could be onerous for employers who have established UK pension schemes therefore it is vital a solution is arrived at. Many employers will already manage 'cross-border' issues with operations in the UK and Eire. In a recovering economy the Scottish Government should seek to not increase the burden on employers, some of who may take drastic measures to avoid increased costs to their businesses, including moving operations.

Conclusion

Scotland has been a pioneer in the design and administration of long-term savings for a very long time and I believe the level of expertise and experiences that exists means that solutions to the questions can and will be found. The question of cost is important and these must be quantified to understand the economic impact on an iScotland but much of the infrastructure exists and does not need to be created from scratch and as mentioned before it opens up the opportunity to fix some of the problems we live with today.

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SUBMISSION FROM PENSIONS POLICY INSTITUTE

THE POTENTIAL IMPACT OF SCOTTISH INDEPENDENCE ON STATE PENSIONS IN SCOTLAND

Summary

1. On 18 September 2014 Scotland will hold a referendum as to whether Scotland should become independent from the rest of the UK. If there is a “Yes” vote and Scotland does become independent, there will be far reaching consequences. This Briefing examines the implications for Government spending on State Pensions, and the implications for pensioners in Scotland.

2. The Pensions Policy Institute (PPI) promotes the study of pensions and other provision for retirement and old age. The PPI is unique in the study of pensions, as it is independent (no political bias or vested interest); focused and expert in the field; and takes a long-term perspective across all elements of the pension system. The PPI exists to contribute facts, analysis and commentary to help all commentators and decision-makers to take informed policy decisions on pensions and retirement provision. The PPI does not make policy recommendations or lobby for any particular policy.

3. The Pensions Act 2014 implements a new single-tier state pension from April 2016 that will replace the current Basic State Pension (BSP) and the State Second Pension (S2P). It also makes proposals for future increases to the State Pension Age.

4. There are significant differences in estimates of life expectancy within the UK. While for England, 2032 is the trigger year in which the SPA would need to increase to 68 to avoid more than 33% of adult life being spent in retirement, the first year in which this would happen in Scotland is 2045.

5. There are also variations in life expectancies within each country. While the average life expectancy in Scotland may be lower than in other parts of the UK, there are parts of Scotland with better life expectancies than parts of the rest of the UK.

6. Despite lower life expectancy levels overall for Scotland, the population is ageing more quickly in Scotland than the rest of the UK. The old age dependency ratio is expected to increase more quickly in Scotland than in the UK as a whole.

7. A higher old age dependency ratio can indicate that a certain level of expenditure is less affordable, as there is potentially a smaller National Insurance and income tax base available to fund the expenditure.

8. An independent Scotland, keeping the same State Pension Age and state pension policy as the rest of the UK, may therefore find it more difficult than the UK as a whole to afford state pension expenditure.

9. This does not mean that it would be unaffordable. Rather the Scottish Government would need to either raise higher revenues (for example through

taxation), reduce spending in other areas (for example where demographic pressures are less), or have higher Government debt levels.

State pension expenditure

10. State pension spending in the UK is projected to increase in the coming decades, allowing for the reforms in the Pensions Act 2014, which introduces a new single-tier state pension for individuals reaching SPA from April 2016 onwards.

11. Annual pensioner benefit expenditure per head of the working age population is currently higher in Scotland than it is in the UK, and is expected to increase further in the future. In 2014, pension benefit expenditure per working age individual is estimated to be £2,260 across the UK population, but £2,290 for Scotland (2014 earnings terms). The gap is set to increase between Scotland and the rest of the UK up until around 2045, after which the gap will reduce as differences between the dependency ratios narrows. In 2055, pension benefit expenditure per working age individual is estimated to be £3,230 across the UK population, and £3,330 for Scotland (2014 earnings terms).

12. The current Scottish Government:

- has stated that in an independent Scotland they would reserve judgement as to when the SPA in Scotland would increase from 66 to 67.
- proposed that it would retain the single-tier state pension as introduced by the Pensions Act 2014, set at a level of at least £160 per year (matching the figure for the rest of the UK if it is higher than £160 per week),
- commit to increase the level of the pension each year in line with the triple lock (that is, the higher of average earnings growth, CPI inflation or 2.5%).
- allow those expecting a pension based on their spouses contributions to still do so for people reaching state pension age in the 15 years after implementation.
- retain the Savings Credit element of Pension Credit.

13. Each of these policy proposals would impact on the level of expenditure on pensioner benefits in Scotland if they were to be introduced.

14. The overall impact of the Scottish Government policy proposals on annual pensioner benefit expenditure would be to further increase expenditure per working age individual in Scotland. By 2055, compared to pension benefit expenditure per working age individual estimated at £3,230 across the UK population, pension benefit expenditure per working age individual in Scotland is estimated to be £3,400 allowing for the Scottish Government policy proposals (2014 earnings terms).

15. After allowing for expected changes in earnings, and focussing on the difference between Scotland under the Scottish Government proposals and the UK as a whole, the difference peaks at £330 per individual of working age in 2032, where Scotland would still have a lower SPA than the rest of the UK. £180 of this is due to the policy changes, with the remainder due to underlying demographic differences.

16. Although the proposals put forward by the Scottish Government would increase expenditure on pensioner benefits, if implemented they could also lead to higher state pension incomes for pensioners in Scotland compared to the rest of the UK, depending on the final level of the single-tier pension on introduction in 2016 and the rate at which it is increased.

17. A median earning man aged 44 in 2014 and reaching State Pension Age (67) in 2037, who is automatically enrolled into a workplace pension at the minimum contribution level from October 2012, could have income from state and private pensions over £1 a week higher under the Scottish Government proposals than in the current UK system (in 2014 earnings terms).

18. The difference in outcomes could be greater for lower income individuals. For example, a low earning woman with career breaks, aged 44 in 2014 and reaching SPA at 67 in 2037, who is automatically enrolled in a workplace pension at the minimum contribution level when she is in work, could have an income from state and private pensions £14 a week higher under the Scottish Government proposals than in the current UK system (in 2014 earnings terms).

19. The majority of this increase in income is due to the availability of Savings Credit, as this particular individual has a low level of private pension income as a result of having relatively low earnings and spending time caring rather than in paid employment.

20. However, the relative generosity of Savings Credit means that the median earning man could be entitled to Savings Credit less than 5 years after reaching State Pension Age. This would increase his state and private pension income further under the Scottish Government proposals, compared to in the current UK system.

21. Although Savings Credit leads to a higher income in retirement, it can also reduce the relative value of remaining automatically enrolled in a workplace pension scheme. If the median earning man opted-out of his workplace pension as a result of being able to claim Savings Credit in retirement, his income from state and private pensions would be significantly lower (although his disposable income when working would be higher). However, he would receive £15 a week (2014 earnings terms) of Savings Credit per week under the Scottish Government proposals.

22. The old age dependency ratio, and therefore estimates of pensioner benefit expenditure per individual of working age, is sensitive to a number of assumptions, such as life expectancy, birth rates and in particular migration assumptions. In the ONS high migration population scenario the assumed increase in the number of people in working age in Scotland means that from 2040 onwards expenditure per individual of working age is lower in Scotland, even with the Scottish Government policy proposals, than in the UK under current UK Government policy.

Introduction

23. On 18 September 2014 Scotland will hold a referendum as to whether Scotland should become independent from the rest of the UK. If there is a “Yes” vote and Scotland does become independent, there will be far reaching consequences.

This Briefing examines the implications for Government spending on State Pensions, and the implications for pensioners in Scotland.

24. The PPI published a briefing note on 19 February 2014 which covered variations in life expectancy between the different constituent countries of the UK, and the implications of the planned UK-wide State Pension Age increases as set out in the Pensions Act 2014. This highlighted the differences between life expectancy in Scotland and the rest of the UK. The key findings are described at the start of this Briefing.

25. This Briefing builds on the earlier analysis to consider how much the UK Government would spend on State Pensions in Scotland under current plans, and how this would compare to the spending by an independent Scottish Government if they were to implement the plans set out by the current Scottish Government in September 2013, which highlighted a number of changes that would make State Pensions more generous in Scotland than in the rest of the UK. The note will also consider the impact of the changes on the incomes of individual Scottish pensioners, relative to their counterparts in the rest of the UK. The note will go on to consider (at a high level) potential wider implications on other areas of Government spending, taxation and the economy.

About the PPI

26. The Pensions Policy Institute (PPI) promotes the study of pensions and other provision for retirement and old age. The PPI is unique in the study of pensions, as it is independent (no political bias or vested interest); focused and expert in the field; and takes a long-term perspective across all elements of the pension system. The PPI exists to contribute facts, analysis and commentary to help all commentators and decision-makers to take informed policy decisions on pensions and retirement provision. The PPI does not make policy recommendations or lobby for any particular policy.

The Pensions Act 2014 – UK SPA implications

27. The Pensions Act 2014 implements a new single-tier state pension from April 2016 that will replace the current Basic State Pension (BSP) and the State Second Pension (S2P). It also makes proposals for future increases to the State Pension Age.

28. The SPA for women has been increasing from April 2010 in a series of steps to reach age 65 by November 2018 when it will be equal for both men and women. The SPA for women is increasing to 62 in 2014. Both men and women will then see their SPA increase to 66 by 2020.

29. Legislation to increase the SPA to age 67 in the mid 2030s and 68 by the mid 2040s for both sexes was enacted in 2007, although this will be superceded by the new provisions in the Pensions Act 2014. This development reflects changes in the life expectancy of the general population. As life expectancy increases, the state pension would be paid to people for an increasing number of years if the SPA remained unchanged.

30. To account for expected continued changes in life expectancy, the 2014 Act has set out a review process for SPA. The principle informing future changes to the SPA is that on average an individual should spend ‘up to a third of their adult life in retirement’. For this purpose adult life is defined as starting at age 20. In the Autumn Statement 2013, the Chancellor illustrated this principle as implying that the SPA would now increase to 68 by the mid 2030s and to 69 by the late 2040s.

31. Other factors likely to be taken into account include healthy life expectancy, socio-economic, regional variations and economic concerns such as labour market conditions for older workers. The 2014 act specifies that, as part of the review process, both the Government Actuary’s Department and an independent committee must submit reports, which must be published before the end of the period of 6 years beginning with the day on which the previous reports were published, with the first reports being published before 7 May 2017.

32. Chart 1 provides estimates of the year in which a third of adult life would be spent in retirement for the given State Pension Age (SPA). This indicates the trigger year, for each SPA, where future life expectancy would be around a third of total adult lifetime (assumed to start at age 20). For instance, if these estimates are accurate and the principle is applied, we might expect the SPA in the United Kingdom (UK) to rise to 68 in 2033, provided no allowance is made for regional variations or other factors. These figures are based on PPI analysis of ONS cohort life expectancies.

Chart 1

Year in which SPA would increase if the principle as set out in the Pensions Act 2014 were applied

PENSIONS POLICY INSTITUTE
PPI

First year in which 33% of adult life* would be spend in retirement					
New SPA	United Kingdom	England	Scotland	Wales	Northern Ireland
66	2010	2009	2020	2012	2012
67	2021	2019	2033	2023	2024
68	2033	2032	2045	2036	2037
69	2046	2045	2057	2049	2050

* Adult life starts at age 20
Source: PPI analysis of ONS population projections

33. The indication by the UK Government that SPA might increase to 68 by the mid 2030s and to 69 by the late 2040s is consistent with these estimates. The trigger year in which the SPA would need to increase to 68 to avoid more than a third

of adult life being spent in retirement is 2033. The trigger year in which the SPA would need to increase to 69 to avoid more than a third of adult life being spent in retirement is 2046.

34. These figures mask differences between the sexes; for instance, for women the trigger year in which the SPA would need to increase to 67 to avoid more than a third of adult life being spent in retirement is 2010, while the equivalent year for men would be 2032.

35. In addition, these figures apply to the UK as a whole, and there are significant differences in estimates of life expectancy within the UK. While for England, 2032 is the trigger year in which the SPA would need to increase to 68 to avoid more than 33% of adult life being spent in retirement, the first year in which this would happen in Scotland is 2045. For Wales and Northern Ireland, the trigger year in which the SPA would need to increase to 68 to avoid more than 33% of adult life being spent in retirement is 2036 and 2037 respectively.

36. The trigger year in which the SPA would need to increase to 69 to avoid more than 33% of adult life being spent in retirement ranges from 2045 (England) to 2057 (Scotland).

37. The review process outlined in the Pensions Act 2014 provides for regional differences to be taken into account. However, it is unlikely that there would be different SPAs for different areas of the UK as this may be unpopular and would be difficult to administer. If there continues to be one SPA throughout the UK, individuals in Scotland, Wales and Northern Ireland, who retire at SPA, may experience shorter retirements and may, on average, spend a greater proportion of their retirement in ill health than individuals in England. In addition, there may be significant variation in life expectancy across regions and localities within each country of the UK as well as between the countries. For example, ONS reported that healthy life expectancy was higher in the South of England than in the North of England.

38. However, regional differences in life expectancy and healthy life expectancy are themselves a significant issue that could be addressed by other policies. For example, organisations such as those that work in the field of public health are responsible for designing strategies to address health inequalities that could also affect life expectancy. Inequalities in life expectancy between different sections of the population could be addressed alongside changes in SPA and are not necessarily a reason not to increase SPA.

39. If Scotland were to vote for Independence, the Scottish Government would be able to set its own SPA for Scotland. The analysis presented here suggests that even if the new Scottish Government followed the same policy as is currently in place for the UK as a whole, the formula and review process set out in the Pensions Act 2014 would result in the SPA in Scotland increasing more slowly than in the rest of the UK (Chart 1).

40. There are also variations in life expectancies within each country. Official figures are estimated for period expectation of life (which do not take account of future improvements in mortality) in local areas. Although period life expectancies

are not necessarily as good indicators of how long a group of individuals might live compared to cohort projections (which do allow for future improvements in mortality), they are good measures for comparing differences between regions on a consistent basis.12

41. The period life expectancies for men from age 65 during 2010-12 in Scotland range from 14.9 years in Glasgow City, up to 19.4 years in the Orkney Islands. English local government areas also have varying period life expectancies for men from age 65 during 2010-12, with the lowest being 15.8 years in Manchester, up to 20.9 years in Harrow. Similarly Wales has period life expectancies for men from age 65 during 2010-12 ranging from 16.5 years in Blaenau Gwent, up to 19.4 years in Ceredigian. This shows that while the average life expectancy in Scotland may be lower than in other parts of the UK, there are parts of Scotland with better life expectancies than parts of the rest of the UK.13

42. There are also other demographic differences between the population in Scotland and rest of the UK. One demographic measure often used is the old age dependency ratio, which shows the number of people over age 65 as a proportion of people age 16 – SPA14 . This ratio, in conjunction with estimates of the total costs of spending on state pensions, can be used to help give an indication of the relative affordability of state pension expenditure.

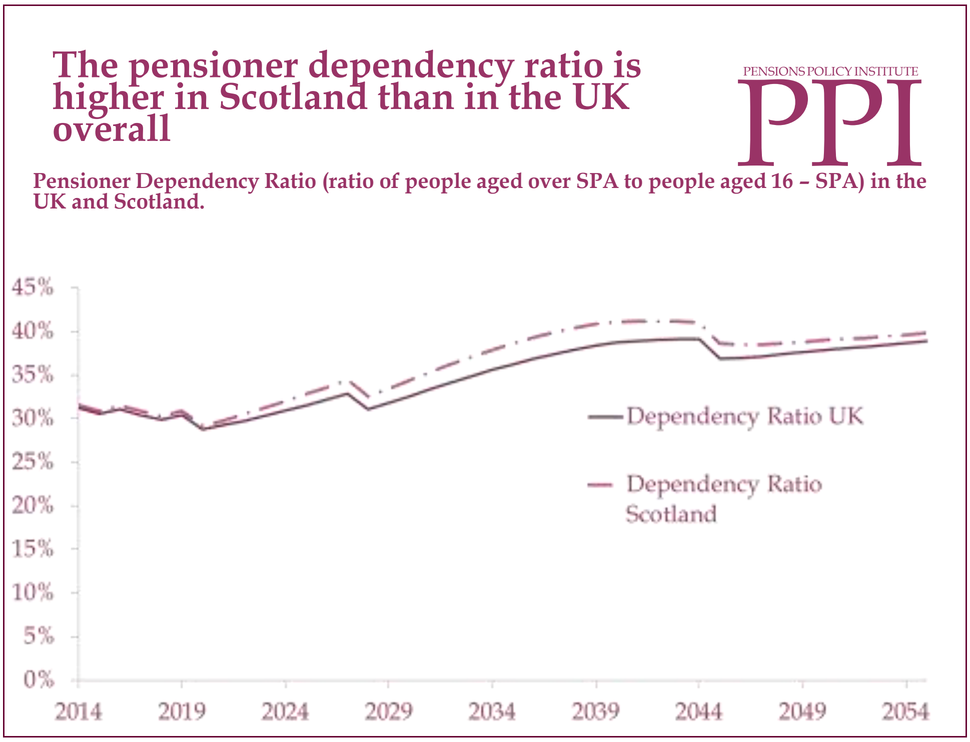
43. In principle, the lower the old age dependency ratio, the easier it is to afford a certain level of expenditure. This is because there is a relatively larger working age population to fund the expenditure through National Insurance Contributions and taxation.

44. In practice, the old age dependency ratio is only an approximate measure of relative affordability, as it does not consider actual employment or activity rates within the respective age groups. For example, if the number of people working who are older than SPA increases, or economic inactivity rates of people aged below SPA reduce, state pension expenditure would be more affordable even though the old age dependency ratio has not changed. However, as detailed projections of employment and activity rates by age over the next 40 years are not available, the old age dependency ratio is a useful proxy measure.

45. Despite lower life expectancy levels overall for Scotland, the population is ageing more quickly in Scotland than the rest of the UK. The old age dependency ratio is expected to increase more quickly in Scotland than in the UK as a whole (Chart 2).

[12] See PPI (2014) *PPI Single Tier Series Paper No. 5 – Changes to the State Pension Age* for a description of the difference between cohort and period life expectancies.
[13] Office for National Statistics (2014) *Life expectancy at birth and at age 65 by local areas in the United Kingdom, 2006-08 to 2010-12*
[14] SPA as defined in current UK legislation, before the impact of the reviews included in the Pensions Act 2014

Chart 2[15]



46. A higher old age dependency ratio can indicate that a certain level of expenditure is less affordable, as there is potentially a smaller National Insurance and income tax base available to fund the expenditure.

47. An independent Scotland, keeping the same State Pension Age and state pension policy as the rest of the UK, may therefore find it more difficult than the UK as a whole to afford state pension expenditure.

48. This does not mean that it would be unaffordable. Rather the Scottish Government would need to either raise higher revenues (for example through taxation), reduce spending in other areas (for example where demographic pressures are less), or have higher Government debt levels.

49. The old age dependency ratio is sensitive to a number of assumptions, such as life expectancy, birth rates and in particular migration assumptions. The population projections used in this analysis are based on the ONS low migration variant population projections, which are the projections used by the UK Government and the Office for Budget Responsibility. The Scottish Government may have policies to increase the level of migration to Scotland compared to the rest of the UK. The impact of higher migration levels to Scotland are illustrated at the end of this Briefing.

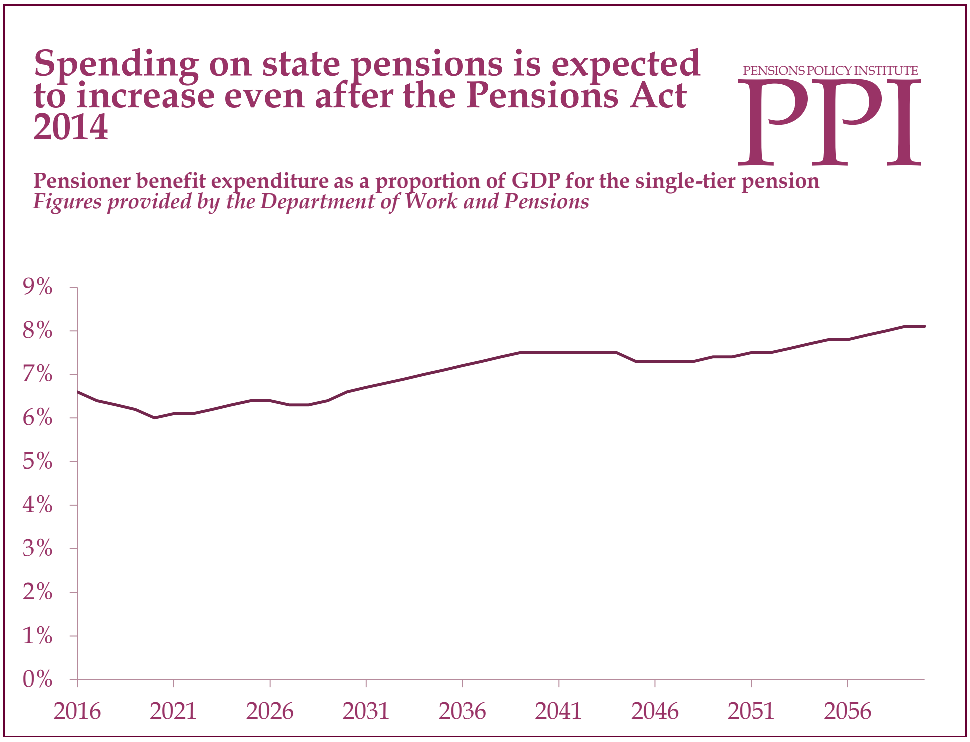
[15] Based on ONS low migration variant estimates, as used by the UK Government and the Office for Budget Responsibility. To see the impact of assuming higher migration levels for Scotland see the end of this Briefing.

Expenditure on state pensions

50. State pension spending in the UK is projected to increase in the coming decades, allowing for the reforms in the Pensions Act 2014, which introduces a new single-tier state pension for individuals reaching SPA from April 2016 onwards.

51. The final details of the new state pension are still not known. In particular, the initial level of the single-tier pension and how it will be increased in future will not be decided until the next Parliament. However, based on the details used in the Impact Analysis accompanying the 2014 Pensions Act as it went through the UK Parliament, expenditure for the UK as a whole is projected to increase from 6.6% of GDP in 2016 to 8.1% of GDP by 2060.

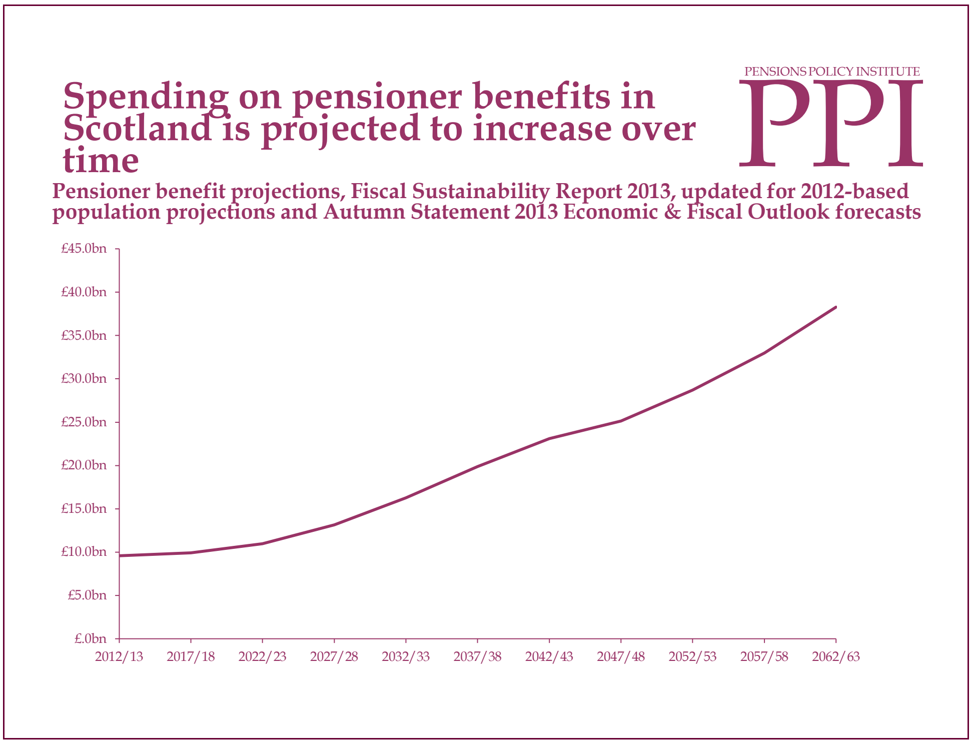
Chart 3[16]



52. Recent analysis by the DWP separately identified state pension expenditure for Scotland. The analysis suggested that in 2012/13 just under 9% of UK state pensioner benefit expenditure, £9.6bn, related to Scotland. By 2062 this is expected to increase to £38.3bn in 2012/13 prices (Chart 4). However, as a percentage of total UK pensioner benefit expenditure, Scotland's share is projected to fall to just under 8%.

[16] From PPI (2014) *PPI Single Tier Series Paper No. 6 – The long-term cost and spending implications of the single-tier pension,* figures originally provided by the DWP

Chart 4[17]



53. It can be difficult to interpret estimates that are based in today's price terms – earnings and economic growth over a period of time mean that even if expenditure is increasing in price terms it is not necessarily unaffordable. Given that expenditure is increasing for the UK as a whole, it is the additional expenditure in Scotland that is of most relevance to the debate concerning the cost in pension benefit expenditure terms of Scottish Independence. The following PPI analysis therefore considers expenditure in 2014 earnings terms, so allowing for future expected increases in earnings to give a more meaningful comparison.

54. It is possible to combine expenditure projections with demographic data, by analysing expenditure per person in the population, or subset of the population. Ideally, to get a good indication of the affordability of expenditure levels, an estimate of the expenditure per worker would be made. However, given the uncertainty about future employment levels in Scotland and the rest of the UK, an estimate of expenditure per member of the working age population can be a useful proxy indicator. This measure has been used by the Department for Work and Pensions and in other analyses of Scottish expenditure.18

55. Annual pensioner benefit expenditure per head of the working age population is currently higher in Scotland than it is in the UK, and is expected to increase further in the future (Chart 5).

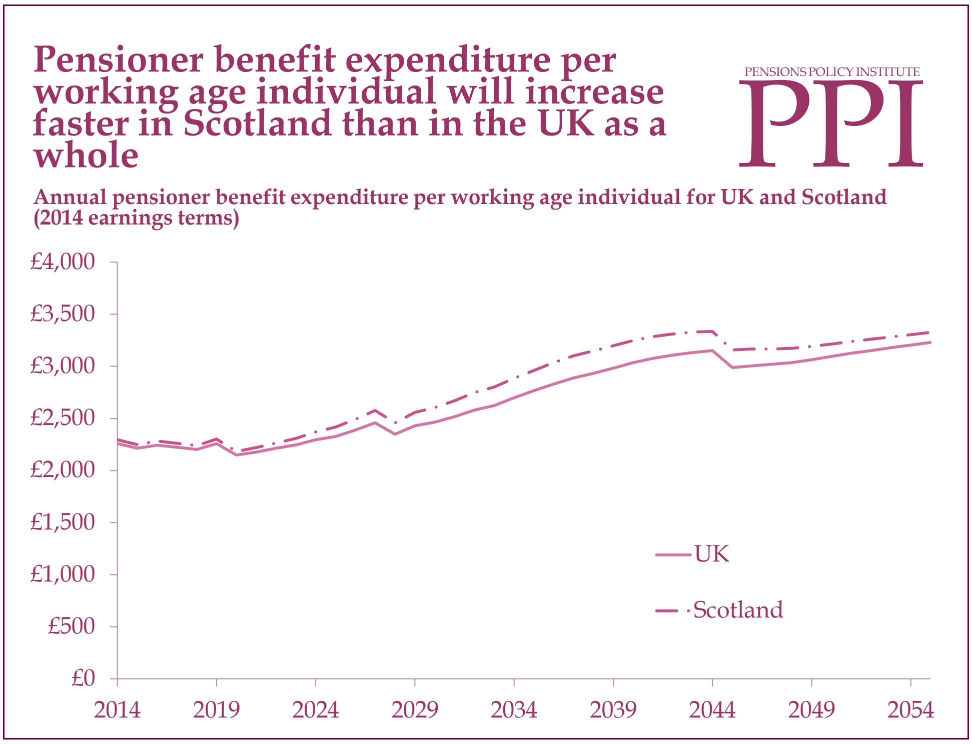
56. In 2014, pension benefit expenditure per working age individual is estimated to be £2,260 across the UK population, but £2,290 for Scotland (2014 earnings terms)19. The gap is set to increase between Scotland and the rest of the UK up

[17] DWP long-term benefit expenditure projections including Scotland, March 2014
[18] See for example DWP long-term benefit expenditure projections including Scotland, March 2014,
[19] Figures rounded to the nearest £10.

until around 2045, after which the gap will reduce as differences between the dependency ratios narrows. In 2055, pension benefit expenditure per working age individual is estimated to be £3,230 across the UK population, and £3,330 for Scotland (2014 earnings terms).

57. The initial increase is despite lower total expenditure relative to the rest of the UK, and is as a result of the proportion of the adult population who are of working age falling more quickly in Scotland.

Chart 5[20]



The impact of potential Scotland-specific policy changes

58. The current Scottish Government has stated that, in light of concerns of Scots already receiving fewer years of state pension on average than pensioners in other parts of the UK due to lower life expectancy, in an independent Scotland they would reserve judgement as to when the SPA in Scotland would increase from 66 to 67. An Independent SPA commission would be set up and tasked to report back within the first 2 years of independence.

[20] PPI estimates based on PPI modelling. The aggregate costs of pensions within an independent Scotland were calculated using the PPI aggregate model which projects current pension expenditure forward taking into account labour market, economic changes and population projections. The aggregate model was adapted to calculate aggregate costs in an independent Scotland using the 2012 Scottish population projections from the ONS for future entitlements. We have not assumed any difference in activity rates between Scotland and the UK as a whole. Projected BSP and AP entitlement in Scotland has been calibrated to actual figures for Scotland in 2012. Average earnings are assumed to increase in line with the July 2013 OBR fiscal sustainability report and both the basic state pension and single-tier pension are assumed to be uprated by the triple-lock. For further information on the assumptions used please contact the PPI.

59. The current Scottish Government has also proposed that it would retain the single-tier state pension as introduced by the Pensions Act 2014, set at a level of at least £160 per year (matching the figure for the rest of the UK if it is higher than £160 per week), and with a commitment to increase the level of the pension each year in line with the triple lock (that is, the higher of average earnings growth, CPI inflation or 2.5%). Although the impact assessment for the Pensions Act 2014 has shown expenditure if the single-tier pension is triple locked, the legislative requirement is still increases in line with average earnings, which would over time give lower levels of pension. Provision would also be made to allow those expecting a pension based on their spouses contributions to still do so, for people reaching state pension age in the 15 years after implementation.

60. The current Scottish Government has also said that it would retain the Savings Credit element of Pension Credit. They have also stated that this will be increased with increases in average earnings. The Pensions Act 2014 abolishes Savings Credit for those reaching SPA after April 2016 (with some protection for those retiring in the first 5 years after implementation who would otherwise lose support with housing costs).

61. Each of these policy proposals would impact on the level of expenditure on pensioner benefits in Scotland if they were to be introduced.

Delayed increase in SPA

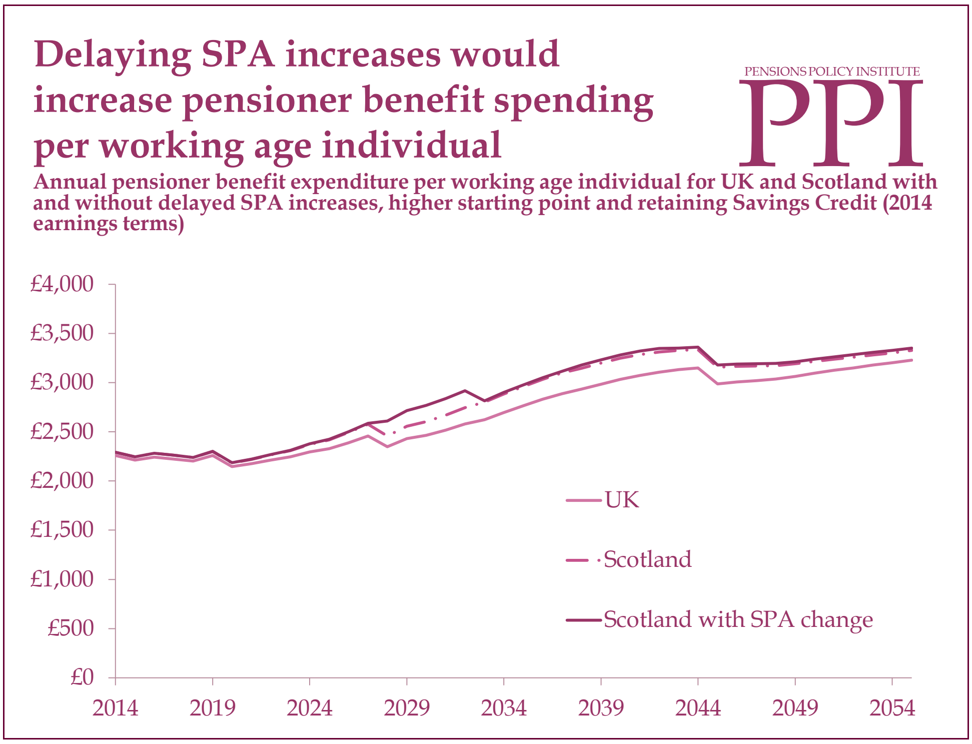
62. If the planned increase in SPA from 66 to 67 by 2026 was not introduced, and instead was introduced at the point at which 33% of an average individual's working life is spent in retirement (2033 for Scotland)21, there would be implications for the number of people over SPA, expenditure on pension benefits, and also on the number of people in work and level of economic growth in Scotland.

63. Based on the ONS low migration variant 2012 population projections, there would be an extra 73,000 people in Scotland above SPA in the period from 2027 to 2033. Pensioner benefit expenditure in Scotland would be £0.5 bn a year higher in the period between 2028 and 2032 due to a delay in state pension age rise (2014 earnings terms). 22

64. As a result of delays to state pension age, there would be a more pronounced impact on pensioner benefit per member of the working age population, as pensioner benefit expenditure is increased and the size of the working age population is reduced (Chart 6). In 2030, pension benefit expenditure per working age individual is estimated to be £2,460 across the UK population, and £2,620 for Scotland if Scotland had the same increases in SPA as the rest of the UK (2014 earnings terms). However, if SPA was still 66 in Scotland (compared to 67 in the rest of the UK), pension benefit expenditure per working age individual in 2030 would be £2,770 (2014 earnings terms).

[21] See Chart 1
[22] PPI estimates based on PPI modelling

Chart 6[23]



65. Papers by The Department for Work and Pensions24 and by Bell et al25 also considered the cost in economic terms of delaying the increase in the state pension age to 67. Bell et al calculated the annual cost to the Scottish government of delaying the increase to be around £750 million (in 2011/12 prices) for each year of that the increase is delayed; this consists of £550 million in additional pension costs paid to 66 year olds, and £200 million reduction in tax revenues. The DWP calculated the cost to the Scottish economy of around £9 billion (in 2013/14 prices) over 10 years as a result of a reduced workforce if employees retire at age 66 instead of 67. These figures are not directly comparable to the PPI estimates of pension benefit expenditure presented in this Briefing, as they are calculated using different data, methodology and presented in different price terms. However, they do give an indication of the costs above direct pension benefit costs that would arise from delaying increases in SPA.

The cumulative impact of policy changes

66. Based on the figures used by the Department for Work and Pensions in the Impact Assessment accompanying the 2014 Pensions Act, the level of £160 a week proposed by the Scottish Government would be higher than the level illustrated as being in place for the rest of the UK from April 2016 (estimated to be £158.70 per week). This would lead to a higher state pension level in Scotland than in the rest of the UK, and potentially lead to higher retirement incomes.

[23] PPI estimates based on PPI modelling
[24] Department for Work and Pensions (2014) *Long term projections of social security expenditure in the United Kingdom, including Scotland*
[25] Bell et al (2014) *Funding pensions in Scotland: Would independence matter?*

67. The commitment of the Scottish Government to increase the single-tier pension in line with the triple lock is more generous than the minimum provision contained in existing UK legislation. However, the Pensions Act impact assessment is based on the assumption that the single-tier pension would be increased by the triple lock. In this analysis, it is assumed that the triple lock would also be used to increase the single-tier pension across the UK. If the UK Government used only the minimum legislated increase for the single-tier pension of average earnings, over time the single-tier pension would grow more quickly under the Scottish Government proposals than in the rest of the UK. 26

68. The Scottish Government propsals to retain Savings Credit for individuals reaching SPA after April 2016 would also, all other things remaining equal, increase the value of pensioner benefits, leading to higher incomes and higher expenditure. Retaining Savings Credit will also impact on entitlement to HB and CTS which are taken account of in the analysis of expenditure.

69. However, despite in the first instance increasing pension incomes, retaining Savings Credit would also lead to greater reliance on means-testing benefit for basic income. Considering Pension Credit alone, in the UK 29% of households are expected to be entitled to Savings Credit and/or Guarantee Credit in 2030, falling from 50% in 2014. Under the proposed reforms in Scotland, 43% of households would remain eligible by 2030. This includes 26% of households eligible for Savings Credit alone.27 **[Note: a supplementary submission which makes a revision to this paragraph has been received and is reproduce at the end of this document]**

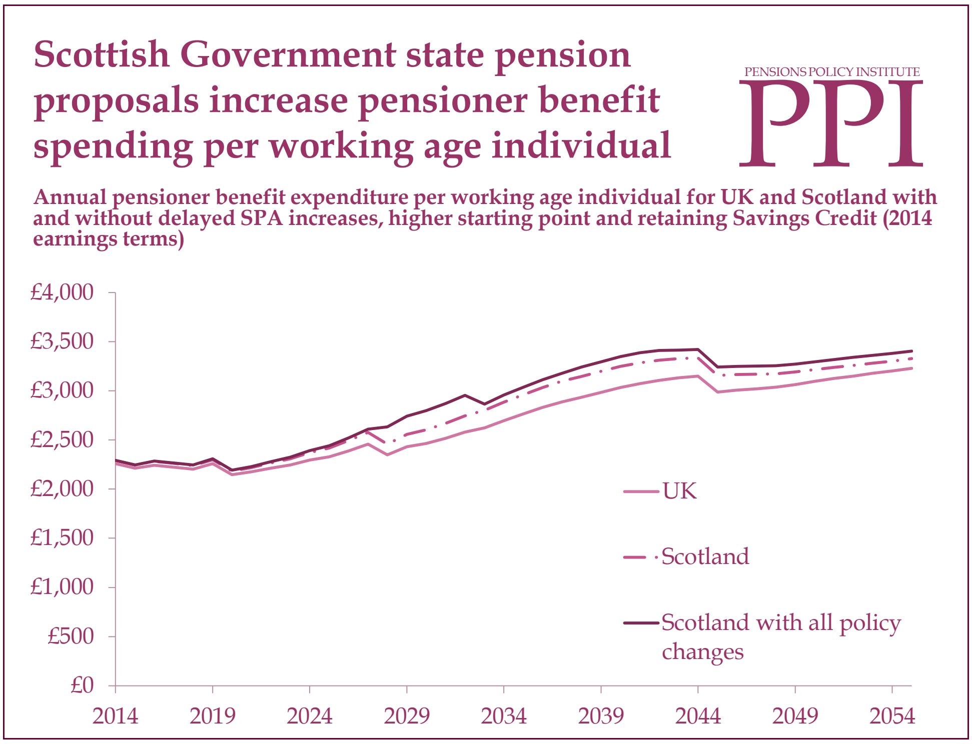
70. Reducing the reliance on means-tested benefits of this kind is one of the rationales behind the introduction of the single-tier pension and setting it above the level of the Guarantee Credit in the UK. Higher levels of means-testing has the potential to impact on the perceived value of private pension saving for individuals, and complicate the interaction with automatic enrolment into workplace pensions.

71. Without further detail it is not possible to estimate the impact of the Scottish Government's proposal to protect pensions based on spouses contributions for those reaching SPA in the first 15 years after implementation of the single-tier pension. However, this would also have the impact of improving incomes for some, and increasing expenditure on pensioner benefits.

72. The overall impact of the Scottish Government policy proposals on pensioner benefit expenditure would be to further increase expenditure per working age individual in Scotland (Chart 7). By 2055, compared to pension benefit expenditure per working age individual estimated at £3,230 across the UK population, pension benefit expenditure per working age individual in Scotland is estimated to be £3,400 allowing for the Scottish Government policy proposals (2014 earnings terms).

[26] The OBR estimates that the triple lock would add the equivalent of 0.3% a year above earnings growth to the level of the single-tier pension. This is the assumptiomn used in this paper.
[27] PPI estimates based on PPI modelling. This includes Pensioner Households who reached SPA before 2016 and so still have entitlement under the pre- single-tier state pension system.

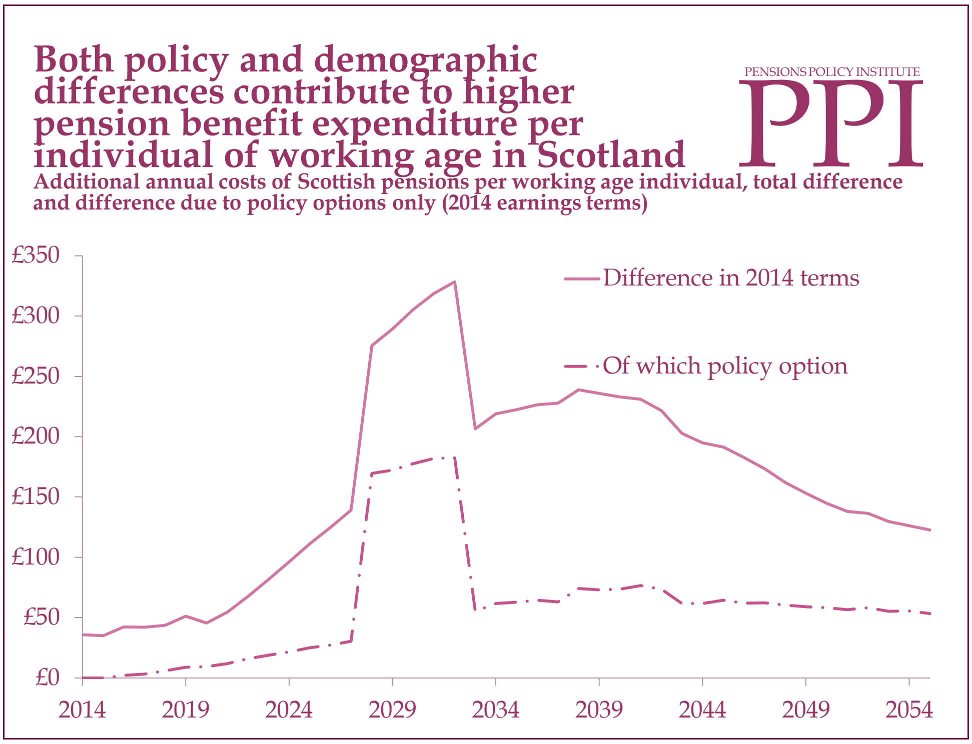
Chart 7[28]



73. After allowing for expected changes in earnings, and focussing on the difference between Scotland under the Scottish Government proposals and the UK as a whole, the difference peaks at £330 per individual of working age in 2032, where Scotland would still have a lower SPA than the rest of the UK. £180 of this is due to the policy changes, with the remainder due to underlying demographic differences (Chart 8).

[28] PPI estimates based on PPI modelling

Chart 8[29]



The impact on individuals of policy changes

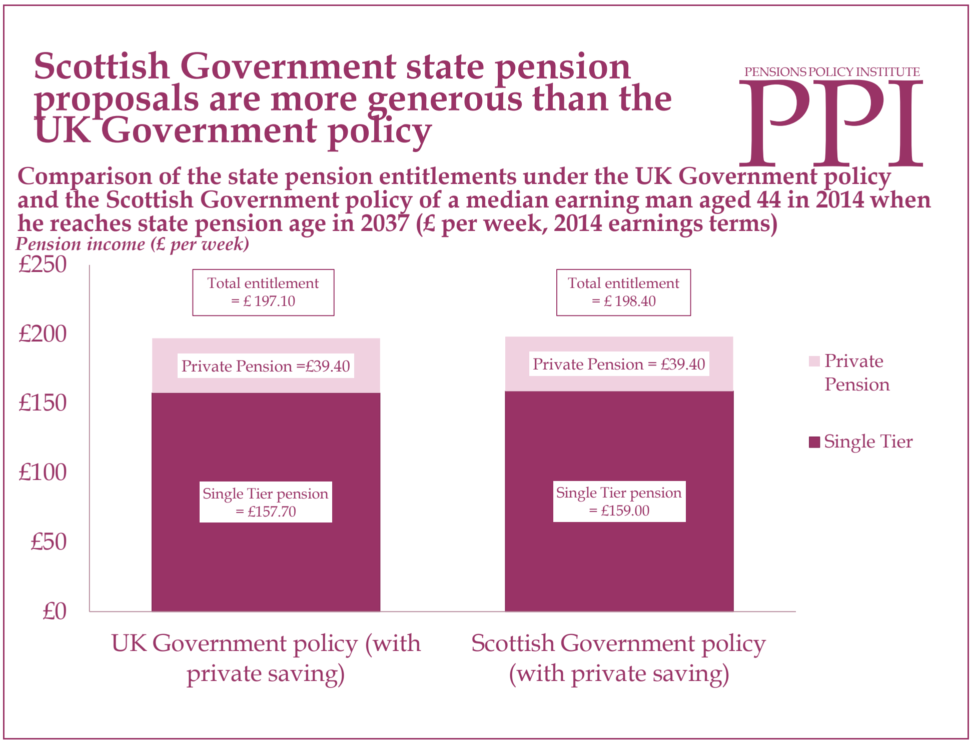
74. Although the proposals put forward by the Scottish Government would increase expenditure on pensioner benefits, if implemented they could also lead to higher state pension incomes for pensioners in Scotland compared to the rest of the UK, depending on the final level of the single-tier pension on introduction in 2016 and the rate at which it is increased.

75. This can be illustrated using hypothetical individuals. The examples used in this Briefing are assumed to be 44 in 2014, reaching a State Pension Age of 67 in 2037. This is to show the longer term policy impact of the Scottish Government proposals and the current UK Government policy to be considered, rather than the more complex transition arrangements. Using these examples also allows some of the impact of automatic enrolment into workplace pensions to be considered. For the purposes of this comparison, it is also assumed that the State Pension Age is 67 in both Scotland and the rest of the UK.

76. For example, based on a single-tier pension level of £158.70 in 2016 in the current UK system, compared to £160 a week under the Scottish Government's proposals, and assuming both are uprated by the triple lock after 2016, a median earning man aged 44 in 2014 and reaching State Pension Age (67) in 2037, who is automatically enrolled into a workplace pension at the minimum contribution level from October 2012, could have income from state and private pensions over £1 a week higher under the Scottish Government proposals than in the current UK system (in 2014 earnings terms) (Chart 9).

[29] PPI estimates based on PPI modelling

Chart 9[30]



77. The single-tier pension amount in Scotland is shown as £159 per week rather than £160 per week in the following charts as the value of the pension in 2037 (£160 in 2016 in cash terms and then increased each year in lie with the triple lock) is shown in today's earnings terms rather than the cash value in 2016.

78. The difference in outcomes could be greater for lower income individuals. For example, a low earning woman with career breaks, aged 44 in 2014 and reaching SPA at 67 in 2037, who is automatically enrolled in a workplace pension at the minimum contribution level when she is in work, could have an income from state and private pensions £14 a week higher under the Scottish Government proposals than in the current UK system (in 2014 earnings terms) (Chart 10).

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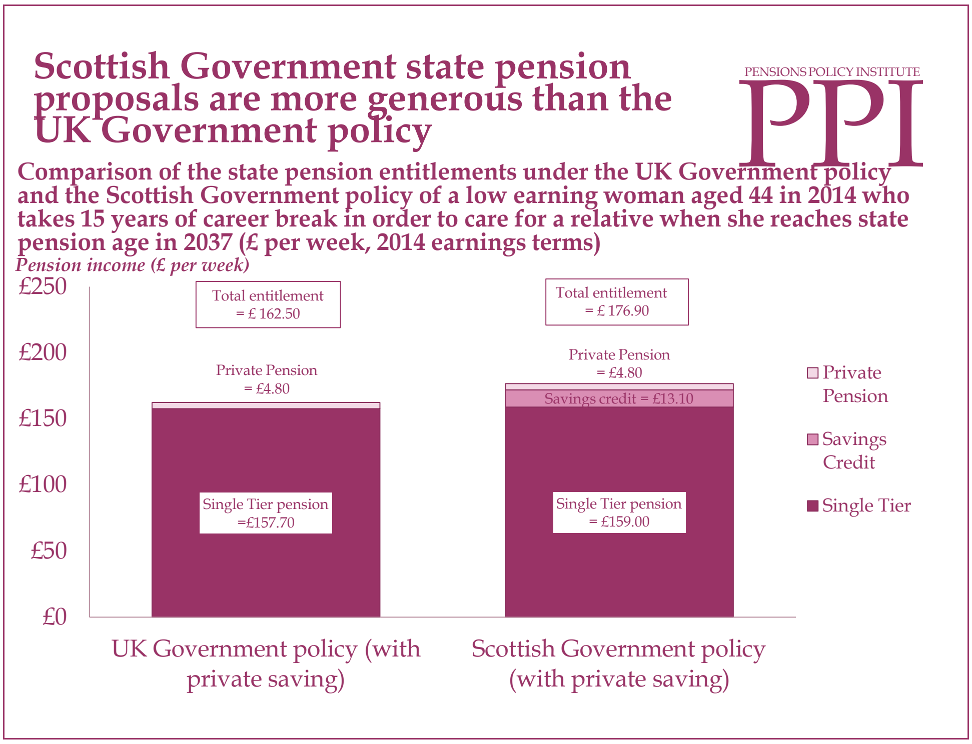
30 Earnings are assumed to be in line with age specific median earnings, for example a median earning for 44 year-old man in 2014 is assumed to earn around £30,000 a year. He is assumed to take 25% of his fund as an tax-free lump sum at retirement and convert the remaining fund into a level, single-life annuity. Figures rounded to the nearest £0.10. For further information on the assumptions used please contact the PPI.

Chart 10[31]



79. The majority of this increase in income is due to the availability of Savings Credit, as this particular individual has a low level of private pension income as a result of having relatively low earnings and spending time caring rather than in paid employment.

80. However, the relative generosity of Savings Credit means that the median earning man could be entitled to Savings Credit less than 5 years after reaching State Pension Age. This would increase his state and private pension income further under the Scottish Government proposals, compared to in the current UK system (Chart 11).

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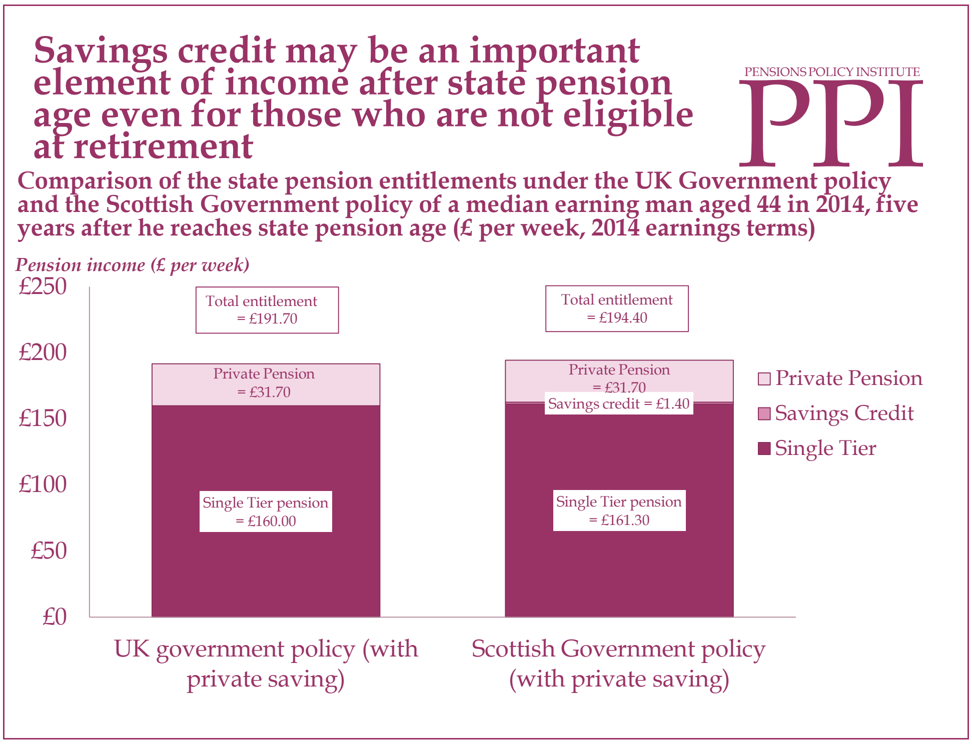
[31] Earnings are assumed to be in line with age specific earnings for an earner at the tenth percentile, for example a 44 year-old woman earning at the 10th percentile point in 2014 is assumed to earn around £12,000 a year. She is assumed to take 25% of her fund as an tax-free lump sum at retirement and convert the remaining fund into a level, single-life annuity.

Chart 11[32]

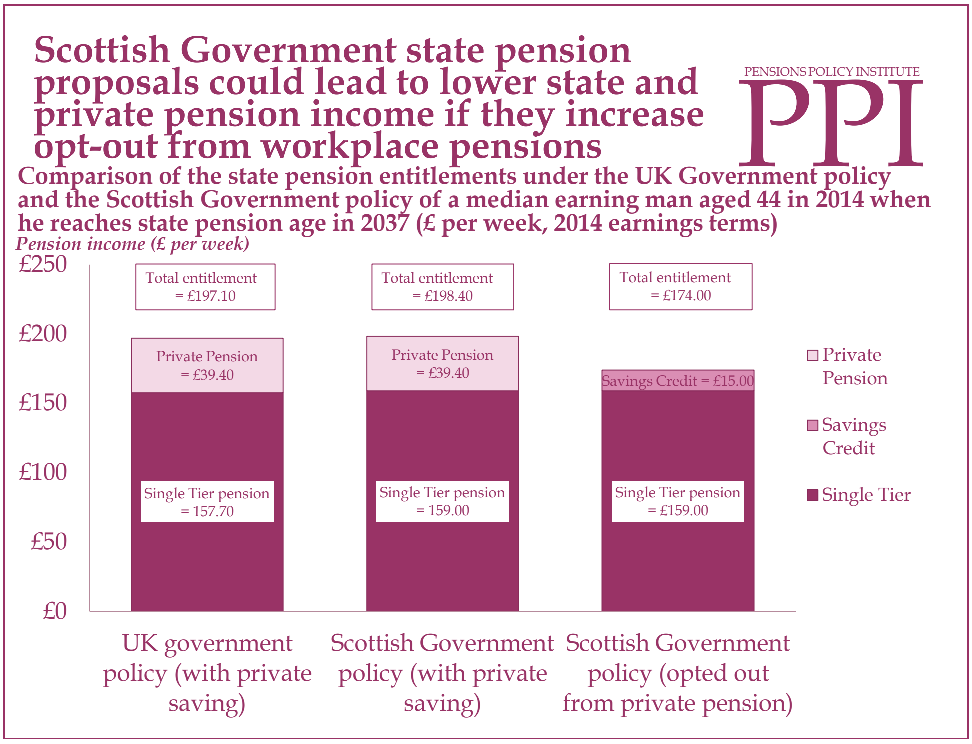


81. Although Savings Credit leads to a higher income in retirement, it can also reduce the relative value of remaining automatically enrolled in a workplace pension scheme. This is because increased private pension saving can lead to reductions in the amount of Savings Credit received. In some cases this could lead to individuals deciding to opt-out of workplace pensions, even if it would be in their best interests to remain saving – the employers contribution and tax relief received on individual contributions means that in many cases there is likely to be a good return on workplace pension saving, even for those already close to retirement.33 The initial evidence from automatic enrolment suggests that opt-out rates are very low, at less than 10%. 34

82. If the median earning man did opt-out of his workplace pension as a result of being able to claim Savings Credit in retirement, his income from state and private pensions would be significantly lower (although his disposable income when working would be higher). However, he would receive £15 a week (2014 earnings terms) of Savings Credit per week under the Scottish Government proposals (Chart 12).

[32] Earnings are assumed to be in line with age specific median earnings, for example a median earning for 44 year-old man in 2014 is assumed to earn around £30,000 a year. He is assumed to take 25% of his fund as an tax-free lump sum at retirement and convert the remaining fund into a level, single-life annuity.
[33] See for example PPI (2014), The benefits of automatic enrolment and workplace pensions for older workers.
[34] DWP (2013), *Automatic Enrolment opt out rates: findings from research with large employers*

Chart 12[35]



Estimates of pensioner benefit expenditure per individual of working age are sensitive to migration assumptions

83. The old age dependency ratio, and therefore estimates of pensioner benefit expenditure per individual of working age, is sensitive to a number of assumptions, such as life expectancy, birth rates and in particular migration assumptions. The population projections used in this analysis are based on the ONS low migration variant population projections, which are the projections used by the UK Government and the Office for Budget Responsibility. The Scottish Government may have policies to increase the level of migration to Scotland compared to the rest of the UK. The ONS also produce population estimates for Scotland based on alternative estimates of migration. Under the mid-range migration scenario, the working population will be 3% higher in Scotland by 2030 than under the low-migration scenario, and 10% higher by 2055. In the high migration scenario, the working age population will be 6% higher in 2030 and 20% higher in 2055 than in the low-migration scenario. Chart 13 shows the impact on estimates of pensioner benefit expenditure per individual of working age of these alternative assumptions, while keeping the assumption of low migration for the results of the UK overall.

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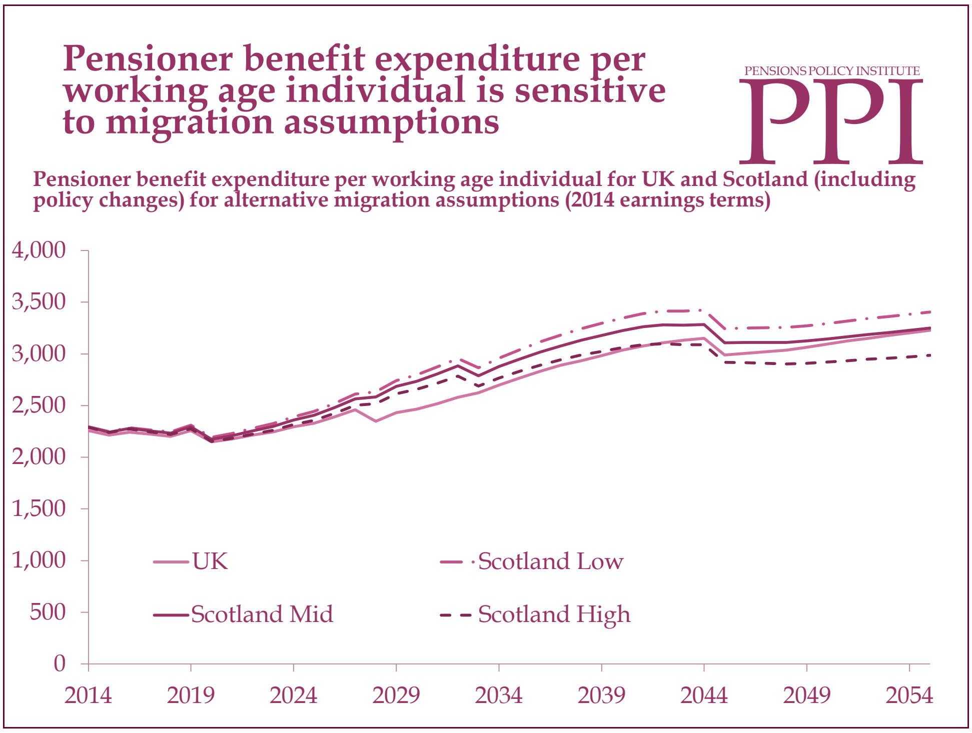
[35] Earnings are assumed to be in line with age specific median earnings, for example a median earning for 44 year-old man in 2014 is assumed to earn around £30,000 a year. He is assumed to take 25% of his fund as an tax-free lump sum at retirement and convert the remaining fund into a level, single-life annuity.

Chart 13[36]



84. Pensioner benefit expenditure per individual of working age is estimated as remaining higher in Scotland (assuming the implementation of the Scottish Government proposals) in both the low and mid migration scenarios, although expenditure is broadly equivalent in the UK and in Scotland by the 2050s under the mid migration scenario. However, in the high migration scenario the assumed increase in the number of people in working age in Scotland means that from 2040 onwards expenditure per individual of working age is lower in Scotland, even with the Scottish Government policy proposals, than in the UK under current UK Government policy.

SUPPLEMENTARY WRITTEN SUBMISSION FROM THE PENSIONS POLICY INSTITUTE – 16 JUNE 2014

Amendment to PPI written evidence to the Scottish Parliament Finance Committee, originally submitted 12 June 2014

Please find below an updated paragraph 69 of the PPI's written evidence to the Scottish Parliament Finance Committee, originally submitted 12 June 2014.

Amended paragraph 69

"However, despite in the first instance increasing pension incomes, retaining Savings Credit would also lead to greater reliance on means-testing benefit for basic income. Considering Pension Credit alone, the current UK Government policy introducing the single-tier pension in the UK is expected to lead to a significant reduction in the proportion of pensioner households entitled to Pension Credit (Savings Credit and/or Guarantee Credit). Under the proposed reforms in Scotland, retaining Savings

[36] PPI estimates based on PPI modelling

Credit would mean a much smaller fall in the proportion of Scottish pensioner households eligible for Pension Credit, despite the introduction of the single-tier pension.16

16 PPI estimates based on PPI modelling. This includes Pensioner Households who reached SPA before 2016 and so still have entitlement under the pre- single-tier state pension system"

The amendment has been made so as to focus the evidence on the potential trends in Pension Credit entitlement under the different policy proposals. The original paragraph contained initial high level estimates of Pension Credit entitlement both now and in the future. Projections of means-tested benefits are more complex than the other projections in this evidence, and require more data and assumptions. While the trends identified by the projections are clear, the detailed estimates themselves are less certain than others contained in this submission and should not be considered to be forecasts of actual entitlement levels, or used as such.

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