

## CLWYD PENSION FUND COMMITTEE

<b>Date of Meeting</b>	20 February 2019
<b>Report Subject</b>	LGPS Current Issues
<b>Report Author</b>	Clwyd Pension Fund Manager

### EXECUTIVE SUMMARY

The purpose of this report is to provide an update on the key issues affecting the LGPS. This covers many of the current ongoing issues and the latest news since the last Committee update in November 2018, in particular:

- The LGPS Cost Cap Mechanism – on 21 December 2018, SAB published its proposals on varying benefits to bring the cost back up to the long term target of 19.5%. This was followed by a written statement on 30 January 2019 (subsequently confirmed on the 7 February 2019 to apply to the LGPS), announcing a pause on this pending the outcome of an appeal in the age-discrimination McCloud case affecting the Judges Pension Scheme.
- The long awaited consultation from MHCLG on New Fair Deal was published on 10 January. The consultation also covers miscellaneous amendments. The consultation closes on 4 April and Mercer has shared their preliminary views.
- The previous consultation on the indexation and equalisation of GMPs concluded and the outcome is for indexation costs for members reaching State Pension Age between 6 April 2016 and 5 December 2018 to be extended to 5 April 2021. During this time, the Government will explore an alternative long term approach known as “conversion”.
- The continuing changing landscape to AVCs – significant changes are due at both Prudential and Equitable Life during 2019. Prudential are due to alter their offering on lifestyle strategies while all investments at Equitable Life are due to transfer to Reliance Life.
- In December, the Continuous Mortality Investigation published a new series of mortality tables (the S3 series), using data compiled over 2009/2016. These are expected to replace the current (S2) series, albeit, adjustments will be needed to introduce consistency.
- On 3 December 2018, the Department for Work and Pensions published a feasibility report and consultation inviting views on aspects relating to the creation of a pensions dashboard.

## RECOMMENDATIONS

1	It is recommended that all Committee members note this report and make themselves aware of the various current issues affecting the LGPS, some of which are significant to the operation of the Fund.
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## REPORT DETAILS

<b>1.00</b>	<b>LGPS Current Issues</b>
1.01	<p>The purpose of this report is to provide a general update to Committee Members on various current issues affecting the LGPS.</p> <p>Appendix 1 sets out a brief update on a number of significant specific issues, and also wider issues affecting the whole of the pensions industry.</p>
1.02	<p>Key points to be aware of are:</p> <ul style="list-style-type: none"><li>• The LGPS Cost Cap Mechanism – on 21 December 2018, SAB published its proposals on varying benefits to bring the cost back up to the long term target of 19.5%. The changes proposed included:<ul style="list-style-type: none"><li>○ removal of Tier 3 ill health option</li><li>○ a minimum lump sum death in service benefit of £75,000 per member, regardless of salary</li><li>○ enhanced early retirement factors for all members that are active on 1 April 2019 in respect of their final salary linked benefits only</li><li>○ lower contributions for those with salaries at the lower end of the contribution bands.</li></ul></li></ul> <p>However, this was followed by a written statement from the Government on 30 January 2019, announcing a pause on this for Public Service Pension Schemes, subsequently confirmed on the 7 February 2019 to apply to the LGPS, pending the outcome of an appeal in the age-discrimination McCloud case affecting the Judges Pension Scheme. Given that confirmation, the SAB considers it has no option but to pause its own cost management process pending the outcome of the appeal.</p> <p>Although no timescales were indicated, it is understood that it could be late 2019/early 2020, or even longer before this is resolved. We will work with the Fund Actuary to ensure the Fund is as well placed as it can be in the context of this during the 2019 valuation project.</p> <ul style="list-style-type: none"><li>• The long awaited consultation from MHCLG on New Fair Deal was published on 10 January. The consultation also covers miscellaneous amendments. The consultation closes on 4 April and Mercer has shared their preliminary views.</li><li>• The previously noted consultation on the indexation and</li></ul>

	<p>equalisation of GMPs has now concluded and the outcome is for the indexation costs for members reaching State Pension Age between 6 April 2016 and 5 December 2018 currently being met by the Fund is to be extended to cases arising up to and including 5 April 2021. During this time, it is understood that, the Government will explore an alternative long term approach known as “conversion” where previous GMP benefits are effectively converted to non-GMP on an actuarially equivalent basis. It is possible that this approach will remove the need for any further equalisation activities needed.</p> <ul style="list-style-type: none"> <li>• Significant changes are due at both Prudential and Equitable Life during 2019. Prudential are due to alter their offering by removing most of their lifestyle strategies. The Clwyd Pension Fund has recently reviewed its AVC arrangements, including modifying the lifestyling strategies available to members. Fund officers will keep under close watch and consider any announcement (in light of actions taken following the review).</li> </ul> <p>In addition, major changes are due at Equitable Life as it is expected that all investments are to transfer to Reliance Life. The Fund Officers will keep this under review as more information becomes available.</p> <ul style="list-style-type: none"> <li>• In December, the Continuous Mortality Investigation published a new series of mortality tables (the S3 series), using data compiled over 2009/2016. These are expected to replace the current (S2) series, albeit, adjustments will be needed to introduce consistency. It is expected that analysis and scheme specific characteristics will be reviewed as part of this year’s actuarial valuation.</li> <li>• On 3 December 2018, the Department for Work and Pensions published a feasibility report and consultation inviting views on aspects relating to the creation of a pensions dashboard.</li> </ul>
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<b>2.00</b>	<b>RESOURCE IMPLICATIONS</b>
2.01	Some of the actions arising out of the issues identified could mean significant changes to operational matters for the Fund. In particular, if the benefit changes discussed as part of the LGPS Cost Cap Mechanism go ahead, this would require additional administration resources to implement the changes.

<b>3.00</b>	<b>CONSULTATIONS REQUIRED / CARRIED OUT</b>
3.01	None directly as a result of this report.
<b>4.00</b>	<b>RISK MANAGEMENT</b>
4.01	<p>This report addresses some of the risks identified in the Fund’s Risk Register. Specifically, this covers the following (either in whole or in part):</p> <ul style="list-style-type: none"> <li>• Governance risks: G2 &amp; G7.</li> </ul>

	<ul style="list-style-type: none"> <li>• Funding and Investment risks: F1, F5</li> </ul>
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<b>5.00</b>	<b>APPENDICES</b>
5.01	Appendix 1 – LGPS Current Issues – February 2019 edition

<b>6.00</b>	<b>LIST OF ACCESSIBLE BACKGROUND DOCUMENTS</b>
6.01	<p>Earlier editions of the LGPS Current Issues document, tabled at previous Committee meetings.</p> <p><b>Contact Officer:</b> Philip Latham, Clwyd Pension Fund Manager  <b>Telephone:</b> 01352 702264  <b>E-mail:</b> philip.latham@flintshire.gov.uk</p>

<b>7.00</b>	<b>GLOSSARY OF TERMS</b>
7.01	<p>(a) <b>The Fund – Clwyd Pension Fund</b> – The Pension Fund managed by Flintshire County Council for local authority employees in the region and employees of other employers with links to local government in the region</p> <p>(b) <b>Administering Authority or Scheme Manager</b> – Flintshire County Council is the administering authority and scheme manager for the Clwyd Pension Fund, which means it is responsible for the management and stewardship of the Fund.</p> <p>(c) <b>The Committee – Clwyd Pension Fund Committee</b> - the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund</p> <p>(d) <b>LPB or PB – Local Pension Board or Pension Board</b> – each LGPS Fund has an LPB. Their purpose is to assist the administering authority in ensuring compliance with the scheme regulations, TPR requirements and efficient and effective governance and administration of the Fund.</p> <p>(e) <b>GAD</b> - The Government Actuary’s Department.</p> <p>(f) <b>LGPS – Local Government Pension Scheme</b> – the national scheme, which Clwyd Pension Fund is part of</p> <p>(g) <b>MHCLG – Ministry of Housing, Communities and Local Government</b> - Central Government department responsible for the LGPS</p> <p>(h) <b>LGA - The Local Government Association</b> - a politically-led, cross-party organisation that works on behalf of councils to ensure local government has a strong, credible voice with national government. Performs various Secretariat and support roles for the LGPS.</p>

- (i) **Actuarial Valuation** - The formal valuation assessment of the Fund detailing the solvency position and determine the contribution rates payable by the employers to fund the cost of benefits and make good any existing shortfalls as set out in the separate Funding Strategy Statement.
- (j) **GMP – Guaranteed Minimum Pension** – This is the minimum level of pension which occupational pension schemes in the UK have to provide for those employees who were contracted out of the State Earnings-Related Pension Scheme (SERPS) between 6 April 1978 and 5 April 1997.
- (k) **CARE – Career Average Revalued Earnings** – With effect from 1 April 2014, benefits accrued by members in the LGPS take the form of CARE benefits. Every year members will accrue a pension benefit equivalent to 1/49<sup>th</sup> of their pensionable pay in that year. Each annual pension accrued receives inflationary increases (in line with the annual change in the Consumer Prices Index) over the period to retirement.
- (l) **Annual Allowance** – the annual allowance is a limit on the capital amount that individuals can contribute to their pension each year, while still receiving tax relief. The standard Annual Allowance is £40,000 in any year. For members whose taxable earnings are over £110,000 they can fall into the Tapered Annual Allowance which falls between £10,000 and £40,000 depending on their level of earnings.
- (m) **Fair Deal** - guidance issued by the Government which applies to compulsory transfers of employment out of the public sector. Updated guidance was issued in October 2013, referred to as “New Fair Deal”, which amends some of the previous guidance.
- (n) **Scheme Pays** – the option for a member to ask the Fund to pay any tax associated with breaching the Annual Allowance. The Mandatory Scheme Pays option applied where a member exceeds the statutory Annual Allowance limit of £40,000. The Voluntary Scheme Pays option applies when a member falls into Tapered Annual Allowance or their tax charge is less than £2,000. Voluntary Scheme Pays can be used at the discretion of the Administering Authority.
- (o) **Section 114 Notice** – Refers to Section 114 of the Local Government Finance Act 1988. Once a council issues a notice under section 114 it is prohibited from entering into new agreements that incur expenditure and must strive to set a balanced budget.
- (p) **TPR** – The Pensions Regulator - the UK regulator of workplace pension schemes. TPR is focussed on ensuring that employers put their staff into a pension schemes and pay money into it, together with making sure that workplace pension schemes are run properly so that people can save safely for their later years. TPR has a specific remit in the context of Public Service Pension Schemes as defined by the Public Service Pensions Act 2013 (see its Code of Practice 14).