

CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 12 th June 2019
Report Subject	LGPS Current Issues
Report Author	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 February 2019, in particular:

- McCloud and the Cost Cap Mechanism – on 14 May 2019 SAB published its guidance concerning dealing with the potential additional costs/liabilities arising from the Cost Cap process and the McCloud and Sargeant age discrimination case (“McCloud”). The existing LGPS Regulations should be used to set employer contribution rates, but that Funds and employers should be mindful of the potential extra liabilities when setting their contribution rates at the 2019 valuation.
- On 8 May the MHCLG announced a consultation for the changes to the LGPS Valuation Cycle and the Management of Employer Risk. The deadline for responding to the consultation is 31 July 2019. One of the key proposals include amending the valuation cycle from three years to four years from 2024 (with an out of cycle valuation taking place in 2022).
- We have now passed the actuarial valuation date of 31 March 2019. There will be a number of challenges ahead given the national issues affecting the LGPS at the moment (e.g. McCloud, exit credits, interim valuations, etc.). The Fund has therefore commenced its preparation and is expected to provide membership data to the Actuary during early July.
- In April 2019, the HM Treasury issued a further consultation on the introduction of a £95,000 cap on exit payments, which confirms the overall intentions and also addresses some of the issues that need to be resolved prior to implementation. This consultation closes on 3 July.
- As noted in other reports, there have been a number of developments at the Fund’s two AVC providers;
 - Following an internal review of lifestyle options available to members, Prudential has decided to fully close their “Optimiser” lifestyle plans later this year.

- Equitable Life's transfer of policies to Utmost Life and Pensions Limited will involve some decisions on how funds will be invested on transfer.

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.
---	---

REPORT DETAILS

1.00	LGPS Current Issues
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"> • McCloud and the Cost Cap Mechanism – on 14 May 2019 SAB published its guidance on dealing with potential additional costs/liabilities arising from the Cost Cap process and the McCloud and Sargeant age discrimination case. The SAB's view is that the current benefit design as set out under the existing LGPS Regulations should be used to set employer contribution rates, but that employers and the Fund should be aware of the potential extra liabilities when setting their contribution rates at the 2019 valuation. The costs will be quantified and notified to employers as part of the valuation process so they can make provisions where relevant. • The McCloud position also has an impact on employer exits and the guidance suggests that it may be possible to take a more prudent approach when determining the exit position and therefore any payment or credit due. The Fund is considering (with the Actuary) whether a policy is required which would set out how to allow for McCloud within termination payments (noting the small number of exits that take place within the Clwyd Fund). • 2019 Actuarial Valuation – As you will be aware, we have now passed the actuarial valuation date of 31 March 2019. There will be a number of challenges ahead given the number of issues affecting the LGPS at the moment (e.g. McCloud, exit credits, interim valuations, etc.). All of these issues will need to be incorporated into Fund policies going forward. The valuation update contains further information on the progress that the Fund has made to date. • On 8 May the MHCLG announced a consultation for the changes to the LGPS Valuation Cycle and the Management of Employer Risk. The deadline for responding to the consultation is 31 July 2019. The

key proposals in the consultation are as follows:

- to amend the local fund valuation cycle of the LGPS from three years to four years from 2024 (with an out of cycle valuation taking place in 2022).
- to introduce powers for the Fund to undertake interim valuations (in full or in part) and to widen the power that allows LGPS administering authorities to amend an employer's contribution rate in between valuations.
- the introduction of a 'deferred employer' status that would allow funds to defer the triggering of an exit payment for certain employers who have a sufficiently strong covenant.
- allowing an exit payment calculated on a full buy-out basis to be recovered over a period of time for cases where 'deferred employer' status might not be appropriate.
- a review of the arrangements for paying exit credits in cases where risk sharing provisions exist within the contractual agreements with an employer.

The Fund has drafted a response to the consultation.

- Exit Payment Caps – this relates to the settlement payments that are made to employees when they leave an employer. These payments normally take the form of a lump sum cash payment, or in the form of shares/share options.

For employers participating in the LGPS, settlement payments will also include the value or "strain" of taking an unreduced pension for members over age 55. In April 2019, the Government issued a further consultation on the introduction of a £95,000 cap on exit payments, which confirms the overall intentions and also addresses some of the issues that need to be resolved prior to implementation. This consultation is across the whole of the public sector, not just the LGPS, and closes on 3 July.

The Fund has drafted a response to the consultation and this will be discussed further during the Committee meeting.

- Significant changes are due at both Prudential and Equitable Life during 2019. Following an internal review of lifestyle options available to members, Prudential has decided to fully close their "Optimiser" lifestyle plans later this year. Once the "Optimiser" plans have been fully closed, the Fund will need to be moved to new arrangements. Members will therefore be invited by Prudential to make a decision as to which lifestyle arrangement they would like to transfer. However, in the absence of any decision made by members, the Fund will need to make a decision (and notify Prudential) as to what the default lifestyle arrangement will be so the transfers can take place.

In addition, major changes are due at Equitable Life as it is expected that all investments are to transfer to Reliance Life with the transfers taking place during the latter part of 2019. Reliance Life has since been rebranded as Utmost Life and Pensions Limited. As part of the transfer deal, the Equitable Life With-Profits

	<p>Fund will close and will be disinvested, initially into a deposit fund, but then into unit linked funds. Equitable Life has recently stated that (for most investors in a policy with a 3.5% guaranteed interest rate) the Capital Distribution is now expected to increase further than the 60-70% previously expected, although full details have yet to be confirmed.</p> <ul style="list-style-type: none"> • Actuarial Factors Update – As a result of changes to the SCAPE discount rate in 2018, a number of actuarial factors have been updated and published by GAD recently, coming into effect from March/April 2019 in most cases. The factors updated include those associated with the Purchase of Additional Pension, Early Retirement, Lifetime Allowance and Pension Debits/Credits. The new factors are now being incorporated into calculation systems and routines.
--	---

2.00	RESOURCE IMPLICATIONS
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.

3.00	CONSULTATIONS REQUIRED / CARRIED OUT
3.01	None directly as a result of this report.

4.00	RISK MANAGEMENT
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"> • Governance risks: G2 & G7. • Funding and Investment risks: F1, F5

5.00	APPENDICES
5.01	Appendix 1 – LGPS Current Issues – June 2019 edition

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

7.00	GLOSSARY OF TERMS
7.01	<p>(a) The Fund – Clwyd Pension Fund – 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) Administering Authority or Scheme Manager – 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) The Committee – Clwyd Pension Fund Committee - the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund</p> <p>(d) LPB or PB – Local Pension Board or Pension Board – 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) GAD - The Government Actuary’s Department.</p> <p>(f) SAB – Scheme Advisory Board – national board established under Public Service Pensions Act 2013. Its purpose is to encourage best practice, increase transparency and co-ordinate technical and standards issues.</p> <p>(g) LGPS – Local Government Pension Scheme – the national scheme, which Clwyd Pension Fund is part of</p> <p>(h) MHCLG – Ministry of Housing, Communities and Local Government - Central Government department responsible for the LGPS</p> <p>(i) LGA - The Local Government Association - 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> <p>(j) 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.</p> <p>(k) 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.</p>

- (l) **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 1/49th 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.
- (m) **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.
- (n) **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.
- (o) **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.
- (p) **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.
- (q) **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).