

## Local Pension Board of the Warwickshire

### Pension Fund

8 July 2019

### LGPS Development update

#### Recommendation

That the Local Pension Board of the Warwickshire Pension Fund note and comment on the report.

#### 1.0 Introduction

1.1 This report seeks to update the Board on a number of different areas relating to the administration of the Warwickshire Pension Fund. Board members are requested to note the report and comment on any areas of interest or concern.

#### 2.0 Matters arising from the meeting of 11 March 2019

2.1 None.

#### 3.0 Scheme Advisory Board - Cost Valuation

##### 3.1 Background

3.1.1 Members will recall from the last meeting that the Local Government Pension Scheme Advisory Board (SAB) were in the process of reviewing the cost of the Local Government Pension Scheme (LGPS) following HM Treasury's review of the Public Sector Pension Schemes.

3.1.2 Members will also recall that the LGPS has an additional cost management mechanism because it is a funded public sector pension scheme.

3.1.3 In December the SAB issued its proposals for amendments to the LGPS to bring the benefit structure back within the 19.5% cost umbrella for future accrual and came forward with a number of proposals for consideration:

- Removal of the third tier of ill health (a temporary entitlement limited to a maximum of three years' pension)
- The introduction of a minimum death in service payment of £75,000 per member. The current death in service entitlement is 3 x pay.
- Enhanced early retirement factors for all members who are active on 1 April 2019. The enhanced factors should apply to all service.

- The introduction of revised bands for member contributions (attached). The revision of the lowest band reflects the lack of tax relief for the lowest paid members. And the expansion of band two will benefit the lowest paid members and the revision band four to reflect increases in the higher tax bracket.

- 3.2 Members will also recall that following the Government's decision to appeal the McCloud ruling the above proposals in 3.1.3 were suspended.
- 3.3 The Fund understands that a Judge is due to review the case in early July, whether the case should be referred to the Supreme Court or if there is a case or for mediation.
- 3.4 It is difficult therefore to give an indication of any possible impact on local authority funds as to whether benefits will need recalculating or whether the changes shown above are introduced retrospectively.
- 3.5 The problem for the Fund is how to allow for any impact with the determining of employer contribution rates and deficits in the ongoing triennial valuation and should the results be caveated because of McCloud.
- 3.6 There is a further problem in calculating cessation payments for employers exiting the Fund.

## **4.0 LGPS Consultation on valuation cycles / managing employers**

### **4.1 Background**

- 4.1.1 Transitioning local government pension funds from a three yearly to four yearly valuation cycle so that the national LGPS cost management valuation and local LGPS valuations are aligned from 31 March 2024 onwards. This change is being brought in to match the same four yearly cycle that applies to the non-funded public service schemes.
- 4.1.2 Allow Funds to carry out interim valuations between formal valuation dates, and adjust employer contribution rates upwards or downwards to reflect changing circumstances.
- 4.1.3 Allow Funds more flexibility around the way in which they manage employers that exit the LGPS by spreading cessation debt repayments or setting up deferred debt arrangements.
- 4.1.4 Removing the requirement for further education, higher education and sixth form colleges in England to offer new employees access to the LGPS.

## 5.0 Exit Payment Cap

- 5.1 The government first introduced the idea of capping exit payments to £95k in 2015 and have now issued final consultation for introduction later this year.
- 5.2 The £95k exit cap applies to most public sector employers and simply means the total exit payments which can be made to an employee must not exceed £95,000.00 in total
- 5.3 For the LGPS this cap also includes any actuarial strain incurred if the benefits are released early on the grounds, for example, redundancy or efficiency etc
- 5.4 It remains unclear as to the precise impact on the LGPS benefits and funds are waiting for further guidance. One issue however, is that the calculation of the actuarial strain is at fund level (i.e. there is not a national approach) and therefore the amount of the strain can differ from one fund to another. This could mean a member in one fund may be affected and not in another.

## 6.0 Financial Implications

- 6.1 There are no direct implications at this point in time.

## 7.0 Background papers

None

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The report was not circulated to elected members prior to publication.