

## **Staff & Pensions Committee**

### **Pensions Administration - Preparations for McCloud**

14 December 2020

#### **Recommendation(s)**

1. Note and comment on the report.

#### **1. Background**

- 1.1 When the Local Government Pension Scheme changed from a final salary to a career average pension scheme in 2014, protections for older scheme members were introduced. Similar protections were provided in other public sector pension schemes. The Court of Appeal ruled that younger members of the Judges' and Firefighters' Pension schemes have been discriminated against because the protections do not apply to them. The Government has confirmed that there will be changes to all main public sector schemes, including the LGPS and Fire Pension Schemes, to remove this age discrimination. This ruling is often called the 'McCloud judgment'.
- 1.2 The Government will be making changes to remove the discrimination from the LGPS and Fire Pension Schemes. If scheme members qualify for this new protection it will automatically be applied and they do not need to claim.

#### **2. Implications for LGPS and Fire Pension Scheme Members**

- 2.1 The protection takes the form of an 'underpin'. For LGPS members, instead of having benefits based simply on CARE from 1 April 2014, affected members will have their benefits calculated as the best of CARE and Final Salary until the cut-off date, 31 March 2022. The effect will be retrospective, meaning that benefits dating back to April 2014 will need to be recalculated for leavers.
- 2.2 For Fire Pension Scheme members, depending on a person's circumstances, many scheme members are likely to be better off in the reformed schemes (CARE) rather than the legacy (Final Salary) schemes. The government believes it is therefore not fair to simply move everyone back into the legacy schemes, even though this would be enough to remove the unlawful discrimination identified by the Court of Appeal.
- 2.3 The government proposes to provide members with the option to choose between receiving legacy or reformed scheme benefits in respect of their service during the period between 1 April 2015 and 31 March 2022. This is

referred to as the remedy period. Recent government consultations sought views on that proposal and especially on two possible approaches:

1. an immediate choice
2. a deferred choice underpin (DCU)

- 2.4 Under the immediate choice exercise, members would make this decision in the year or two after the point of implementation in 2022. For many members, this will be some years prior to retirement, and at a time when there is still some uncertainty over the precise benefits that would accrue to them in the alternative schemes.
- 2.5 In contrast, under DCU, this decision would be deferred until the point at which a member retires (or when they take their pension benefits). Until that deferred choice is made, all members would be deemed to have accrued benefits in the legacy scheme, rather than the reformed scheme, for the remedy period.

### **3. Implications for Pensions Administration and Payroll**

- 3.1 For the Pensions Administration service this will mean a change to how benefits are calculated going forward and the need to recalculate benefits for a large proportion of members who have left the scheme since 2014; even though the new underpin is not actually expected to increase the benefits for most, a check for those members will need to be undertaken.
- 3.2 Whilst the impact on members is not expected to be material, this is likely to impact significantly on pensions and payroll administration processes and systems as well as requiring a robust communication exercise with employers and scheme members. The additional resource and administration budget requirements to implement the remedy will be substantial.
- 3.3 A Full Business Case was considered and approved by the Portfolio Change Board on 11 November and work has now commenced on establishing project governance arrangements, commissioning of technical project management and activity on the various workstreams.

### **4. Financial Implications**

- 4.1 This is a significant project, and there is expected to be a considerable cost to implementing the McCloud remedy for both the LGPS and Fire Pension Schemes. The cost relating to the LGPS will fall to the Pension Fund, while the work relating to Fire Pension Schemes will fall on the Council's revenue budget. In addition to the extra staffing that will be needed in the Pensions Administration and HR / Payroll functions, technical project management is required to ensure that the remedies are being implemented in a way that meets our statutory obligations. There will also be costs relating to

communications with scheme members and employers, to data quality management and to the changes needed to pensions software.

- 4.2 The total estimated cost of implementing the McCloud remedy for LGPS and Fire Pension Schemes is £500,000, as summarised below:

	<b>LGPS £'000</b>	<b>Fire Pensions £'000</b>	<b>Total £'000</b>
Additional staffing	321	9	330
Project management	101	3	104
Communications	10	1	11
Data quality management	6	8	14
Pensions software	29	1	30
Contingency	11	0	11
<b>Total</b>	<b>478</b>	<b>22</b>	<b>500</b>

- 4.3 The likely ongoing impact of the McCloud remedy on LGPS contribution rates was taken into account in the 2019 triennial valuation process and will need to be updated in the next valuation. However, it is not likely to be material.
- 4.4 Similarly, the impact on employer contribution rates for Fire Pensions is expected to be minimal, and these costs and any immediate detriment costs are, in any case, effectively reimbursed by the Home Office. The next valuation of the Firefighters Schemes is due to start in December 2020, based on data up to 31 March 2020, and this will take account of the likely impact of McCloud.

## **5. Project Management**

- 5.1 In order to manage this project, stakeholders and workstreams have been identified. The workstreams will be delivered by both internal and external resources. The workstreams are:
1. Data collection
  2. Communications, members, employers and other stakeholders
  3. Systems
  4. Benefit rectification
  5. Review of administration processes and documentation
  6. Specialist areas (complex benefit cases)
  7. Funding, accounting, investments and cashflows
  8. Governance
- 5.2 Due to the significance of this work, and the potential legal consequences, it has been established that a subject matter expert from outside of the Pensions Administration team is required to manage the project and ensure all the key deliverables are identified, documented and reported to relevant stakeholders. This cannot be undertaken internally due to the amount of work

involved and the need to ensure BAU work is not impacted. Therefore, it is proposed that work will be contracted out to manage this project.

## 6. Timescales associated with the decision and next steps

- 6.1 The PAS have started work on identifying affected members and initial communications have been sent out to employers regarding the data collection exercise.
- 6.2 A workshop will be held in December for the PAS and internal stakeholders to look at workstreams. Following this the PAS management team will meet to identify team members who will be working on the McCloud project and the need to backfill these posts.
- 6.3 Data collection from employers will need to begin in January 2021. Data collection templates have been received from the Local Government Association (LGA), Scheme Advisory Board (SAB). Heywood the supplier of the pensions administration system is developing a tool to upload data collected onto pension scheme members records, this should be available in early 2021.

## 7. Environmental Implications

None.

## Background Papers

None

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The report was circulated to the following members prior to publication:

Local Member(s): None

Other members: Councillors Kaur & Gifford

