

Warwickshire Local Pension Board

2 February 2022

Regulatory and Policy Update

Recommendation(s)

That the Local Pension Board notes and comments on the content of the report.

1. Executive Summary

- 1.1 This report sets out the policies reviewed either as part of an annual review or where there have been minor amendments required in year.
- 1.2 The report also updates the Board on regulatory developments in the pension arena.

2. Financial Implications

None.

3. Environmental Implications

None.

4. Supporting Information

Cyber Security Policy

- 4.1 Officers have reviewed the Cyber Security Policy and are content that it does not require any amendments.
- 4.2 Officers continue to liaise with colleagues in ICT to ensure that the Pension Fund's ICT infrastructure remains robust. This will include future penetration testing exercises and an audit of the safeguards in place.
- 4.3 The Pension Fund has also contacted all its external consultants and contractors where data is shared requiring the completion of System Specific Risk Assessment pro-formas to receive assurance that their systems comply to the standard expected by and for the County Council.

5. Regulatory Update

Cost Management Mechanism

- 5.1 The Cost Management Mechanism (the mechanism) was introduced following the Hutton review with the aim of providing protection to taxpayers and employees against unexpected changes (expected to be increases) in pension costs.
- 5.2 The Local Government Pension Scheme is subject to two cost management processes which are designed to manage some of the LGPS costs and risks to employers.
- 5.3 These processes can result in changes to the scheme benefit structure and/or scheme members contributions where the costs are found to be either higher or lower than the scheme's target cost set at the time of the implementation of the 2014 Scheme.
- 5.4 The change in cost is measured by the Government Actuary's Department every four years; one relating to a process managed by HM Treasury and an additional one, specific for the LGPS, managed by the Scheme Advisory Board.
- 5.5 Members will recall that the 2016 cost management process (which resulted in enhancement in the benefit structure and possible reductions in contributions for scheme members) was paused due to the McCloud judgement.
- 5.6 Following amendments issued by HM Treasury Directions on 7 October 21, confirming that costs resulting from the McCloud remedy should be treated as scheme member costs within the cost management process, the Scheme Advisory Board has now concluded its 2016 process.
- 5.7 Despite recording a slight reduction in LGPS costs the Scheme Advisory Board has recommended no benefit/contribution changes to the LGPS minister noting "the unwelcome impact of having to backdate any changes to April 2019 would have on already hard-pressed administration teams."
- 5.8 The Scheme Advisory Board, however, remains determined to revisit the third-tier ill health provision (a temporary pension awarded for a maximum of three years) and contributions for the lowest paid members. Recommendations in these areas will be made separately to the cost management process.
- 5.9 It is anticipated that the Government Actuary's Department will now finalise the 2016 valuation for HM Treasury's cost management process. This is not expected to lead to any changes to the LGPS.
- 5.10 Finally, it is understood that the trade unions plan to bring a Judicial Review challenging the legality of the Government's decision to allocate the costs arising from McCloud as costs to scheme members.

5.11 Officers will keep the Board apprised of any future developments.

Pension Fund Accounts (Form SF3 data published)

5.12 Each year all local authority pension funds in England and Wales are required to submit data on the administration and fund management to the Department for Levelling Up, Housing and Communities who in turn will produce national statistics for the LGPS. The highlights are:

- Total expenditure of £13.4 billion
- Total income of £17.2 billion, an increase of 7.5% on 2019/20
- Employer contributions increased by 32.46% on 2019/20 to £10.2 billion. (This increase is due to the number of employers paying contributions 'up-front').
- Employee contributions of £2.4 billion.
- The market value of LGPS funds in England and Wales on 31 March 2021 was £332 billion, an increase of 22.4%.
- There were 6.1 million scheme members on 31 March 2021: 2 million active members, 1.8 million pensioners, 2.2 million deferred members
- There were 82,567 retirements in 2020/21, a decrease of 6.4% compared to 2019/20.

September 2021 CPI rate announced

5.13 The Office for National Statistics announced the Consumer Price Index (CPI) rate for September 2021 as 3.1%. This rate is higher than the rate assumed at the 2019 triennial valuation of 2.3% CPI, although the rate of CPI applicable for increases to pensions in April 2020 was 0.5%. Officers and their advisors will need to consider a rate of CPI for the forthcoming triennial valuation.

5.14 In recent years the Government has used this rate to base increases under the Pensions Increase Act 1971 and revaluation of pension accounts under section 9 of the Public Service Pensions Act 2013 on the rate of CPI in September of the previous year.

5.15 Local Authority pension funds await confirmation that this is the rate of increase applicable to all pensions in payment and the rate of revaluation for active member pension accounts and deferred pensions.

6. Timescales associated with the decision and next steps

None.

Appendices

None

Background Papers

None

	Name	Contact Information
Report Author	Neil Buxton	neilbuxton@warwickshire.gov.uk
Assistant Director	Andrew Felton	andrewfelton@warwickshire.gov.uk
Strategic Director	Strategic Director for Resources	robpowell@warwickshire.gov.uk
Portfolio Holder	Portfolio Holder for Finance and Property	peterbutlin@warwickshire.gov.uk

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

Local Member(s): None.

Other members: n/a