

## Staff and Pensions Committee

9 September 2019

### Local Government Pension Scheme - Update

#### Recommendation

That the Committee note and comment on the report.

#### 1.0 Introduction

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

#### 2.0 Options and Proposal

##### 2.1 Background

- 2.1.1 The Local Government Pension Scheme Advisory Board (SAB) are 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 and the LGPS has an additional cost management mechanism because it is a funded public sector pension scheme.
- 2.1.3 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.
- 2.2 Following the Government's decision to appeal the McCloud ruling the above proposals in 2.1.3 were suspended.

- 2.3 The Supreme Court refused the Government's application to appeal and the case has been referred back to the Employment Tribunal for determination. In a statement The Secretary of State accepted the Court's ruling.
- 2.4 Until the Employment Tribunal has made its determination it is difficult for local authority pension funds (and other public service schemes) to assess the full impact on the benefit structure for members. But for the LGPS, it is likely to mean the extension of the rule of 85 protections involving the recalculation of some benefits awarded and in payment, the amendment of administration systems and updating deferred benefits awarded. For Firefighter pension schemes, officers who transitioned from the 1992 scheme to the 2015 scheme, will now presumably be reinstated and those who are in receipt of their pension may also require their entitlement recalculating.
- 2.5 There may be an argument that some LGPS and FPS members would not have retired had the protections remained in place.
- 2.5 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.
- 2.6 The Fund Actuary has also commented that there is a further problem in calculating cessation payments for employers exiting the Fund.

### **3.0 LGPS consultation on valuation cycles / managing employers**

#### **3.1 Background**

- 3.1.1 This consultation whether local government pension funds should transition 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.
- 3.1.2 There is a proposal to allow Funds to carry out interim valuations between formal valuation dates, and adjust employer contribution rates upwards or downwards to reflect changing circumstances.
- 3.1.3 There is a proposal to 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.
- 3.1.4 The consultation also proposes removing the requirement for further education, higher education and sixth form colleges in England to offer new employees' access to the LGPS. The WPF currently has two colleges of further education; the Warwickshire College Group and North Warwickshire, Hinckley and South Leicestershire College Group.

## 4.0 Exit Payment Cap

- 4.1 The government first introduced the idea of capping exit payments to £95k in 2015 and issued consultation proposals with a view to implementation later this year. It is likely that the original timescale will slip given the responses to the consultation.
- 4.2 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 £95k.
- 4.3 For the LGPS this cap also includes any actuarial strain incurred if the benefits are released early on the grounds of, for example, redundancy or efficiency etc.
- 4.4 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.
- 4.5 This policy was designed with the idea of reducing pay outs to high earners but the cap will foreseeably impact on lower earners with significant lengths of service.

## 5.0 Financial Implications

- 5.1 The McCloud judgement will have a financial impact but the value of this is not certain at this time. The pension fund accounts and the County Council accounts both make reference to this issue as a contingent liability at this time.
- 5.2 The exit cap would reduce costs but the value of this is not known.
- 5.3 The Fund is consulting with the Actuary to determine the potential financial implications and further updates will be provided when more information becomes available.

## 6.0 Background papers

None

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The report was not circulated to members prior to publication.