

Staff & Pensions Committee Regulatory Update

14 September 2020

Recommendation

That the Committee notes and comments on the report.

1. Executive Summary

- 1.1 This report seeks to update the Committee on current and future developments in the LGPS and Firefighter Pension Schemes.

2. Financial Implications

- 2.1 Although there are no immediate costs identifiable, provision was made in the valuation on the level of prudence used in employer funding plans to make allowance for McCloud.

3. Environmental Implications

None

4. Supporting Information

- 4.1 **McCloud**; Responses to the Government consultations on the proposed remedy for the McCloud judgement are being prepared and will be communicated separately.
- 4.2 **Exit payment cap**; Government has issued a response to the consultation and has confirmed it intends to issue regulations capping exit payments on early retirement to £95,000. No timescale has been provided as to when regulations will be issued, although indications are that these will be in force by the end of 2020.

The Exit payments cap cover the following payments:

- redundancy payments
- severance payments

- pension strain costs – which arise when an LGPS pension is paid unreduced before a member’s normal pension age

What isn’t included:

- death in service payments
- ill health retirement
- pay in lieu of holiday
- payments made as a consequence of an order made by a court or tribunal
- pay in lieu of notice which do not exceed a quarter of the persons salary

Although statutory redundancy pay is included this cannot be reduced and if the cap is exceeded other elements that make up the exit payment must be reduced.

The major impact is on members over the age of 55 who qualify for an unreduced pension under the Local Government (Early Termination of Employment) (Discretionary Compensation) Regulations 2006. Changes to those regulations will prevent the payment of severance in addition to a pension strain cost.

This raises questions around the inequity of lack of choice as well as the situation of different strain costs between LGPS funds resulting in different reductions being made for the same length of service and pay. This is because the strain cost is calculated at a local level based on the demographic make-up of the members in each fund. It also appears to be the intent to provide a facility for the member to buy out the reduction.

The Scheme Advisory Board understands that the Ministry for Housing, Communities and Local Government is looking at options to introduce choice for members to take a deferred benefit rather than a reduced pension. Also, guidance on the calculation on standardised strain costs and the option to purchase the shortfall. Any changes to the LGPS regulations would be subject to a further consultation.

There are circumstances, set out in draft Treasury Directions, when the cap must be or may be relaxed by a minister or the authority. However, most are subject to consent by Treasury even if passed by full council.

4.3 **Cost Cap mechanism;** following the consultation document being issued on McCloud, the Government has confirmed that it intends to continue with the cost cap mechanism for public service pension schemes

- a. For the LGPS this will involve the Scheme Advisory Board and the Ministry for Housing, Communities and Local Government reviewing the cost of McCloud and the affordability of the proposed changes which may or may not see some of the proposals being taken forward.
- b. The proposed changes are:
 - i. Removal of tier three ill health retirement

- ii. minimum lump sum death in service benefit of £75,000 per member
- iii. enhanced early retirement factors for members in service on 1 April 2019
- iv. a review of member contribution bands

5 Timescales associated with the decision and next steps

5.1 Officers will keep the Committee updated on future developments.

Background Papers

None

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

Local Member(s): None

Other members: This will be members of the Fire and Resources OSC