

CLWYD PENSION FUND COMMITTEE

Date of Meeting	29 November 2017
Report Subject	LGPS Current Issues
Report Author	Clwyd Pension Fund Manager

EXECUTIVE SUMMARY

The purpose of this report is to provide an update on the key issues affecting the LGPS as at November 2017 and makes recommendations for Members to review the update document found at Appendix 1 from Mercer. This covers many of the current ongoing issues and the latest news since the last Committee update in September, in particular:

- The anticipated April 2018 pension increase of 3% and the decision to remove the public sector pay cap for police and prison officers.
- Updates on the progress of current Regulations and Consultations - the Section 13 exercise, the New Fair Deal consultation, Exit Payments and the Cost Management process.
- Concerns from ICAS (The Institute of Chartered Accountants in Scotland) about the treatment of charities when they exit an LGPS Fund and the possible impact on the English and Welsh Funds.
- Member pension taxation issues, including Annual Allowance and Voluntary Scheme Pays.

RECOMMENDATIONS

1	It is recommended that all Committee members note this report and make themselves aware of the various current issues affecting the LGPS, some of which are significant to the operation of the Fund.
2	In particular, members are asked to note: <ul style="list-style-type: none"> • the April 2018 Pension Increase • the latest updates on current Regulations and Consultations • the taxation issues update which may have a significant impact on the Fund and lead to further action in the future.

REPORT DETAILS

1.00	LGPS Current Issues
1.01	<p>The purpose of this report is to provide a general update to Committee Members on various current issues affecting the LGPS.</p> <p>Appendix 1 sets out a brief update on a number of significant specific issues, and also wider issues affecting the whole of the pensions industry.</p>
1.02	<p>Key points to be aware of are:</p> <ul style="list-style-type: none">• April 2018 pension increase will be 3% based on the September CPI inflation rate. This will have a small detrimental effect on the funding position of the LGPS.• The removal of the public sector pay cap initially for police and prison officers. If this is then applied to Local Government then there will be an impact on pensionable salaries and ultimately on the liabilities for the Fund (given an allowance for the current cap was made as part of the 2016 valuation).• The impact of any announcements made in the Autumn Budget.• Response to the New Fair Deal consultation is now not expected until the New Year.• The Government is planning to issue consultations on exit payments and claw back provisions around Christmas time.• Concerns from ICAS (The Institute of Chartered Accountants in Scotland) about the treatment of charities when they exit an LGPS Fund and the possible impact on the English and Wales Funds.• Cost Management - These calculations may lead to compensatory benefit or member contribution changes from the date of change which would be 2019 at the earliest.• For Voluntary (as opposed to Mandatory) Scheme Pays, the deadline for the Fund to pay tax charges on behalf of members to HMRC is by 31 January 2018.

2.00	RESOURCE IMPLICATIONS
2.01	<p>Some of the actions arising out of the issues identified will take significant input from Fund officers, including but not limited to responding enquiries regarding pension tax implications.</p>

3.00	CONSULTATIONS REQUIRED / CARRIED OUT
3.01	<p>None directly as a result of this report but noting the developments in the highlighted areas.</p>

4.00	RISK MANAGEMENT
4.01	<p>This report addresses some of the risks identified in the Fund's Risk Register. Specifically, this covers the following (either in whole or in part):</p> <ul style="list-style-type: none"> • Governance risks: G2 & G7.
4.02	<p>Some key risks need to be considered. In particular the outcome of the Cost Management process and the consultation on Indexation and Equalisation of GMPs, the findings of the Government Actuary's Department on the Section 13 exercise and the outcome of the Autumn Budget. Matters arising will need to be dealt with under the overall Governance objectives.</p> <p>This report also is intended to support the Knowledge & Understanding of the Committee and officers thereby reducing risk around decision making as per the Risk Register noted in 4.01.</p>

5.00	APPENDICES
5.01	Appendix 1 – LGPS Current Issues - November 2017 edition

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	<p>Earlier editions of the LGPS Current Issues document, tabled at previous Committee meetings.</p> <p>Contact Officer: Philip Latham, Clwyd Pension Fund Manager Telephone: 01352 702264 E-mail: philip.latham@flintshire.gov.uk</p>

7.00	GLOSSARY OF TERMS
7.01	<p>(a) The Fund – Clwyd Pension Fund – The Pension Fund managed by Flintshire County Council for local authority employees in the region and employees of other employers with links to local government in the region</p> <p>(b) Administering Authority or Scheme Manager – Flintshire County Council is the administering authority and scheme manager for the Clwyd Pension Fund, which means it is responsible for the management and stewardship of the Fund.</p> <p>(c) The Committee – Clwyd Pension Fund Committee - the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund</p> <p>(d) LPB or PB – Local Pension Board or Pension Board – each LGPS Fund has an LPB. Their purpose is to assist the administering authority in ensuring compliance with the scheme regulations, TPR requirements and efficient and effective governance and administration</p>

of the Fund.

- (e) **GAD** - The Government Actuary's Department.
- (f) **LGPS – Local Government Pension Scheme** – the national scheme, which Clwyd Pension Fund is part of
- (g) **DCLG - Department for Communities and Local Government** - Central Government department responsible for the LGPS
- (h) **LGA - The Local Government Association** - a politically-led, cross-party organisation that works on behalf of councils to ensure local government has a strong, credible voice with national government. Performs various Secretariat and support roles for the LGPS.
- (i) **Actuarial Valuation** - The formal valuation assessment of the Fund detailing the solvency position and determine the contribution rates payable by the employers to fund the cost of benefits and make good any existing shortfalls as set out in the separate Funding Strategy Statement.
- (j) **GMP – Guaranteed Minimum Pension** – This is the minimum level of pension which occupational pension schemes in the UK have to provide for those employees who were contracted out of the State Earnings-Related Pension Scheme (SERPS) between 6 April 1978 and 5 April 1997.
- (k) **CARE – Career Average Revalued Earnings** – With effect from 1 April 2014, benefits accrued by members in the LGPS take the form of CARE benefits. Every year members will accrue a pension benefit equivalent to 1/49th of their pensionable pay in that year. Each annual pension accrued receives inflationary increases (in line with the annual change in the Consumer Prices Index) over the period to retirement.
- (l) **Annual Allowance** – the annual allowance is a limit on the capital amount that individuals can contribute to their pension each year, while still receiving tax relief. The standard Annual Allowance is £40,000 in any year. For members who taxable earnings are over £110,000 they can fall into the Tapered Annual Allowance which falls between £10,000 and £40,000 depending on their level of earnings.
- (m) **Fair Deal** - guidance issued by the Government which applies to compulsory transfers of employment out of the public sector. Updated guidance was issued in October 2013, referred to as “New Fair Deal”, which amends some of the previous guidance.
- (n) **Scheme Pays** – the option for a member to ask the Fund to pay any tax associated with breaching the Annual Allowance. The Mandatory Scheme Pays option applied where a members exceeds the statutory Annual Allowance limit of £40,000. The Voluntary Scheme Pays option applies when a member falls into Tapered Annual Allowance or their tax charge is less than £2,000. Voluntary Scheme Pays can be used at the discretion of the Administering Authority.