

# LGPS CURRENT ISSUES

## NEWS IN BRIEF

### APRIL 2018 PENSION INCREASE

On 17 October 2017, the Office for National Statistics (ONS) announced that the Consumer Price Index (CPI) rate of inflation for the year to September 2017 was 3%. This increase will be applied to LGPS pensions with effect from 1 April 2018.

### PUBLIC SECTOR PAY CAP

The Government confirmed that it would be lifting the public sector pay cap for both police and prison officers. The Cabinet agreed a 1.7% rise for prison officers and a 2% rise for police officers in 2017/18. There's still no word on the other public sector areas, however, the autumn budget may give further information on the plans for the cap in the future.

### AUTUMN BUDGET

The Autumn Budget will be published on 22 November 2017. We will update you with the outcomes in due course.

### NATIONAL INITIATIVES

- **Section 13** – Initial indications are that the results of the Section 13 exercise may not be available until mid 2018. In advance of this we will be providing Funds with our own interactive comparison database that compares the results of the 2016 actuarial valuations on 'like for like' assumptions for all England and Wales LGPS Funds. It will provide an initial indication of where each Fund may sit in the Section 13 Report once it is published.
- **Cost Management 2016** – Discussions are still taking place within the subcommittee relating to the assumptions to adopt and whilst it had been hoped that material progress would be made in time for discussions in early 2018, this now looks unlikely. Whilst it was initially hoped that Regulation would be in place by April 2019 in time for the 2019 valuation, this now looks like it may be put back to April 2020. Although hopefully it will become clear before then what any impact will be so that this can be factored into the 2019 valuation.

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## DATA QUALITY

We will shortly be requesting data extracts from Funds to perform data quality analysis in our updated tool. The current tool will include trend analysis to enable Funds to monitor how data quality improves. Given TPR's increasing interest in the LGPS, this will be a useful exercise for Funds to demonstrate their focus on data quality.

Note that on part of the annual scheme return process, TPR are intending to ask more detailed questions in relation to the data held by LGPS Funds.

## ICAS CONCERNS OVER THE TREATMENT OF CHARITIES IN THE LGPS WITHIN SCOTLAND

Concerns have been raised by ICAS (The Institute of Chartered Accountants in Scotland) about charities that are effectively trapped building up unaffordable pension liabilities within the LGPS as leaving would potentially incur a significant exit charge. They have urged the Government to rethink the treatment of charities and have asked them to consider some recommendations including changes to the Regulations to prevent automatic exit, allowing more flexibility in the payment terms and reconsidering the assumptions that should be used in the calculation of the termination payment. This is a concern for many Funds and it will be interesting to see if the Scottish Government takes notice of the concerns from ICAS and whether there will be any knock on impact for England and Wales Funds.

## MIFID II

It was initially feared that MIFID II would lead to Funds being unable to access more sophisticated investment strategies and asset classes. However, the FCA has softened its interpretation of the directive to allow LGPS funds to more easily opt up to become sophisticated investors. MIFID II will be implemented with effect from 3 January 2018 and LGPS Funds that wish to "opt-up" will need to complete the process well in advance of this date.

## ASSET POOLING

LGPS Funds must begin transitioning assets to the new investment pools from April next year. DCLG have said that individual schemes should look to move any assets, regardless of liquidity, into the pools "as soon as possible". All new investments made by LGPS Funds should be made through an asset pool "unless there is a clear case that can be made" for investing through a different route.

Looking further ahead, Funds will have to justify any assets they hold outside of new pools once the vehicles are up and running, according to the government department overseeing the Local Government Pension Scheme (LGPS).

## INDEXATION AND EQUALISATION OF GMPS

It is expected that the government response to the GMP indexation and equalisation for public sector schemes consultation will be published by the end of this year, to give the schemes time to put the solution in place before April 2018.



# OTHER DEVELOPMENTS ON REGULATIONS AND CONSULTATION

## NEW FAIR DEAL

Following the consultation carried out last year, further details and clarifications needed have been identified. We believe that a further consultation may be needed on an updated set of provisions to apply the principles of New Fair Deal to the LGPS, and expect to hear more in the new year.

## EXIT PAYMENTS AND CLAW BACK PROVISIONS

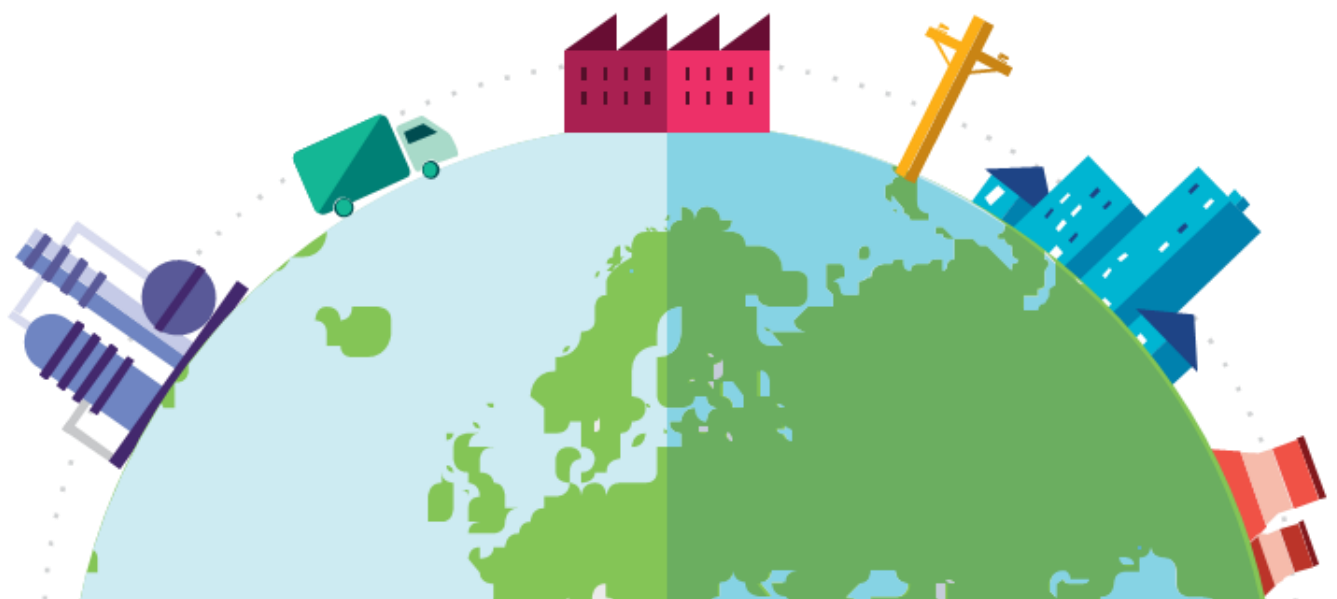
The Government is planning to issue consultations on these around Christmas time. The exit payment cap consultation will relate to the new draft Regulations required to allow for the cap and which organisations are affected. The claw back provisions consultations will only relate to which organisations are affected by the claw back provisions for employees returning to a public sector post within 12 months. In addition, DCLG is considering the overall framework for exit payment reform that was issued by the Government last year but it is not expected to take any action until the consultations have been issued.

## THE LOCAL GOVERNMENT PENSION SCHEME (SCOTLAND) REGULATIONS 2018

The Scottish Public Pensions Agency (SPPA) is currently consulting on a set of draft regulations for the Local Government Pension Scheme (Scotland). Following the implementation of the reforms from 1 April 2015, work has continued to identify areas in the regulations that require further clarification and correction. The consolidated 2018 Regulations have been designed to clarify these existing provisions and to make some suggested changes from stakeholders that have been agreed by SPPA.

In particular, it has been proposed to amend the Regulations to be more flexible when employers leave the Scheme (for example removing the 3 year maximum timeframe to suspend the debt payable and to provide a refund of surplus where applicable). It has also been proposed that the administering authority calculates the pension earned via a transfer in, in accordance with provisions in the guidance issued by Scottish Ministers.

The deadline for the consultation is 1 January 2018. Further information can be found [here](#):



# TAXATION ROUND UP

## ANNUAL ALLOWANCE

By now, Funds should have already provided members with Pension Savings Statements in cases where the standard annual allowance of £40,000 was breached in 2016/17, in order that they can consider how they will meet any charges emerging. However, 2016/17 is the first tax year where some members will be subject to a tapered annual allowance of between £10,000 and £40,000 depending on their “Threshold” and “Adjusted” income levels and it’s likely that Funds may not have issued Pension Saving Statements to these members as standard (given Funds won’t be aware of what other income members are in receipt of).

Although the responsibility for pension taxation lies ultimately with the individuals, we would still suggest Funds consider issuing a reminder to members to consider whether they are impacted by the tapered annual allowance as if they are, and they have breached their allowance, the process for meeting the tax charges arising potentially differs i.e. the member would have to opt for Voluntary Scheme Pays rather than Mandatory Scheme Pays should they wish the Fund to meet the tax charge (see comment below).

## VOLUNTARY SCHEME PAYS DEADLINE

Where a tapered annual allowance is breached, unless member’s will meet the tax charge directly, they will have to ask the Funds to use Voluntary Scheme Pays for any excess pension accrual in excess of the tapered annual allowance but below the standard allowance of £40,000. Mandatory Scheme pays can still be used for any excess accrual above £40,000 (where the tax charge is greater than £2,000).

As set out in the September version of our Current Issues, the key difference between Voluntary and Mandatory Scheme pays are the deadlines. For Voluntary Scheme Pays, the deadline for Funds to pay tax charges, on behalf of members to HMRC is by **31 January 2018**. This will typically mean that Funds will need to include the payment as part of their quarterly return to HMRC i.e. by **31 December 2017**. For any members wishing to use Voluntary Scheme Pays, we would expect they will need to have notified their Fund in the coming weeks of the amounts due in order that the payments can be processed in time.



As referred to above, if Funds haven't done so already, we would suggest Funds look to issue a general communication to members making them aware of the deadlines for Voluntary Scheme Pays so they can consider if they are affected by the tapered annual allowance in 2016/17.

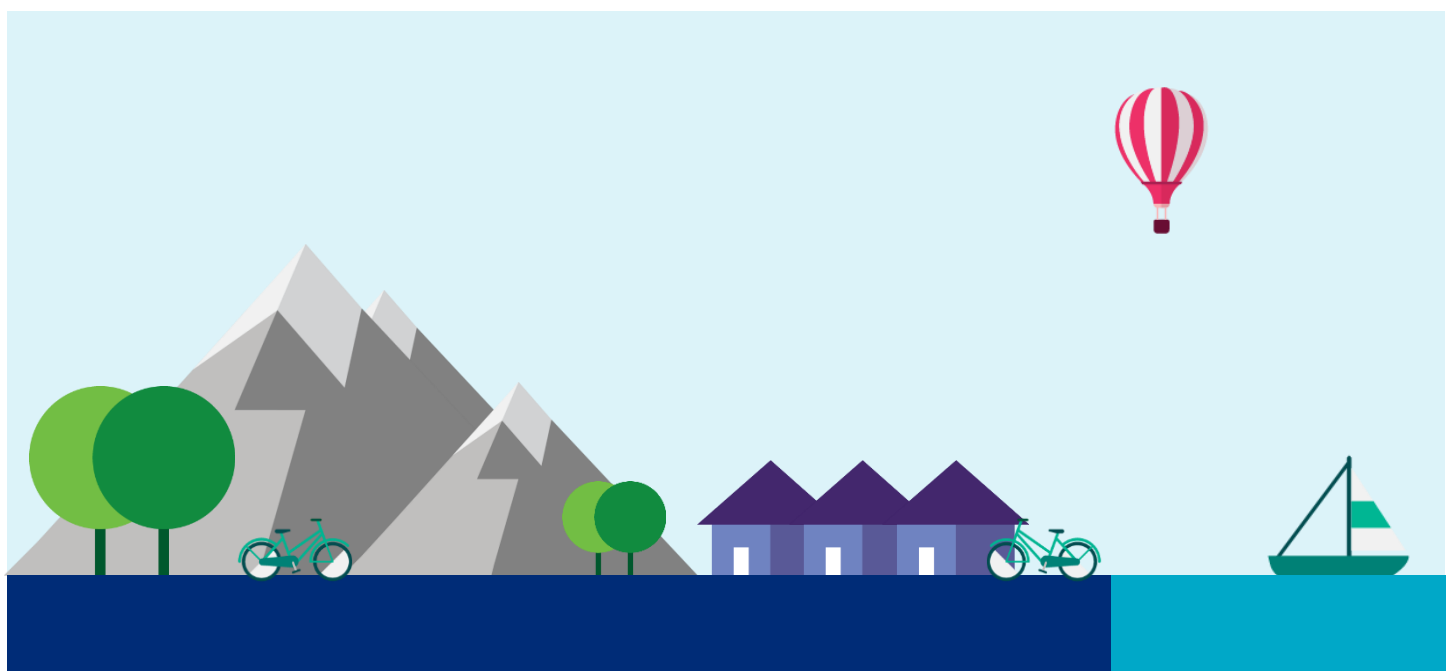
### **Assistance**

Given the complexities around Pension Taxation and in particular, the annual allowance, we have hosted a number of tax training seminars and guidance sessions recently for employers and individuals highlighting the key areas. The response from delegates to these sessions (after the initial shock in some cases that they might be affected by the tapered annual allowance and that they have to act now!) has been positive. Our tax specialists are also in the position of being able to provide individual financial advice to members (at the member's expense) where requested. Should you require further information about what we can offer here then please contact your usual Mercer consultant for further details.



# DATES TO REMEMBER

DATE	ISSUE	THE LATEST
22 November 2017	Autumn Statement	The Chancellor is set to give the Autumn Budget 2017 on 22 November, as the update on country's finances is switched from the Spring
31 December 2017	VAT on pension scheme costs	For DB schemes, the transitional period during which employers can recover VAT under existing arrangements has been extended to this date.
1 January 2018	Scottish Regulations 2018	Deadline for response to the Consultation
3 January 2018	MiFID II	MiFID II becomes effective from this date.
31 January 2018	Tax	Voluntary Scheme Pays Deadline
31 March 2018	Actuarial Valuation	Deadline for the 2017 Scottish actuarial valuation exercises to have been formally signed off by the fund actuary.
25 May 2018	Data protection	Date by which EU member states must comply with the new General Data Protection Regulation.
March 2019	Brexit	It is expected that the UK will formally leave the EU by the end of this month.



## MEET SOME OF THE TEAM - THINGS YOU MAYBE DIDN'T KNOW



**NAME:** Jonathan Perera  
**ROLE:** Actuarial and Benefits Consultant  
**JOINED MERCER:** 2001  
**PLACE OF BIRTH:** Hull, East Yorkshire  
**FAVOURITE FILM:** Platoon  
**DREAM HOLIDAY DESTINATION:** Maldives  
**X FACTOR OR STRICTLY:** Neither!  
**CHRISTMAS WISH LIST:** Call of Duty: WW2



**NAME:** Nikki Gemmell  
**ROLE:** Actuarial Consultant  
**JOINED MERCER:** 2007  
**PLACE OF BIRTH:** Bellshill, Lanarkshire, Scotland  
**FAVOURITE FILM:** Uncle Buck, Independence Day, Pretty Woman, Bridget Jones's Baby, too many to choose!  
**DREAM HOLIDAY DESTINATION:** Hawaii  
**X FACTOR OR STRICTLY:** X Factor but I miss it most weeks!  
**CHRISTMAS WISH LIST:** A trip to Hawaii (or a weekend away if not!)



**NAME:** Nigel Thomas  
**ROLE:** Benefits & Governance Consultant  
**JOINED MERCER:** 1998  
**PLACE OF BIRTH:** Whiston, Merseyside  
**FAVOURITE FILM:** The Godfather  
**DREAM HOLIDAY DESTINATION:** Australia - been once, but need to go back!  
**X FACTOR OR STRICTLY:** Strictly, of course!  
**CHRISTMAS WISH LIST:** A telescope



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