

## CLWYD PENSION FUND COMMITTEE

<b>Date of Meeting</b>	21 March 2018
<b>Report Subject</b>	LGPS Current Issues
<b>Report Author</b>	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 March 2018 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 November, in particular:

- An update on the life expectancy projections that we may use as part of the actuarial valuation.
- The implications of the consultation on the Deferred Debt Arrangements and how this may affect the LGPS.
- Updates on the progress of various Regulations and Consultations
- The potential considerations if a Council issues a Section 114 Notice.

### 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.
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## **REPORT DETAILS**

<b>1.00</b>	<b>LGPS Current Issues</b>
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"><li>• Life Expectancy Update - The Continuous Mortality Investigation (CMI) have published their most recent Mortality Projections Model "CMI 2017". Moving to the latest projection model could improve overall funding levels by 1-2% and reduce average future service contributions by around 0.3% of pensionable pay.</li><li>• The DWP has responded to its 2017 consultation on Deferred Debt Arrangements for private sector schemes which allows employers to continue in a pension scheme without triggering a termination debt. Whilst this does not currently affect the LGPS, it could underpin a change to allow employers to continue participation in a Fund with no active members.</li><li>• From April 2019, the National Assembly for Wales will have the power to set the basic, higher and additional rates of income tax for Welsh taxpayers which could affect the operation of the Fund.</li><li>• The potential considerations of a Council issuing a Section 114 Notice.</li></ul>
<b>2.00</b>	<b>RESOURCE IMPLICATIONS</b>
2.01	<p>Some of the actions arising out of the issues identified could mean significant changes to operational matters for the Fund.</p>
<b>3.00</b>	<b>CONSULTATIONS REQUIRED / CARRIED OUT</b>
3.01	<p>None directly as a result of this report but noting the developments in the highlighted areas.</p>
<b>4.00</b>	<b>RISK MANAGEMENT</b>
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"><li>• Governance risks: G2 &amp; G7.</li><li>• Funding and Investment risks: F1, F5</li></ul>
<b>5.00</b>	<b>APPENDICES</b>
5.01	<p>Appendix 1 – LGPS Current Issues - March 2018 edition</p>

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

<b>7.00</b>	<b>GLOSSARY OF TERMS</b>
7.01	<p>(a) <b>The Fund – Clwyd Pension Fund</b> – 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) <b>Administering Authority or Scheme Manager</b> – 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) <b>The Committee – Clwyd Pension Fund Committee</b> - the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund</p> <p>(d) <b>LPB or PB – Local Pension Board or Pension Board</b> – 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 of the Fund.</p> <p>(e) <b>GAD</b> - The Government Actuary’s Department.</p> <p>(f) <b>LGPS – Local Government Pension Scheme</b> – the national scheme, which Clwyd Pension Fund is part of</p> <p>(g) <b>DCLG - Department for Communities and Local Government</b> - Central Government department responsible for the LGPS</p> <p>(h) <b>LGA - The Local Government Association</b> - 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.</p> <p>(i) <b>Actuarial Valuation</b> - 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.</p> <p>(j) <b>GMP – Guaranteed Minimum Pension</b> – 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</p>

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 1/49<sup>th</sup> 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 whose 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 member 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.
- (o) **Section 114 Notice** – Refers to Section 114 of the Local Government Finance Act 1988. Once a council issues a notice under section 114 it is prohibited from entering into new agreements that incur expenditure and must strive to set a balanced budget.