

CLWYD PENSION FUND COMMITTEE

Date of Meeting	13 June 2018
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 May 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 March, in particular:

- The implications on the Fund and employers following the introduction of Exit Credits in the Local Government Pension Scheme (Amendment) Regulations 2018.
- An invitation from Mercer's specialist AVC team to join their new "LGPS AVC Club" - an independent monitoring and governance service with a view to reducing the costs and governance burden associated with AVC arrangements, together with an update of Equitable Life.
- An update on improvements in life expectancy.
- An invitation for pension managers and administering authorities to attend the Government Actuary's Department regional workshops to discuss data quality and the Section 13 process.

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

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">• Introduction of the Local Government Pension Scheme (Amendment) Regulations 2018 and the implications on the Fund and employers, in particular highlighting the importance of reviewing Fund policies (i.e. the termination policy) to ensure that they allow sufficiently for the introduction of exit credits.• An invitation from Mercer’s specialist AVC team to join their new “LGPS AVC Club” - an independent monitoring and governance service with a view to reducing the costs and governance burden associated with AVC arrangements.• An update on Equitable Life who is currently in the final stages of evaluating the options for the future of the Society (communicated at their AGM on 31 May 2018 in London). Strategies being looked at include the sale of the society, reopening to new business and liquidation.• A further update on improvements in life expectancy noting that liabilities may reduce by c2% based on the latest information. This is something that will be considered later in the year as part of our demographic analysis ahead of the 2019 actuarial valuation.• An invitation for pension managers and administering authorities to attend the Government Actuary’s Department regional workshops to discuss data quality and the Section 13 process.

2.00	RESOURCE IMPLICATIONS
2.01	<p>Some of the actions arising out of the issues identified could mean significant changes to operational matters for the Fund. In particular, the review of and update to Fund policies will require some officer and advisor resource to ensure the Fund is well placed going forward.</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, and the consultation that will be required following the review of the termination policy. More details to follow on this.</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. • Funding and Investment risks: F1, F5

5.00	APPENDICES
5.01	Appendix 1 – LGPS Current Issues - May 2018 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 of the Fund.</p> <p>(e) GAD - The Government Actuary's Department.</p> <p>(f) LGPS – Local Government Pension Scheme – the national scheme, which Clwyd Pension Fund is part of</p> <p>(g) DCLG - Department for Communities and Local Government - Central Government department responsible for the LGPS</p>

- (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 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.