

CLWYD PENSION FUND COMMITTEE

Date of Meeting	28 November 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. This covers many of the current ongoing issues and the latest news since the last Committee update in September, in particular:

- Confirmation of the CPI for September 2018 (2.4%)
- A relatively quiet Autumn Budget for pensions, with no major changes and confirmation that the Lifetime Allowance will increase to £1,055,000 based on the September CPI figure.
- Publication of GAD's "Section 13 review" of the 2016 actuarial valuations of the LGPS in England and Wales. The four major actuarial firms had a number of concerns about this and have jointly written to MHCLG and SAB to express these.
- A statement to Parliament by the Chief Secretary to the Treasury that gave a hint to move all LGPS Funds in the UK to a 4-year valuation cycle. The formal announcement only referred to valuations for the purpose of Cost Management, but informal meetings have confirmed this is likely to extend to the funding valuations.
- After 28 years of waiting, on 26 October, the High Court made a landmark judgement for the UK pensions industry in respect of equalising GMPs for members who had Contracted-Out of the State Scheme. This affects all members with GMPs dating back to 17 May 1990 and is likely to have a significant effect on liabilities and costs. For the LGPS, the preliminary view is that the impact will be dependent on the profile of the members and is likely to be much less significant due to the method of indexation used in the LGPS.
- Some general comments on the October Equity correction, and steps Funds can take to mitigate against this, much along the lines of the Clwyd Pension Fund active risk management framework.

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">• No changes emerging from the Autumn Budget on pensions tax arrangements (i.e. on Annual Allowance, Tapered Annual Allowance, or Money Purchase Annual Allowance). The Lifetime Allowance will increase by 2.4% to £1,055,000.• Buried in the Autumn Budget was confirmation that the SCAPE discount rate used for calculating employer contributions for the unfunded schemes will be reducing to CPI + 2.4% (from the current CPI + 2.8%) from April 2019. This will mean significantly increased costs for these schemes.• The much awaited “Section 13 review” report from GAD was published on 27 September. As expected, the Clwyd Pension Fund was not flagged, but there have been some concerns raised in respect of the report. The four major actuarial firms had a number of concerns about this together with the engagement leading up to publication. The four have jointly written to MHCLG and SAB to express these concerns. Mercer have said that their view and understanding of the remit is for the review to identify “outlier” funds, taking into account a more holistic view rather than focusing solely on individual metrics.• An update on the Cost Management Process – noting the position on the unfunded schemes. HMT will await the outcome of the SAB process before deciding whether to invoke HMT’s own mechanism.• The first formal hint of the schemes moving to a 4-year valuation cycle came in Liz Truss’ statement to Parliament in September. Whilst her statement technically only referred to the valuations being carried out for Cost Management purposes, informal briefings that the actuaries have been involved with indicate this as a direction of travel for the funding valuations also. It is expected that next year’s valuation will go ahead, but a review of employer contribution rates will follow mid-cycle with the subsequent valuation

	<p>being in 2024. We of course, await further updates on this.</p> <ul style="list-style-type: none"> • GMP Equalisation, after 28 years of waiting, became a reality on 26 October, after the High Court made a landmark judgement for the UK pensions industry in respect of equalising GMPs for members who had Contracted-Out of the State Scheme. This affects all members with GMPs dating back to 17 May 1990 and is likely to have a significant effect on liabilities and costs. For the LGPS, the preliminary view is that the impact will be dependent on the profile of the members and is likely to be much less significant due to the method of indexation used in the LGPS. This is due to one of the options previously put forward in a consultation where full indexation on GMPs has been looked at. The actuaries are keeping this under review. • Some general comments on the October Equity correction, and steps Funds can take to mitigate against this, much along the lines of the Clwyd Pension Fund active risk management framework.
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2.00	RESOURCE IMPLICATIONS
2.01	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. Also the next round of Pension Saving Statements could result in administration resources required to respond to queries arising.

3.00	CONSULTATIONS REQUIRED / CARRIED OUT
3.01	None directly as a result of this report.
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 - November 2018 edition

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	Earlier editions of the LGPS Current Issues document, tabled at previous Committee meetings.

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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> <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.</p> <p>(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.</p> <p>(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.</p> <p>(k) CARE – Career Average Revalued Earnings – With effect from 1 April 2014, benefits accrued by members in the LGPS take the form of</p>

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.
- (p) **TPR** – The Pensions Regulator - the UK regulator of workplace pension schemes. TPR is focussed on ensuring that employers put their staff into a pension scheme and pay money into it, together with making sure that workplace pension schemes are run properly so that people can save safely for their later years. TPR has a specific remit in the context of Public Service Pension Schemes as defined by the Public Service Pensions Act 2013 (see its Code of Practice 14).