

CLWYD PENSION FUND COMMITTEE

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| Date of Meeting | Thursday, 28 November 2019 |
| Report Subject | LGPS Current Issues |
| Report Author | Head of Clwyd Pension Fund |

EXECUTIVE SUMMARY

The purpose of this report is to provide an update on the key issues affecting the LGPS. In particular:

- An update outlining the progress of the 2019 LGPS actuarial valuations.
- The effect of the McCloud judgment including the impact on valuations.
- The prospect for English and Welsh LGPS Funds potentially moving to a four-yearly valuation cycle after 31 March 2022.
- The Proposal for Equitable Life's transfer to Utmost Life & Pensions, and it being supported by an overwhelming majority at the EGM on 1 November 2019.
- The requirement to set objectives for Investment Consultant providers remains, with a deadline for doing so of 10 December 2019 for the CMA Order.
- The Office of Tax Simplification (OTS), the independent adviser to Government on simplifying the UK tax system, published a review on 10 October 2019.

RECOMMENDATIONS

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| 1 | All Committee members should note this report and make themselves aware of the various current issues affecting the LGPS and the Fund. |
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REPORT DETAILS

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| 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 the Mercer current issues update on a number of issues affecting the LGPS and the Fund.</p> |

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Key points to be aware of are:

- At whole Fund level, Mercer is seeing improved funding levels, reflecting strong investment returns since the 2016 valuations and a slowdown in the rate of future improvements in life expectancy. However, the indications for lower expected investment returns going forwards, combined with the impact of the McCloud judgment have tempered this and are likely to lead to a higher rate of primary (future benefit accrual) contributions, all else remaining equal. In terms of results at individual employer level, longer term employers who had a significant asset base at the last valuation have tended to follow the pattern above, with average contributions showing a decrease. For less mature employers, with lower assets in 2016, the results are more volatile.
- On 27 June the Supreme Court denied the Government's request for an appeal in the McCloud and Sargeant age discrimination case ("McCloud") and the Government subsequently confirmed on 15 July that remedies relating to the McCloud judgment will need to be made in relation to all public service pension schemes, including the LGPS. However, it is highly unlikely that the remedy will be known before the 31 March 2020 deadline for finalising the 2019 valuation.
- The Actuary will certify 3 years' worth of contributions at the 2019 valuations with the next round of local valuations for English and Welsh LGPS funds as at 31 March 2022. The valuation cycle after 2022 remains under review with 4 year cycles being considered.
- Following the Policyholders' Meeting and Extraordinary General Meeting on 1 November 2019 Equitable Life has confirmed that the proposals on the Scheme and Change to the Articles were passed by an overwhelming majority. High Court approval will be sought at the hearing starting on 22 November 2019 with the ruling expected by 30 November 2019. If approved, the proposal is expected to take effect from 1 January 2020.
- Under the CMA Order, investment objectives will need to be set for investment consulting providers with a deadline for doing so of 10 December 2019.
- The Office of Tax Simplification (OTS), the independent adviser to government on simplifying the UK tax system, published a review on 10 October 2019 making recommendations to "improve people's experience of the tax system at key events in their lives". The review covered a wide range of areas of taxation, including the High Income Child Benefit Charge, the operation of PAYE, how individuals can assist others with their tax affairs and tax education.

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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, any potential McCloud remedy and adjustments required to past pensions as a result. This could require significant additional administration resources to implement the changes. |

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| 3.00 | CONSULTATIONS REQUIRED / CARRIED OUT |
| 3.01 | None directly as a result of this report. |

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| 4.00 | RISK MANAGEMENT |
| 4.01 | 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): <ul style="list-style-type: none"> • Governance risks: G2 & G7. • Funding and Investment risks: F1, F5 |

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| 5.00 | APPENDICES |
| 5.01 | Appendix 1 – LGPS Current Issues – November 2019 edition |

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

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| 7.00 | GLOSSARY OF TERMS |
| 7.01 | (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 (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. |

- (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
- (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.
- (e) **GAD** - The Government Actuary's Department.
- (f) **SAB – Scheme Advisory Board** – national board established under Public Service Pensions Act 2013. Its purpose is to encourage best practice, increase transparency and co-ordinate technical and standards issues.
- (g) **LGPS – Local Government Pension Scheme** – the national scheme, which Clwyd Pension Fund is part of
- (h) **MHCLG – Ministry of Housing, Communities and Local Government** - Central Government department responsible for the LGPS
- (i) **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.
- (j) **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.
- (k) **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.
- (l) **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.
- (m) **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.

- (n) **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.
- (o) **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.
- (p) **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.
- (q) **TPR** – The Pensions Regulator - the UK regulator of workplace pension schemes. TPR is focussed on ensuring that employers put their staff into a pension schemes 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).