

LGPS: CURRENT ISSUES

JULY 2014
A BRIEF UPDATE

2014 BUDGET - TRIVIAL COMMUTATION

The 2014 Budget included significant changes for Defined Contributions (DC) schemes and other changes which affect the LGPS. In particular the Budget made changes to the “trivial commutation” rules where members can take a taxable lump in lieu of a small pension. Whilst there are currently some technical restrictions for the LGPS owing to the structure Regulations for certain members, we believe that there is an opportunity to extinguish a potentially significant number of small pensions by offering a lump sum. This will benefit the Fund in an operational and financial sense. The administration team will be considering in conjunction with other Funds.

2014 BUDGET - ADDITIONAL VOLUNTARY CONTRIBUTIONS

The Budget also has potential implications for AVCs (which are a DC benefit) if members are allowed to take them entirely as a part taxable lump sum. Whilst AVCs are primarily member related contributions, the fiduciary duty to members rests with the Administering Authority. This is in addition to the TPR’s recently issued 31 “Quality Features” which it expects to be embedded in all DC/AVC schemes. Our recommendation is that, given the above and alongside the Budget changes, now is an appropriate time to review the AVCs currently offered to members.

IN THIS ISSUE

- > Budget 2014 update: Trivial Commutation and is it time to review your AVC arrangements?
- > Consultation on Collaboration, Cost Savings and Efficiencies,
- > Governance Regulation Requirements
- > Scheme Manager / Local Authority Separation
- > TPR’s involvement and Code of Practice
- > Pension Fund Policy Review
- > Software Issues and Early Retirements
- > Data Quality Requirements
- > GMP Reconciliation Service
- > Regulations Update

LOCAL GOVERNMENT PENSION SCHEME CURRENT ISSUES - JULY 2014

It has been a very busy period for LGPS pension funds. After the implementation of the new scheme on 1 April 2014, there remains no let up with further Statutory Consultations. These include the structural reform consultation following last year's call for evidence alongside the new Governance requirements.

STRUCTURAL REFORM: COLLABORATION, COST SAVINGS AND EFFICIENCIES

The deadline for responses to the consultation is 11 July and Funds are in the process of responding. Advisors have provided various briefing notes on the questions asked as well as commenting on some of the wider issues.

GOVERNANCE - SCHEME ADVISORY BOARD, LOCAL PENSIONS BOARDS & POTENTIAL SEPARATION OF LGPS SCHEME MANAGERS & THE LOCAL AUTHORITY

The Public Service Pensions Act requires each Public Service Scheme to establish a national Scheme Advisory Board, as well as a local pensions board to assist the relevant Scheme Manager, with effect from 1 April 2015, and the Government issued a consultation on 23 June with deadline for responses on 15 August.

Whilst not final, the indications are that much will need to be determined at local level and so Administering Authorities (Scheme Managers) should be considering how best to address the requirements within their own local authority structure.

This has been covered separately by the Governance advisor but it has implications for a number of the issues raised here.

In addition to the requirements of the Public Service Pensions Act, a wider aspect that is increasingly being raised is whether or not there should be greater separation of the Fund from the 'corporate local authority'. Stakeholders should be aware that this is being looked at and we await future developments on the issue.

TPR's DRAFT CODE OF PRACTICE CONSULTATION

The TPR has issued an interim report providing details of what views were put forward when responding to the consultation covering the strategy and code that dealt with governing the public service pension schemes, managing risk, administration (including information to be provided to members) and resolving issues. Current expectations are that we'll hear more from TPR in the Autumn, following the conclusion of the current consultation on the Code of Practice for Northern Ireland later this month.

LOCAL GOVERNMENT PENSION SCHEME CURRENT ISSUES - JULY 2014

At a more local level, current issues that need to be factored into Fund's business plans are the review of existing practices and policies (in light of the new scheme), systems challenges and the potential need for short-term "work-arounds", and the increasing focus on data quality and reconciliation.

PENSION FUND POLICY REVIEW

The new scheme Regulations make a number of variations to certain clauses (eg cessation of an employer's participation) where Fund Policies underpin the application adopted. In order to assist with the future management of the Fund, we are recommending to Funds that they add the task of reviewing and updating all policies (or developing them where absent) to their business plans.

SOFTWARE ISSUES & EARLY RETIREMENTS

We understand that there have been a number of challenges faced by Fund where systems / IT capabilities have not been fully operational for a number of Funds since the inception of the new scheme. This has been challenging to the administration teams which has affected service levels.

One area that needs further input from us is the assessment of early retirement costs incurred. In conjunction with the administration team we are therefore in the process of implementing an updated approach to be used for these calculations and notifying employers of the impact.

Have you reviewed your pension fund policies in light of the new Regulations?

DATA QUALITY & GMP RECONCILIATION SERVICE

Data quality has long been a focus of TPR and the draft Code of Practice for public sector pensions lead us to conclude that this will equally apply to the LGPS going forward. The Record Keeping requirements (Consultation and Government response issued in early July) also covered some aspects of this. Prior to the actuarial valuations we wrote to funds to cover how TPR might

review each fund's data and provided a sample data quality report. Now the dust from the valuations has settled, it is appropriate to develop the requirements for improving data quality as part of the Pensions Administration Strategy. A further critical aspect of this includes the efficiency of employer-fund payroll channels of communication in the context of auto/contractual-enrolment.

In addition, HMRC have recently announced a reconciliation service to allow contracted-out pension schemes to reconcile scheme membership and GMPs in advance of the cessation of contracting-out in April 2016. Given the scheme's size and the fact that the LGPS is a multi-fund single scheme, we are recommending that Funds use this service and register as soon as possible (as it could be a lengthy and challenging process and cases will be dealt with on a first-come-first-served basis). We understand that the Clwyd Pension Fund is already moving forward with the reconciliation.

LGPS REGULATIONS UPDATE

1. There are significant aspects of the new 2013 LGPS Regulations that require amendment/correction to some extent. We understand that these are being worked on by DCLG and it's hoped that an update to the Regulations will be forthcoming before the summer recess.
2. A response to the Record Keeping consultation was issued in early July. Whilst most of the requirements would not pose any problems, after a number of comments from respondents, the DWP have decided to remove the minimum period regulation. It is anticipated that best practice will be promoted through TPR's Codes of Practice.
3. The LGPS Secretariat recently has sought clarity on the potential for an ongoing salary link to apply to deferred benefits, if that member did not have a disqualifying break. This arises due to section 20 and Schedule 7 of the Public Service Pensions Act 2013. DCLG have confirmed that an ongoing salary link will apply in certain circumstances. We understand that a consultation will follow in due course, but consistency of application across all England and Wales funds will be needed.

CONTACTS

Paul Middleman
paul.middleman@mercer.com
0151 242 7402

Nigel Thomas
nigel.thomas@mercer.com
0151 242 7309

