

## CLWYD PENSION FUND COMMITTEE

|                        |                             |
|------------------------|-----------------------------|
| <b>Date of Meeting</b> | Thursday 16th February 2017 |
| <b>Report Subject</b>  | LGPS Current Issues         |
| <b>Report Author</b>   | Clwyd Pension Fund Manager  |

### EXECUTIVE SUMMARY

The purpose of the report is to provide an update on the key issues affecting the LGPS as at February 2017 and makes recommendations for Members to review the update document as per Appendix 1 from Mercer covering many of the current ongoing issues, in particular:

- An update on the Brexit position as at the time of writing
- The Consultation on Indexation and Equalisation of GMPs, including the proposals put forward by the Government
- An update on Employment Tribunal that held that transitional protections favouring older judges are discriminatory
- A paper titled The LGPS: A Lost Decade from Michael Johnson at the Centre for Policy Studies relating to the management of the LGPS which could generate queries for the Fund from third parties
- And commentary on other developments on LGPS Regulations and Consultations or items in the pipeline.

### RECOMMENDATIONS

|   |   |
|---|---|
| 1 | It is recommended that all PFC 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 CPF.              |
| 2 | In particular, members are asked to note that the Employment Tribunal ruling, and the consultation regarding GMPs, which may have a significant impact on the CPF and lead to further action in the future. |

## **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 PFC 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>• A pensions perspective update on “Brexit”.</li><li>• An update on the Education Sector employers, including Academies in England (for Member’s information only)</li><li>• The GMP consultation which proposes three options. Each of these will have operational and pension cost implications of varying degrees. The least operationally challenging will pose the largest funding strain for the Fund.</li><li>• Cost Management and the Deficit Working Group. GAD are currently working on their Cost Management calculations that may lead to compensatory benefit or member contribution changes from April 2019. The Deficit Working Group has also been reconstituted by SAB specifically to look at three employer groups; tax payer backed employers, academies (for England) and private sector employers with no central or local authority guarantee.</li><li>• A paper titled The LGPS: A Lost Decade from Michael Johnson at the Centre for Policy Studies relating to the management of the LGPS. This could generate interest in the LGPS and CPF and we have already seen some Press coverage on the report.</li></ul> |

|             |  |
|-------------|--|
| <b>2.00</b> | <b>RESOURCE IMPLICATIONS</b>   |
| 2.01        | <p>Some of the actions arising out of the issues identified will take significant input from Fund officers, including responding to the GMP consultation. Further consultation responses may also be needed on the implementation of the New Fair Deal principles, Freedom and Choice for AVCs, Exit Cap and Recovery Regulations.</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></ul> |

|      |   |
|------|---|
| 4.02 | <p>Some key risks need to be considered. In particular the cost impact GMP consultation, outcomes of the Cost Management process, the findings of the Deficit Working Group and situation concerning the Employment Tribunal on the Judges Scheme. There are also key risks as highlighted attached to the MiFID II proposals, but these are covered in a separate report. Matters arising will need to be dealt with under the overall Governance objectives.</p> <p>This report also is also intended to support the Knowledge &amp; Understanding of the PFC and officers thereby reducing risk around decision making as per the Risk Register noted in 4.01.</p> |
|------|---|

|             |  |
|-------------|--|
| <b>5.00</b> | <b>APPENDICES</b>  |
| 5.01        | Appendix 1 – LGPS Current Issues - February 2017 edition |

|             |  |
|-------------|--|
| <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 PFC meetings.</p> <p><b>Contact Officer:</b> Philip Latham, Clwyd Pension Fund Manager<br/> <b>Telephone:</b> 01352 702264<br/> <b>E-mail:</b> philip.latham@flintshire.gov.uk</p> |

|             |  |
|-------------|--|
| <b>7.00</b> | <b>GLOSSARY OF TERMS</b>   |
| 7.01        | <p>(a) <b>CPF – 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>PFC – 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> |

- (f) **LGPS – Local Government Pension Scheme** – the national scheme, which Clwyd Pension Fund is part of
- (g) **DCLG - Department for Communities and Local Government** - Central Government department responsible for the LGPS
- (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 1/49<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 amount that individuals can contribute to their pension each year, while still receiving tax relief.
- (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) **MiFID** - the EU Markets in Financial Instruments Directive (MiFID) introduced in 2007. MiFID II refers to the updates with the aim of improving the functioning of financial markets in light of the financial crisis and to strengthen investor protection.