

## WIRRAL COUNCIL

### PENSIONS COMMITTEE

18 SEPTEMBER 2012

<b>SUBJECT:</b>	<b>LGPS UPDATE</b>
<b>WARDS AFFECTED:</b>	<b>ALL</b>
<b>REPORT OF:</b>	<b>INTERIM DIRECTOR OF FINANCE</b>
<b>RESPONSIBLE PORTFOLIO HOLDER:</b>	
<b>KEY DECISION</b>	NO

#### 1.0 EXECUTIVE SUMMARY

- 1.1 This report informs Members of the recent informal Local Government Association employer and respective Trade Union member consultations; undertaken to ascertain the level of support of the LGPS 2014 benefit design proposals.
- 1.2 It also covers the key provisions of the LGPS (Miscellaneous) 2012 Regulations and Merseyside Pension Fund's role in increasing employer awareness of the statutory duties and compliance requirements under Auto-Enrolment legislation.

#### 2.0 BACKGROUND AND KEY ISSUES

##### Reform of the LGPS – The 2014 Project

- 2.1 The Local Government Association (LGA) issued a consultation for participating LGPS employers on 27 June 2012 seeking the general support of employers to the headline terms of the new Scheme benefits under the 2014 reform framework. The consultation closed on 27 July 2012.
- 2.2 Merseyside Pension Fund (MPF) in proactively encouraging engagement to the consultation organised a seminar for employers' at Liverpool Town Hall on 17 July 2012. The keynote speaker, the Head of Pensions at LGA, provided valuable insight into the work and deliberations of the new Scheme design. The information provided and the opportunity for questions will have assisted those who attended in making an informed response to the consultation.
- 2.3 MPF submitted a response dated 26 July attached at Appendix 1, setting out its view on the financial impact from both the members' and employers' perspective. The response also highlighted the additional operational, administrative and communication requirements on both funds and employers - identifying the probable need for additional resources.
- 2.4 In general terms, the MPF is broadly supportive of the proposals and believes the benefit package has the potential to meet the Government objective to provide good pension provision valued by the employee and affordable to both. The intent to limit member contribution increases, improve accrual rates and the introduction of a 50/50 option in exchange for a later retirement age should help encourage member

participation. However, it is imperative that the future cost management mechanism is robust, **in order to deliver** an appropriate calibration of cost and address the Scheme's continuing financial viability.

- 2.5 The Trade Unions balloted their members during July and August and promoted the proposals as a fair and balanced offer ensuring future affordability and sustainability of the LGPS. The GMB members voted 95% in favour with Unison and Unite's results still to be announced at the time of writing this report.
- 2.6 It is expected, subject to a favourable outcome from all stakeholders, that the process will continue in accordance with the following delivery framework:-

<b>By</b>	<b>New Scheme Process</b>
Autumn 2012	DCLG release statutory consultation
Jan – Mar 2013	Draft and Actual Regulations issued
April – Mar 14	Software providers to update systems Actuarial Valuation reflecting new regulations
1 April 2014	New Scheme implementation

#### **LGPS (Miscellaneous) Regulations 2012**

- 2.7 The (Miscellaneous) Regulations 2012 were laid before Parliament on 1 August 2012 and will come into force from 1 October 2012. The regulations make technical amendments to assist in the delivery of Scheme provisions and corrective references to ensure compliance with other legislation. The Statutory Instrument is attached as Appendix 2.
- 2.8 A number of the revisions relate to dependant benefits and ill health provisions to ensure equitable treatment of all membership categories.
- 2.9 The major implications to Scheme administration prevail from the measures designed to protect other Scheme employers and Council Tax payers in the event of an employer failing to meet its financial obligations. In summary these are:
- Regulations 25 & 44 – introduces a mandatory prescription for Risk Assessments to be carried out by Community Admission bodies as previously this was only a requirement for Transferee Admission Bodies. In addition, there is a proviso that a bond or other form of guarantee is only necessary where the level of risk is identified to warrant an appropriate undertaking.
  - Regulation 45 – caters for the transfer of assets and liabilities between funds and permits the Secretary of State to make a direction order to support the agreement of amalgamating funds. It also removes the problem of inhibiting ventures due to the crystallisation of deficits.

- Regulation 35 – facilitates flexibility in managing the funding position of Scheme Employers exiting the Fund. This includes provision of Scheme Employers to be subject to deficit payments on termination and provision for existing employers to fund for termination in advance through higher contributions
- 2.10 The majority of the amendments will lead to improved management and governance of the LGPS. However, despite vociferous opposition from Pension Funds and the LGA, to the proposal to bring forward the date for funds to issue Annual Benefit Statements, DCLG failed to accept the concerns of administrators.
- 2.11 The revised timeframe for issuing Annual Benefit Statements by 5 October each year is extremely challenging as MPF is reliant upon the receipt of timely, accurate data from many Scheme employers following the end of the tax year. As a new statutory requirement, MPF will deploy resources to issue the majority of Statements within the new timeframe.

### **Auto-Enrolment**

- 2.12 MPF in conjunction with its Actuary has made arrangements for a fee-based workshop for employers. Mercer would outline to the attending employers their obligations under Workplace Pension Reform, specifically the Auto-Enrolment of employees into an occupational pension and the re-enrolment of optant outs every three years. Led by Mercer, the workshop would assist employers in evaluating their own individual compliance and state of readiness with regard to their statutory, procedural and communication requirements.
- 2.13 The event is aimed at HR, Payroll, Pensions and Finance staff and will take place on 5 September 2012 at Liverpool Town Hall with the Mercer costs of delivery spread amongst all the delegates.
- 2.14 MPF has forwarded draft guidance issued by LGA to the larger Scheme employers defining auto-enrolment statutory duties, categorisation of employees, information and disclosure and compliance requirements. The guide provides template letters and information flowcharts to assist employers in communicating with employees and clarifies how the LGPS meets the criteria as a qualifying occupational pension scheme under auto-enrolment.
- 2.15 MPF is also planning to provide a bespoke Seminar in October/November to update employers of the revised administrative requirements for auto-enrolment; including the necessary changes to Fund Forms for new entrants and the processing of optant outs from the Scheme.

### **3.0 RELEVANT RISKS**

- 3.1 The requirement for new admission bodies to carry out an appropriate Risk Assessment is difficult to implement as the particular body will have a vested interest in presenting a favourable view of the risks being undertaken so as to minimise the requirement for any Bond or Guarantee. However, the stipulation that the assessment must be to the satisfaction of the Administering Authorities will curtail the incidence of exposure to material loss.

- 3.2 Whilst not a direct risk to MPF, there is a significant risk to Scheme Employers should they fail to comply with the statutory duties under Auto–Enrolment. The Pension Regulator will impose enforcement notices including escalating financial penalties of up to a maximum daily rate of £10,000

#### **4.0 OTHER OPTIONS CONSIDERED**

- 4.1 No other options have been considered.

#### **5.0 CONSULTATION**

- 5.1 MPF has formally responded to the LGA employer consultation on Scheme Reform and encouraged employer engagement in the informal process. There are no implications for partner organisations arising out of this report

#### **6.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS**

- 6.1 There are none arising from this report.

#### **7.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS**

- 7.1 As a result of the shortened regulatory timeframe to issue Annual Benefit Statements, MPF will need to actively monitor its operational resources and re-consider its data reconciliation processes with employers.
- 7.2 If the proposed basis of the 2014 Scheme Reform receives the support of both Employers and Unions, the future change to the fundamental benefit design and the complexities of retained member protections will require a strategic overhaul of administration arrangements, resources and procedures to deliver the relevant communications, process change and IT system updates.
- 7.3 The first staging date for an employer under Auto–Enrolment within MPF is March 2013, with other employers following at various intervals over the coming years. Inevitably the statutory information and communication requirements will increase administrative costs for both employers and MPF. Employers may also experience significant increases in employer pension contributions during the financial year 2013/14.

#### **8.0 LEGAL IMPLICATIONS**

- 8.1 There are none arising from this report.

#### **9.0 EQUALITIES IMPLICATIONS**

- 9.1 Has the potential impact of your proposal(s) been reviewed with regard to equality?

No, because the LGPS 2012 Miscellaneous Regulations have already been assessed by Government with regard to equality.

**10.0 CARBON REDUCTION IMPLICATIONS**

10.1 None arising from this report

**11.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS**

11.1 None arising from this report

**12.0 RECOMMENDATION**

12.1 That Members note the report.

**13.0 REASON FOR RECOMMENDATION**

13.1 There is a requirement for Members of the Pension Committee to be kept up to date with legislative developments to carry out their decision making role in order to enable them to make informed decisions.

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**APPENDICES**

- 1- MPF Response to LGA on Employer Consultation Issued 27 June 2012
- 2 - LGPS (Miscellaneous) Regulations 2012

**REFERENCE MATERIAL**

LGPS (Miscellaneous) Regulations 2012

**SUBJECT HISTORY (last 3 years)**

Council Meeting	Date