

## WIRRAL COUNCIL

### PENSIONS COMMITTEE

20 JANUARY 2014

<b>SUBJECT:</b>	<b>LGPS UPDATE</b>
<b>WARDS AFFECTED:</b>	<b>ALL</b>
<b>REPORT OF:</b>	<b>STRATEGIC DIRECTOR OF TRANSFORMATION AND RESOURCES</b>
<b>KEY DECISION</b>	<b>NO</b>

#### 1.0 EXECUTIVE SUMMARY

- 1.1 This report informs Members on the current position of the regulatory framework of the Local Government Pension Scheme (LGPS) and provides an update on the collaborative project between Merseyside and Cheshire Pension Funds on implementing the New Scheme from 1 April 2014.
- 1.2 The report also covers the additional resource materials issued as part of the national LGPS Communications Plan and the Pensions Bill 2013/14.
- 1.3 Approval is sought for Officers to agree with the Chair of Committee, a response to a consultation on the implications for the LGPS of the Secretary of State for Justice's plans to introduce a new system for the management and rehabilitation of offenders in the community across England and Wales.

#### 2.0 KEY ISSUES

##### **Reform of the LGPS – LGPS Regulations 2013**

- 2.1 The Administration section is continuing to undertake an impact analysis of the changes to the benefit and administration provisions following publication of the 2013 Local Government Pension Scheme Regulations.
- 2.2 Officers are currently reviewing all operational processes, literature, forms and guidance notes to identify the required amendments to ensure compliance with the revised regulatory provisions and administrative requirements of the new Scheme.
- 2.3 The Fund is seeking to collaborate with large employers to extend current electronic information exchanges in order to improve data quality and deliver further operational efficiencies. The intention is to set up a project team comprising of Fund Officers and staff from the largest employers to develop a consistent and standardised approach to operational procedures that can be adopted by all employers.
- 2.4 The main task is to improve the current data reconciliation process with the objective to ensure that cumulative Pensionable Pay submissions are accurate, as pay forms the basis of the new guaranteed pension accounts.

##### **Regulatory Framework**

- 2.5 At the time of writing, the Transitional Regulations have still not been issued due to a number of scheme-wide issues. These issues, along with the new requirement that the DCLG must obtain clearance from HM Treasury, have delayed the planned release of the regulations.

The LGPS Technical Group has advised that the software suppliers have had sight of the proposed regulations and have indicated there are some radical changes to the draft provisions with further added complexity.

- 2.6 Draft regulations on Scheme Governance are expected in January 2014 following the consultation which closed in August 2013. Although they will not be effective until April 2015, they are likely to be introduced earlier enabling Funds to develop suitable governance arrangements.
- 2.7 Following the analysis of the submissions to the 'Call for Evidence' and an option appraisal on structural reform of the LGPS, to be led by the Shadow Scheme Advisory Board; there will now be a further consultation exercise on more specific reform options in early 2014.
- 2.8 A consultation exercise on the Investment regulations is expected in February 2014 and it is unlikely that any new regulations will be in place at the commencement of the new Scheme. It is the intention that the regulations will be less prescriptive and permit greater flexibility to the investment options available to Funds.

#### **Merseyside and Cheshire West & Chester Collaborative Project**

- 2.9 The formal project plan to define the joint working between Merseyside Pension Fund and Cheshire Pension Fund has been agreed and finalised.
- 2.10 Work has commenced on collaborative tasks related to LGPS 2014. At the time of writing this has included the development of shared communication materials for employers' and the sharing of practitioner training notes and guidance for officers.
- 2.11 A joint practitioner training day has been arranged in February for attendance by officers from both Funds.

Whilst still in its early stages, the collaboration will ultimately provide resource benefits as both Funds work towards delivering a robust operational service and investigate administration efficiencies by sharing expertise and best practice.

- 2.12 The Head of the Pension Fund receives a monthly Project Highlight Report, indicating any changes or deviations from the formal project plan.

Currently, the delay in receiving the Transitional Regulations has had an impact on both Funds making the planned progress in their related areas of work.

## **LGPS 2014 – Communications**

- 2.13 On the 18 November 2013 the LGPS 2014 member website [www.lgps2014.org](http://www.lgps2014.org) was re- launched. The site is administered by Merseyside Pension Fund, and following feedback from members, it now has a new look as well as updated content and information.

The content reflects, where possible, regulations which have been agreed for LGPS 2014. A further update will take place when the Transitional Regulations are laid.

- 2.14 As part of the re-launch of the website, three topic based videos were also released. Each of the videos is available with and without subtitles. The topics covered include:
- Contributions and the flexibility to pay more or less
  - How is my pension worked out?
  - When can I take my pension?
- 2.15 A complementary suite of printed leaflets are also available covering the same areas as the topic-based videos and other information on the website.

## **Pensions Bill 2013/14**

- 2.16 The Government introduced the Pensions Bill 2013/14 to Parliament on 9 May 2013 which, subject to parliamentary progress, is expected to receive Royal Assent by the end of spring 2014.

The Bill contains the provision for the switch from the two tier state pension to a simpler single tier pension. For people reaching State Pension Age from 6 April 2016, it also brings forward the increase in State Pension age to 67 between 2026 and 2028. The Bill also provides a framework for regular review of the State Pension Age.

## **Impact on National Insurance Contributions**

- 2.17 The introduction of the single-tier pension will result in the ending of ‘contracting-out’ of the additional State Pension with a direct impact to members and employers National Insurance contributions when participating in the LGPS.

Although this measure is not linked to Scheme reform, members and employers will be subject to an increase in NI Contributions of 1.4% and 3.4% respectively.

## **Associated Impact on Guaranteed Minimum Pension (GMPs)**

- 2.18 The Social Security Pension Act 1975 (SSPA) Act allowed employers to contract their employees out of SERPS and provided for reduced National Insurance contribution rates.

In return, the employers were required to provide occupational pensions of at least a guaranteed amount, called the Guaranteed Minimum Pension (GMP). This is a substitute for and broadly equivalent to the additional pension which LGPS members would have accrued through SERPS if they had not been contracted-out and applies to membership from 6 April 1978 to 5 April 1997

- 2.19 From 6 April 1997 the links between contracted-out schemes and SERPS were broken. Members of Contracted-Out Salary Related Schemes no longer accrue a GMP for future service. However, members retain the right to any GMPs earned on or before 5 April 1997. Instead of providing a GMP, schemes must from 6 April 1997 satisfy a test of overall scheme quality (the reference scheme test).
- 2.20 The GMP is calculated by the National Insurance Contribution Office and the entitlement to the GMP begins when pensioners reach State pension age.
- 2.21 For GMPs earned up to and including 5 April 1988, the occupational scheme is not required to index the GMP in payment as the increase is paid by DWP. However, occupational schemes are required to increase any GMPs earned from 6 April 1988 until 5 April 1997 by the lower of inflation or 3 per cent, with any balance above 3 per cent paid by DWP. The inflationary increases are paid with the additional State Pension.
- 2.22 The removal of the additional element of the State Pension now calls into question the existing mechanism for the DWP to pay pension increases as part of the single tier pension or whether the additional cost will fall on to LGPS employers.

This will obviously exacerbate the cost pressures already incurred following the abolition of contracting out.

- 2.23 The LGA is actively lobbying the Government as the Bill makes its way through parliament; opposing the increase in National Insurance Contributions for both employees and employers.

The LGA believe there are a number of practical options that could ease the impact of this, such as a possible deferral of the ending of contracting out for public service pension schemes or a cash injection by Government into Fund deficits. In addition, the LGA is lobbying to ensure the Government recognise the impact on LGPS funds of potentially having to meet the cost of Pension Increases on GMP.

## **Transforming Rehabilitation Programme**

- 2.24 In “Transforming Rehabilitation: A Strategy for Reform” the the Secretary of State for Justice set out plans to introduce a new system for the management and rehabilitation of offenders in the community across England and Wales.
- 2.25 The majority of probation services are currently delivered by 35 Probation Trusts under contract to the National Offender Management Service. Once the reforms are fully implemented, these will be replaced with 21 Community Rehabilitation Companies, which will be owned by private and voluntary sector providers, and the newly formed National Probation Service, which will be in the public sector and part of the National Offender Management Service.
- 2.26 Ordinarily, National Probation Service staff would become eligible for membership of the Principal Civil Service Pension Scheme. However, staff in the Probation Trusts are currently eligible to join the LGPS. The Ministry of Justice intends to facilitate continuity in pension provision for transferring staff.
- 2.27 To facilitate this continued pension provision, it is proposed that all Community Rehabilitation Companies and the National Probation Service will participate in one administering authority, the Greater Manchester Pension Fund. The transfer of staff, assets, liabilities and membership records is intended to commence from 1 April 2014.
- 2.28 The Ministry of Justice’s proposals in relation to future pension provision for probation staff will require regulatory amendments to the LGPS Regulations 2013 and the period of statutory consultation on those amendments will close on 10 February 2014.

### **3.0 RELEVANT RISKS**

- 3.1 There is a risk that a full suite of “fit for purpose” Statutory Instruments and Guidance from the Government Actuaries Department (GAD) will not be available in time to effectively administer the new LGPS from April 2014.
- 3.2 The collaborative project between Merseyside Pension Fund and Cheshire Pension Fund is directly reliant upon the provision of the regulations. Project ‘slippage’ on specific work items will be inevitable as the plan was finalised on the governments indicated timeframe for the regulations.

Regular communication between the officers of the two Funds, alongside the formal monthly monitoring of the project, provides an awareness of the project position.

- 3.3 The additional costs falling to members and employers as a result of changes to the State Pension could result in the LGPS becoming unaffordable to both members and employers and this external pressure may threaten the ongoing viability of the new Scheme.
- 3.4 The probation proposals will involve the transfer of substantial assets and liabilities to Greater Manchester Pension Fund and it is essential that the basis and terms of that transfer is determined clearly. A substantial number of membership records will also need to pass across.

### **4.0 OTHER OPTIONS CONSIDERED**

4.1 No other options have been considered.

## **5.0 CONSULTATION**

5.1 There has been no consultation undertaken or proposed for this report.

It is important that MPF responds to the statutory consultations that will lead to revised regulations and a reformed LGPS, particularly when relating to Governance, Cost Control and Administration, as it is crucial to ensure the Scheme is well-run and affordable in the long term.

## **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 MPF needs to initiate a formal strategic change programme to overhaul current administration arrangements, resources and communications; in recognition of the fundamental change of introducing a Career Average benefit pension arrangement complete with ongoing protections to the pre-2014 Final Salary benefits.

7.2 The ending of contracting-out is estimated to increase employer participation costs across the LGPS by £1 billion. This increase will wipe out any expected future savings for employers that have been built into the new Scheme design from April 2014

The ending of the NI rebate for a member who earns £20,000 per annum would result in a reduction to take home pay of £203 per year. The outcome might include an increase in opt outs or a higher take up of the 50/50 option. This would reduce short term employer costs but would have an adverse impact on the cashflow and future funding for the scheme.

7.3 If public service pension schemes are required to pay full PI on the GMP this will have major cost implications for the LGPS with an estimated cost falling to employers contributing to MPF of £40m-50m based on the long term CPI assumption adopted for the 2013 actuarial valuation of 2.6% p.a.

7.4 The transfer to Greater Manchester Pension Fund will involve assets in excess of £100m and pension records for hundreds of members. This will place further demands on pension staff and resources at a time of considerable change.

## **8.0 LEGAL IMPLICATIONS**

8.1 Depending on the impending revisions to the scheme regulations relating to governance there may be implications for the Council arising from the necessity to revise the constitution.

## **9.0 EQUALITIES IMPLICATIONS**

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

The reforms to the LGPS 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/S**

12.1 That Members note the report and approve a response to the Transforming Rehabilitation Programme consultation subject to the agreement of the Chair of Pensions Committee.

#### **13.0 REASON/S FOR RECOMMENDATION/S**

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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#### **SUBJECT HISTORY (last 3 years)**

<b>Council Meeting</b>	<b>Date</b>
<b>The LGPS update is a standing item on the Pensions Committee agenda.</b>	