WIRRAL COUNCIL

PENSION COMMITTEE

22 June 2015

SUBJECT:	**LGPS UPDATE**
WARD/S AFFECTED:	**ALL**
REPORT OF:	**STRATEGIC DIRECTOR OF TRANSFORMATION AND RESOURCES**
RESPONSIBLE PORTFOLIO HOLDER:	
KEY DECISION?	**NO**

1.0 EXECUTIVE SUMMARY

1.1 This report provides a position statement of the changes to the Fund's communication material and operational procedures following the introduction of the Freedom and Choice legislative framework.

1.2 The report also covers the key amendments to the Scheme introduced by the Local Government Pension Scheme (Amendment) Regulations 2015

2.0 BACKGROUND AND KEY ISSUES

Pension Scheme Act 2015

2.1 At the meeting of 24 March 2015, members considered the increased flexibilities afforded to individuals with Defined Contribution savings and the subsequent impact on the LGPS, following the publication of the Pension Schemes Act 2015.

2.2 These changes allow individuals over age 55 to access their defined contribution benefits in more flexible ways from April 2015. These changes are referred to within the industry as 'Freedom & Choice'.

2.3 The most significant impact on the LGPS is the requirement to meet statutory disclosure requirements relating to the changes under Freedom & Choice and the additional safeguard responsibilities governing any transfer of benefits.

A number of secondary statutory instruments have been issued to place mandatory measures on Schemes to ensure members receive information regarding their additional options at retirement. In addition, members whose accrued rights exceed £30,000 and request a transfer to a flexible arrangement must obtain appropriate independent financial advice at their own cost.

2.4 It should be noted that there is no obligation on the member to act upon the advice and providing the member produces evidence of receiving advice from a Financial Conduct Authority approved adviser, the Fund must pay the transfer value.

Merseyside Pension Fund's approach to Freedom and Choice

2.5 In order to raise awareness of the new flexibilities, the Fund has revised its leaver processes to include transfer options at retirement; thus ensuring compliance with disclosure legislation and Freedom and Choice.

2.6 Information about Freedom and Choice, including the necessity to take independent financial advice has been included in the scheme guide, on the members' website and as part of our notifications to deferred members.

2.7 To ensure that the Fund meets its statutory obligations to safeguard members' pension rights, the following new transfer documents have been produced:

- Discharge forms which seek to confirm whether the member has other LGPS rights to determine eligibility to transfer, whether the receiving scheme offers flexible benefits and whether the aggregate cash values exceed £30,000.
- Where the CETV is over £30,000 and the new scheme offers flexible benefits, members will be supplied with a Confirmation of Advice Form to be completed by the adviser qualified to give transfer advice.

Expected Take-up Rates in the LGPS

2.8 The Government anticipates that 10% of members approaching retirement will transfer their Defined Benefit pension into the Defined Contribution arena, in order to take advantage of the new freedoms from age 55.

It is suggested that the number of people opting to cash in pensions will depend on whether employers actively promote transfers and offer incentives. Income Tax may also affect take-up rate, as any cash taken above the HMRC tax free pension limits is subject to the individual's marginal rate of income tax.

Past experience shows that LGPS members tend to be cautious when transferring pension rights and take-up will perhaps be lower than the Government's expectation.

2.9 It is difficult to predict members attitudes to the new cash provisions, but take-up is unlikely to be significant due to the requirement of obtaining financial advice.

Any significant, real change in term of take-up will emerge if the LGPS was allowed to offer the flexibilities directly. Such changes are expected to be consulted on later this year.

Local Government Pension Scheme (Amendment) Regulation 2015

2.10 The Amendment Regulations were made on 17 March 2015 and came into force on 11 April 2015 and amend; the Local Government Pension Scheme Regulations 2013, and the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014.

The key revisions to the regulations relate to the following regulatory provisions;

Qualifying for Benefits

2.11 A clarifying amendment has been made to regulation 3 (7) to provide that where a member dies in service and has not been in the Scheme for two years, the member shall be deemed to have met the two year vesting period and a survivor's pension and child's pension is payable.

Death Grants

2.12 An amendment has been made to regulation 40 to deliver the policy intention that where a member dies in service and also has a LGPS deferred pension and/or a pension in payment, the death grant payable should be the greater of:

a) the death in service death grant and
b) the aggregate of the death grants due in respect of the deferred pension and pension in payment.

2.13 It is noteworthy that if the sum payable in respect of the previous deferred or pension is greater than the death in service grant, then the current employer is responsible for paying the higher death grant from its section of the Fund.

This could have serious implications for the employer contribution rate of the employer in whose employment the member died in service.

Exiting Employer

2.14 Regulation 64 has been amended to provide that, where an employer has become an 'exiting employer', the administering authority can decide to issue a suspension notice. This suspends the employer's liability to pay an exit payment for up to three years if it is likely that the employer will admit future employees to the LGPS.

During the period of the suspension notice, the employer would have to continue to pay contributions and the administering authority can withdraw the suspension notice at any time.

3.0 RELEVANT RISKS

3.1 Given the new flexibilities being introduced for defined contribution schemes, there is a risk that a significant number of members over age 55 may transfer out their defined benefits.

3.2.1 This could have an adverse impact on cash-flow, with the result that the Fund must consider its liquidity position and treasury management policy with regard to investment income in order to provide the funds to pay these transfers.

3.2.2 There is a risk that the £30,000 statutory threshold for mandatory financial advice makes members with pension rights below this limit vulnerable to inappropriate advice which could lead to much reduced retirement incomes.

3.3 There is a risk that the Fund will be liable for any loss of retirement income, if operational processes are not robust in ensuring that members with cash values greater than £30,000 receive appropriate financial advice, when transferring to a flexible arrangement.

4.0 OTHER OPTIONS CONSIDERED

4.1 Not relevant for this report

5.0 CONSULTATION

5.1 Not relevant for this report

6.0 OUTSTANDING PREVIOUSLY APPROVED ACTIONS

6.1 None associated with the subject matter.

7.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

7.1 There are none arising from this report

8.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS

8.1 The new “Freedom and Choice” pension flexibilities may be seen by some employers as an opportunity for liability management, as transfers cut the cost of future pension payments.

8.2 Although an increase in transfer values could cause increased liquidity problems in the short term, the longer term impact on the pension fund liabilities will be to reduce both the deficit and the Fund’s risk exposure to longevity improvements.

8.3 An illustration is shown below of the potential level of savings to the Fund based on different levels of take-up, and assuming members take their transfer value at age 60 over the next five years, as opposed to taking their Fund benefits

	5% of Members Transfer Out	10% of Members Transfer Out
Transfers Paid Out	£11m pa	£23m pa
Liability Saving	circa £1m pa	circa £3m pa

Each transfer value taken will result in a saving versus the long term funding liabilities. For example, if there was a take-up of 10% from the active and deferred members, and transfers were paid in the order of £23m pa over 5 years (based on an average age of 60), the funding deficit would reduce by an average of circa £3m pa.

9.0 LEGAL IMPLICATIONS

9.1 There are none arising from this report

10.0 EQUALITIES IMPLICATIONS

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

No, because Department of Communities and Local Government undertake equality impact assessments with regard to the statutory reform of the LGPS.

11.0 CARBON REDUCTION AND ENVIRONMENTAL IMPLICATIONS

11.1 There are none arising from this report

12.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

12.1 There are none arising from this report

13.0 RECOMMENDATION

13.1 That members note the report.

14.0 REASON/S FOR RECOMMENDATION/S

14.1 There is a requirement for Members of the Pension Committee to be kept up to date with legislative developments as part of their decision making role.

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APPENDICES

BACKGROUND PAPERS/REFERENCE MATERIAL

BRIEFING NOTES HISTORY

Briefing Note	Date
The LGPS update is a standing item on the Pensions Committee agenda.	