

# WIRRAL COUNCIL

## PENSION COMMITTEE

16 NOVEMBER 2015

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

### 1.0 EXECUTIVE SUMMARY

- 1.1 This report informs Members of the challenges faced by the Administration Section in issuing the 2014/15 Scheme year's Annual Benefit Statements to all active members, in compliance with statutory time limits, as prescribed under section 14 of the Public Service Pension Act 2013 and the Local Government Pension Scheme Regulations 2013.
- 1.2 It also raises awareness of the Government's response to the proposal to cap the cost of Public Sector Exit Payments at £95,000 and the September annual inflation figure as measured by the Consumer Price Index.

### 2.0 BACKGROUND AND KEY ISSUES

#### Annual Benefit Statements

- 2.1 Regulation 89 of the LGPS Regulations 2013 requires administering authorities to issue an Annual Benefit Statement to all active, deferred and pension credit members by 31 August, following the end of the Scheme year.

The deadline to issue the statements has been brought forward under LGPS 2014 from 5 October to 31 August, adding further resource pressures on the data cleansing and record management of the employer supplied contribution returns.

- 2.2 It is noteworthy that regulation 89(4) stipulates that only statements for active members have to be provided in accordance with the HM Treasury Direction issued under section 14 of the Public Service Pensions Act 2013.

Any failure to comply with the statutory deadline to issue the Annual Benefit Statements under the Act should be evaluated as to whether it constitutes a

breach of material significance that must be reported to the Pensions Regulator.

- 2.3 The change to the CARE scheme with effect from April 2014 resulted in an array of changes to the specification file for employer 'End of Year' contribution returns, the design of the statements and the operational processing of data at both employer and Fund level.
- 2.4 MPF has been working closely with employers for twelve months prior to the change in data requirements, to allow adequate time to amend payroll systems. The Fund has provided documentation and training to support employers in understanding their administrative requirements under both the new and legacy scheme.
- 2.5 MPF adapted the national template for the layout of the produced benefit statement and developed bespoke supporting notes and explanations. It was cost effective to also include a newsletter with the statement informing members of the further amendments to the regulations, as required under statutory disclosure requirements. In addition, the newsletter provided notice that future statements would only be available electronically unless members requested a paper copy.
- 2.6 Wirral IT provided a managed service for printing, collation and posting the statements and MPF successfully delivered 34,644 statements to its active members (85%) by the deadline, with a further 2,926 (7%) issued by 16 October - bringing the total issued to date to 92% of the eligible active membership base.
- 2.7 It is evident from communications with the LGA, that the vast majority of Funds did not achieve this deadline and that the Pensions Regulator has recognised "teething problems" relating to the introduction of the new Scheme, the significant data and IT system issues faced by both Funds and employers and as a result it has extended the deadline to 30 November.
- 2.8 There is a continuing exercise to assist employers in providing any outstanding information and upon receipt of the necessary data; final statements will be issued prior to the revised deadline.
- 2.9 Where a legal duty relevant to the administration of the scheme has not been complied with, those involved in managing the Fund are under a duty to report breaches of the law to the Regulator if they consider the failing to be of material significance as outlined under the Regulator's code of practice.
- 2.10 If it is apparent that the breach has occurred due to revised systems or processes and it can be demonstrated that appropriate action is being taken to rectify the breach, it may not be necessary to report the incident to the Pensions Regulator, but it should be recorded in the Fund's internal breach log.
- 2.11 As the Fund is strengthening processes to demonstrate the efforts to assist and educate employers in submitting accurate, timely information and is

recording evidence of any employer's failure to improve, it is not felt that the Fund's efforts to issue an Annual Benefit Statement to every eligible active member, constitutes a material breach to the Regulator.

Evidence of continual non-compliance on behalf of the employer would be taken account by the Regulator when considering whether to issue an 'improvement notice' to employers.

- 2.12 In addition, the Fund has reviewed its operational procedures to reduce the impact of the concentration of resource around data quality at the end of the financial year and will be moving to more frequent data reconciliation exercises with employers.

This will enable the Fund to identify employers who are facing specific difficulties during the year and provide support to help resolve queries, thus increasing the number of Annual Benefit Statements that are issued to the eligible active membership by the statutory deadline of 31 August.

### **Public Sector Exit Payment Cap**

- 2.13 Members were apprised that the Government had issued a consultation on the proposal to cap the total cost of Public Sector Exit payments at £95,000 at its last meeting (minute 20 refers).
- 2.14 The consultation closed on 27 August and HMT's response to the consultation was published on 17 September. It is short on detail but confirms that the Government plans to proceed with the introduction of the cap as part of the Enterprise Bill.
- 2.15 The HMT response noted that a significant number of respondents disagreed with the intent to include early retirement strain costs within the scope of the cap on the basis that the cap would impact workers on moderate salaries with long service, and also that the cap was in breach of the 25 year guarantee on pension reform.
- 2.16 The Government disagreed with the latter point, and noted that the pension access costs must be included to ensure that early retirement is not used as a means to avoid the cap.
- 2.17 The Enterprise Bill is currently making its way through Parliament and during the Bill's passage the LGA will seek to meet with government officials to discuss how the cap would work in practical terms in relation to the LGPS.

## **Consumer Price Index (CPI) - Negative September 2015**

- 2.18 The September annual CPI inflation figure has fallen to a negative value of -0.1%.

The annual inflation figure is very significant for the LGPS and other public service pension schemes as it is used for calculating increases in benefits the following April.

- 2.19 Benefits for retired or deferred members will not be reduced to reflect the fall in prices, as the underlying legislation does not permit this, but there will be no increase applied to the current value of benefits.

- 2.20 For benefits which have built up on a career average basis since April 2014, a reduction of 0.1% could apply for members still in service - if HM Treasury choose to use their power under the Public Service Pensions Act and LGPS Regulations, as yet nothing has been confirmed.

Benefits which built up before April 2014 are still calculated on a "final salary" basis, and these benefits are not affected by the negative inflation.

### **3.0 RELEVANT RISKS**

- 3.1 There is the risk that failure to report a significant breach is likely in itself to be judged as a significant breach by the Pensions Regulator.

- 3.2 It should be noted that section 10 of the Pensions Act 1995 imposes civil penalties of £5,000 to any person or £50,000 for any corporate body who fails without reasonable cause to report a breach.

### **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 fall in inflation to a negative value will necessitate additional resources on supplying appropriate member communications in the event that a negative revaluation order is issued.

- 8.2 In addition, as the State Pension Scheme is guaranteed by the triple lock resulting in an increase of at least 2.5% to the state pension, this may prompt

queries from pensioners as to the lack of increase to their local government pension; this too will place additional pressure on resources in issuing appropriate communication material and officers dealing with enquiries during the period of payroll year end processing.

- 8.3 There would be a requirement to evaluate whether the pension administration software could apply the statutory orders for each different type of membership, taking into account that any pension increase would default to nil.

## **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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## **BRIEFING NOTES HISTORY**

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

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