

WIRRAL COUNCIL

PENSION COMMITTEE

21 March 2016

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 raises awareness of a further government consultation on public sector exit payments and other forthcoming consultations
- 1.2 It also informs members on the Fund communications relating to the ending of contracting out as a consequence of the closure of the State Second Pension.

2.0 BACKGROUND AND KEY ISSUES

Public Sector Exit Payments

- 2.1 On 5 February 2016, the government has launched a further consultation on public sector exit payments as originally announced in the 2015 Spending Review. This consultation has a 12 week timeframe and will close on 3 May 2016.
- 2.2 The purpose of the consultation is to seek views on options to make public sector exit compensation “fairer, more modern and more consistent with the proposals” as follows:
- a) Set the maximum tariff for calculating exit payments at three week’s pay per year of service.

- b) Set a maximum salary for the calculation of exit payments, with the possibility for this being £80,000, a figure which is currently used for NHS redundancy payments.
- c) Reducing or removing the cost of employer funded pension top-up payments, by limiting the amount of employer funded pension top-ups or by removing access to such top up payments completely.

A further consideration is to increase the minimum age of 55 at which an employee is able to receive an employer funded pension top up.

Transitional Protections for Agreed Arrangements

- 2.3 The reform will apply to employee exits whether on a mutually agreed or voluntary basis, or through compulsory redundancy. The government expects the reform to apply to existing and future public sector employees, with possible transitional provisions to protect workers who have already agreed exit payment packages before the reforms come into force. It is not anticipated that further transitional protections will be introduced related to the age of individuals or their proximity to retirement age.

Enduring Government Pension Promise

- 2.4 The government has confirmed that these proposals to public sector employee termination packages will not breach the 25 year guarantee on further changes to public sector pensions; a promise it made when it introduced 'Public Sector Pension Reform' in the Public Service Pensions Act 2013.

It will be interesting to observe how the government reconciles these promises in delivering the changes to pension legislation, specifically with regard to a member's entitlement to retire with an unreduced early retirement pension, payable immediately on redundancy or efficiency grounds from age 55 under the Local Government Pension Scheme.

Associated Measures to Limit Exit Payments in the Public Sector

- 2.5 The proposals follow the publication of draft regulations in November 2015, confirming the intent to impose a cap of £95,000 on the total aggregate value of compensation for loss of employment, inclusive of the capital costs for the early release of pension benefit. Committee were informed of this at the 25 January 2016 meeting (minute 53 refers).

- 2.6 In addition, the government has recently finished consulting on a further set of draft regulations that will give effect to the powers enacted in the Small Business, Enterprise and Employment Act. These regulations would allow for the recovery of exit payments when an individual earning £80,000 or more returns to the public sector up to 12 months after exit.

The employer funded pension top-up payments in the guise of capital strain costs under the Local Government Pension Scheme will be included in the recovery plan.

Horizon Scanning - 2016 Budget

- 2.7 There is industry speculation that the Chancellor will issue an announcement on 16 March 2016, covering the government's response to its review of the current pension tax relief structure - entitled 'Strengthening the Incentive to Save'.

It is expected that the government will issue a consultation on the detail and delivery of the policy intent, with the potential for fundamental change to the current pension tax relief structure.

Officers will keep members informed of the result of the review and the impact to pension contributors and the sustainability of the LGPS.

Local Government Pension Scheme Amendment Regulations

- 2.8 The DCLG has yet to issue a draft statutory instrument amending the LGPS Regulations 2013, to align Scheme provisions with the 'Freedom and Choice' legislation introduced under the framework of the Pension Scheme Act 2015.

Impact of the Ending of Contracting Out and the new State Pension Cost Implications

- 2.9 The ending of contracting out has implications for employers, employees and pension schemes:- specifically increases in National Insurance (NI) contributions for employees and employers resulting from the loss of the NI rebates.
- 2.10 Contributing members to the LGPS have paid a lower rate of NI contribution as the scheme has been contracted out of the state second pension (formerly SERPS). In April 2016, the Government is replacing the two tier state pension arrangements with a single-tier State Pension. This will bring about

the ending of contracting out for defined benefit (DB) schemes such as the LGPS.

- 2.11 From 6 April 2016, contributing members of the LGPS will no longer receive the rebate of 1.4% and will consequently pay a higher amount of NI contributions than they have in previous years.
- 2.12 Although the Pensions Act 2014 permits occupational pension schemes in the private sector to offset the increases in National Insurance contributions by amending the rules of the pension scheme, the same legislation specifically prevents public sector pension schemes from doing so.

As a consequence LGPS employers will lose the NI rebate of 3.4% between the lower earning limit and upper accrual point (£5,824 - £40,040) and will see an increase in their payroll cost from April 2016 onwards, without a compensating adjustment to employer pension contributions.

Employer Communications

- 2.13 In January 2016, the Department for Work & Pensions (DWP) asked LGPS administering authorities to assist them in reaching employers, particularly in regards their duties to inform employees of the changes and the implications.

The Fund circulated to employers the following communications:

- a) factsheet for public sector employees from the DWP
 - b) an extract from the December 2015 HMRC Employer Bulletin in regards National Insurance category amendments
 - c) a Questions & Answers document for Employers and another for Members
- 2.14 The Fund also made employers aware of the more far-reaching guidance and factsheets within the DWP State Pension Toolkit at:

<https://www.gov.uk/government/collections/state-pension-toolkit>

Member Communications

- 2.15 The Fund published an extensive article on the forthcoming State Pension changes within the 'beeline' newsletter; this was circulated to contributing members as part of their Annual Benefit Statement in the later part of calendar year 2015.

- 2.16 There is a regulatory requirement - under Schedule 2 of the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 – for administering authorities to inform all contributing members that they will no longer be participating in a contracted-out pension scheme from 6 April 2016.
- 2.17 The Fund will be writing to all contributing members with a template letter provided by the Local Government Association. This template letter meets the regulatory requirements and raises awareness of the 50/50 section of the LGPS should the rise in NI contributions place the member into financial difficulty. It is hoped that raising awareness of the 50/50 section will offer an alternative to members other than ‘opting out’ of future pension saving.
- 2.18 The letter will be posted to a contributing member’s last known postal address, for arrival in early April, and will also be used as another means of communicating the availability of the Fund’s online ‘MyPension’ service, encouraging members to register in advance of the production of this year’s Annual Benefit Statements.

3.0 RELEVANT RISKS

- 3.1 The potential reform to pension contribution tax relief-, to be announced in the 2016 Budget, may lead to further reduction of a member’s net pay, in addition to the reduction already resulting from the ending of contracting-out.

These reductions present a significant risk of mass member opt-outs from the LGPS, placing further cash flow pressures on the Scheme.

- 3.2 The increased employer costs from the ending of contracting out will place further cost pressures on a number of community admission bodies who are facing financial hardship due to cuts in national and local grant funding.

This increased payroll cost may possibly lead to an employer’s insolvency. The contingent termination debts would crystallise leaving the Fund with immediate irrecoverable debt with the ongoing responsibility for honouring the employee pension promises.

- 3.3 Cash flow pressures will affect future investment strategies with a move away from return seeking into defensive assets, culminating in increased employer contributions, further pressures on employer budgets and a direct adverse impact on local taxpayers.

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 production and distribution of the 'End of Contracting Out' letter with an accompanying 'Frequently Asked Questions' to member home address is estimated to cost £16,000

8.2 The introduction of the various measures to limit employer funded pension strain exit costs, could potentially inhibit local authority workforce planning and an increase, within the LGPS, of compulsory redundancies as opposed to voluntary redundancy exercises.

9.0 LEGAL IMPLICATIONS

9.1 There are none arising from this report

10 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.

REPORT Yvonne Caddock
AUTHOR Principle Pension Officer
Telephone (0151) 242 1333
Email yvonnecaddock@wirral.gov.uk

BRIEFING NOTES HISTORY

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