

# WIRRAL COUNCIL

## PENSION COMMITTEE

**25 JANUARY 2016**

<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 raises awareness of the measures directly affecting pensions announced in the Chancellor's Autumn Statement of 25 November 2015 and the new 'Contracted-Out Pension Equivalent' amount to be included within State Pension Statements.
- 1.2 It also provides a position statement on a number of statutory instruments and the preparatory discussions taking place with the Merseyside Directors of Finance in respect of the 2016 Triennial Valuation.

### **2.0 BACKGROUND AND KEY ISSUES**

- 2.1 In addition to the publication of the DCLG's consultation on the investment regulations and guidance setting the high level criteria for pooling investments in the LGPS, covered later on the committee agenda, a number of other items relating to pensions were confirmed by the Chancellor in his Autumn Statement as follows:

- a) The Government intends to respond to last year's consultation on tax relief undertaken at the 2016 Budget.

Industry commentators believe that the move to simplify the auto-enrolment process and to save £840 million in tax relief by delaying the next two increases of minimum contribution levels for automatic-enrolment schemes in line with tax years, (with the first increase now being required in April 2018 instead of October 2017), is a hint of more far-reaching changes to tax relief in the 2016 Budget.

- b) The Government plan to consult on further cross-public sector action on exit payment terms, to reduce the costs of redundancy pay outs and ensure greater consistency between workforces. Whilst lacking detail, it is possible this may have further impact on the LGPS. Fund officers will keep Members updated on future developments.
- c) The basic state pension for those who have reached SPA prior to April 2016 will be going up by £3.35 to £119.30. The triple lock will also be retained which means that the state pension rises every year by the highest of price inflation, earnings growth or 2.5%

The starting rate of the new single -tier state pension in April 2016 will be £155.65, although this is the full-rate headline figure: in the next twenty years some people will get more, some people will get less.

### **Contracted-Out Pension Equivalent (COPE)**

- 2.2 HMRC has announced that from November 2015, a Contracted-Out Pension Equivalent amount will be included within State Pension Statements.
- 2.3 The objective is to explain why individuals may not be entitled to the full amount of the new State Pension if they have been contracted out of the additional State Pension (S2P or SERPS) and paid lower National Insurance contributions prior to April 2016.

As the LGPS is a contracted-out scheme, the amount of State Pension that members will receive will be lower than that received by people with similar earnings who were not contracted-out.

- 2.4 The pension they get from the LGPS will include an amount that, in most cases, will be at least equivalent to the additional State Pension they would have got if they hadn't been contracted-out.

This is known as the COPE amount and in most cases the LGPS element will exceed the COPE amount.

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

- 2.5 Members were apprised of the Government's plans to proceed with the proposals to introduce an exit cap within Public Sector Pension Schemes as part of the Enterprise Bill at its last meeting (minute 38 refers).

- 2.6 The bill to introduce a cap of £95,000 on the total value of exit payments is making its way through Parliament, and the LGA continues to lobby the Government on the operation of the cap, its timescales for implementation and the need for transitional measures.
- 2.7 Much of the detail of how the cap will work in practice remains to be confirmed. The Government published draft Public Sector Exit Payment Cap Regulations 2016 in early November and the LGA are seeking clarification on whether:
- the cap will apply to all strain costs (e.g. flexible retirement) or only those relating to an exit from a public sector employment,
  - will the cost be calculated on a central set of assumptions,
  - 85 year rule protections and/or payment of pension on compassionate grounds will be included and
  - what order the payments have to be set against the cap.
- 2.8 The latest bill highlights that changes to the regulations of relevant public sector schemes (including the LGPS) will be necessary to implement the cap.
- 2.9 To date there has been no formal announcement on the timescale to introduce the bill; however, the documented debate on the bill does include reference to the cap being implemented in Summer 2016. This may provide slight relief to authorities concerned about upcoming Voluntary Early Retirement exercises.
- 2.10 There will be a discretion available to relax the cap in exceptional circumstances, both for individuals and groups of individuals, subject to full council approval. The Government will provide guidance for employers on the use of power to relax the restrictions imposed by the cap, and what would constitute exceptional circumstances.

### **Finance (no. 2) Act 2015**

- 2.11 The Finance (no.2) Act 2015 received Royal Assent on 18 November. This incorporates into legislation the changes announced in the Summer 2015 budget, specifically, the alignment of all pension input periods to the tax year and the new tapered annual allowance for high earners from 2016/17.
- 2.12 It is noteworthy that the Act does not cover the announced reduction in the lifetime allowance to £1 million from April 2016. This will be included in the Finance Bill 2016, alongside details of the protections available to secure pension income at the current available allowance of £1.25 million.

## 2016 Triennial Valuation

- 2.13 As a result of known budgetary constraints on employers and difficult financial conditions pointing to the likelihood of employer contribution increases, Fund Officers have commenced planning for the 2016 valuation.

To manage employer expectation around any potential easements in the management of pension liabilities and the pace of funding, Officers and the Actuary met with the Merseyside Finance Director Group on 17 November to discuss the structure and approach for setting the actuarial assumptions to determine the funding position and employer contribution rates.

- 2.14 The key focus for the valuation is the affordability of contributions and the possibility to revise the derivation of assumptions to deliver a clearer alignment between the investment and funding strategy. The Fund is acutely aware of the financial pressures and will work with employers to arrive at an appropriate contribution schedule within acceptable solvency parameters.

This work will also take account of the oversight from the Scheme Advisory Board via the national Key Performance Indicators in respect of funding and from GAD under section 13 of the Public Service Pension Act.

- 2.15 The aforementioned primary legislation requires GAD to produce a report indicating how solvency and long term cost efficiency should be defined and measured. It has been mooted that there is an expectation that employers cannot knowingly make a decision on funding which will push further costs on future tax payers.
- 2.16 Following the publication of the 2016 valuation reports, GAD will produce a report on whether actuarial valuations conform to the new requirements and are consistent with other LGPS fund valuations.
- 2.17 A request has been forwarded to employers seeking all outstanding member documentation to enable the actuary to base his liability calculations on accurate data when setting relevant contribution schedules

### **3.0 RELEVANT RISKS**

- 3.1 The potential reforms to pension contribution tax relief, to be announced in the 2016 Budget may lead to further reductions of a member's net pay, in addition to the reductions 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 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

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

- 8.1 The inclusion of the COPE amount on State Pension statements will add further complexity for members in evaluating their retirement income. It is likely to cause confusion in understanding that the value is ultimately an underpin value and not a new benefit.

The purpose of these forecast statements is to establish the new state pension entitlement, but the statements will ultimately give rise to queries for all providers of pension arrangements.

- 8.2 The introduction of the exit cap could potentially inhibit local authority workforce planning and an increase, within the sector, of compulsory redundancies as opposed to voluntary redundancy exercises.

## **8.0 LEGAL IMPLICATIONS**

9.1 There are none arising from this report

## **9.0 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.

## **10.0 CARBON REDUCTION AND ENVIRONMENTAL IMPLICATIONS**

11.1 There are none arising from this report

## **11.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS**

12.1 There are none arising from this report

## **12.0 RECOMMENDATION**

13.1 That members note the report.

## **13.0 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  
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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>	

