

WIRRAL COUNCIL

PENSION COMMITTEE

20 JUNE 2016

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

1.0 EXECUTIVE SUMMARY

- 1.1 This report provides an update on the preparations for the 2016 Triennial Valuation and the proposed approach to setting employer contribution schedules.
- 1.2 It also raises awareness of a number of current issues facing the LGPS.

2.0 BACKGROUND AND KEY ISSUES

TRIENNIAL VALUATION

Strategic Overview

- 2.1 The effective date of the actuarial valuation is 31 March 2016. The principal aim of the process is to monitor assets against the current value of the liability of members' pension benefits earned to date, followed by a review the employers' contribution rates payable for the financial period 1 April 2017 to 31 March 2020.
- 2.2 The review takes account of the Funding Strategy assumptions and principles adopted by the Fund, including any Deficit Recovery strategy, Investment Strategy and individual employer characteristics. There is a statutory requirement for employers to be consulted as part of the valuation process.
- 2.3.1 Officers have met with the actuary to discuss initial strategies and have scheduled further meetings with the Merseyside Finance Director Group, to

discuss indicative results based on a roll forward approach from the previous valuation.

This meeting is subsequent to the meeting of 17 November 2015, referenced at Pensions Committee on 25 January 2016, minute 53 refers.

- 2.4 The Reasonableness of the application of a bespoke investment strategy is being considered for certain employers, where the whole Fund strategy may not support funding objectives and the duration of specific employer profiles.

The Actuary's opinion is that the majority would follow the overall Fund risk strategy with a small number of employers adopting a lower risk strategy to reduce funding volatility, in order to provide greater certainty of future liabilities and employer contributions.

- 2.5 The bespoke investment strategy would be applied by the Fund following analysis of an individual employer's risk profile, covenant and funding position.

Operational Process

- 2.6 In order to facilitate the valuation process, employers are required to submit an annual year end data return in respect of the 2015/16 scheme year by 30th April.

- 2.7 The Administration and Accounts teams must then process and reconcile the return and undertake a resource intensive data quality testing and cleansing exercise.

- 2.8 The purpose of the data quality work is to provide empirical evidence of the valuation outcome and resultant contribution schedules; particularly given the current pressures on employer's budgets.

- 2.9 There is a short window of two months for Fund Officers to complete this exercise following receipt of the employer returns at the end of April as the Fund has a deadline to submit its complete data set to the Actuary by 30 June 2016.

- 2.10 Upon receipt of the Fund's complete data extracts, the Actuary will undertake full calculations, including demographic analysis of mortality experience, ill health retirement rates, commutation, proportion of deaths giving rise to dependants' pensions and will provide advice on all aspects of the funding assumptions, identifying the level of prudence in each assumption.

- 2.11 This will allow Pension Committee to make informed decisions when consulting and finalising the Funding Strategy. It is noteworthy that although the financial and employer risk will dominate discussions, the demographic factors are instrumental in developing a robust funding plan.

- 2.12 Officers will keep Members apprised on progress of the valuation until final certification of the Rates and Adjustment Certificate on 31 March 2017

CURRENT LGPS ISSUES

Guaranteed Minimum Pension (GMP) Indexation

- 2.13 On 1 March 2016, HM Treasury announced their decision on the interim solution regarding the indexation of GMPs in the Public Sector; following the introduction of the new single tier state pension from 6 April 2016.
- 2.14 It has been confirmed that public service pension schemes will be responsible for paying full pensions increases on both pre and post 1988 GMP for members who reach State Pension Age between 6 April 2016 and 5 December 2018.
- 2.15 For members who attained State Pension Age prior to 5 April 2016, the Fund pay CPI (capped at 3%) on the post-88 element of a GMP and the Government pays for the top-up on both pre and post 1988 elements to the full CPI, via the additional state pension.
- 2.16 For members reaching State Pension Age beyond 5 December 2018, HM Treasury intends to consult later this year on a solution to the indexation issue going forward.

Academies

- 2.17 The 2016 Budget saw the Chancellor confirm his plans that all authority maintained schools will be required to become academies by 2022. However, following opposition to the proposal the plan has now been modified, and there will not be legislation to bring about a blanket conversion of all schools by 2022.
- 2.18 However, the Government has stated it is still planning on compelling academy conversions in two areas, where the local education authority:
- can no longer viably support its remaining schools because too many schools have already become academies, or;
 - consistently fails to meet a minimum performance threshold across its schools.
- 2.19 Whilst the Government has rebased its plans, it has still formally reaffirmed its determination to push academisation in certain areas.

State Pension Age Review

- 2.20 The 2014 Pensions Act requires the results of an independent review of the State Pension Age to be published at least every six years, with the first review and report to be completed by 7 May 2017.
- 2.21 The Government has recently published the terms and conditions of the first review.

“The purpose of the review is to make recommendations to the Secretary of State for Work and Pensions on future state pension arrangements. The review should consider whether the status quo of the State Pension Age increasing over time is affordable in the long term, fair to current and future generations of pensioners, and consistent with supporting fuller working lives.”

- 2.22 The terms and conditions state that the review is to have regard to variations between groups, but as yet there is no further detail on the specific groupings or the possible formula that may apply. The Government intend to consult widely as part of the process to provide opportunity for comments from all stakeholders.
- 2.23 Whilst this review is very relevant to the LGPS given the retirement age link to the State Pension Age, the Government has said that the review and subsequent report will not affect the current timetables for increases to the State Pension age, which will take place between now and 2028.

Consultation: Local Government Pension Scheme Regulations

- 2.24 A consultation has been published by the Department for Communities and Local Government setting out draft changes to the LGPS regulations to introduce New Fair Deal, along with a range of other amendments to the regulations .
- 2.25 The closing date for responses is 20 August 2016 and Officers will seek the Chairs approval before submitting the Fund’s proposed response.

3.0 RELEVANT RISKS

- 3.1 As academy conversions move active contributor liabilities from the Local Education Authority to the academy within the Fund, the host council's own liability profile will progressively mature.

This could have a range of implications for funding and investment strategies, depending upon the degree of local authority schools converting to academies; specifically the risk of further pressures on employer budgets and a direct adverse impact on local taxpayers.

- 3.1 As the Fund intends to implement bespoke investment strategies following review of the Funding Strategy Statement, there is a risk of failing to actively engage with employers’ at the most opportune time. Failing to capture positive market changes may result in potential claims of mismanagement in regard employer liabilities.

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 Fund's Actuary (Mercer) have stated the impact on the LGPS for picking up the cost of full indexation of GMPs for members attaining state Pension Age between 6 April 2016 and 5 December 2018 will incur additional liabilities of the order of £225 million, which will have to be reflected in the forthcoming valuation. The burden for individual employers will vary depending on membership profiles.

8.2 From a pensioner payroll perspective, there will be a need to identify affected members and set-up administrative processes in order to apply the correct increases going forward as they reach State Pension Age.

8.3 The Government commitment for the academisation programme will result in an increasing number of schools leaving local authorities. The implications for the LGPS, is significant in terms of the operational work needed, given the classification of academies as Scheme Employers. Any rapid increase in the number of schools becoming academies will require additional administration resources.

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.

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BRIEFING NOTES HISTORY

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