

WIRRAL COUNCIL

PENSION COMMITTEE

23 JANUARY 2017

SUBJECT:	LGPS UPDATE
WARD/S AFFECTED:	ALL
REPORT OF:	MANAGING DIRECTOR, DELIVERY
RESPONSIBLE PORTFOLIO HOLDER:	
KEY DECISION?	NO

1.0 EXECUTIVE SUMMARY

- 1.1 The purpose of this report is to update Members on a recent legal view as to the administering authority's regulatory requirements in respect of the LGPS under the Financial Services and Markets Act 2000 ("FSMA").
- 1.2 It also provides an overview of the Chancellor's Autumn Statement in relation to pensions; along with a number of industry wide pension issues affecting the administration and funding of the LGPS.

2.0 BACKGROUND AND KEY ISSUES

Legal Opinion on LGPS and application of FSMA 2000

- 2.1 The LGA has obtained a legal opinion from Nigel Giffin QC on the extent to which a local authority or other body which is the administering authority of an LGPS fund might in that connection be subject to regulation by the Financial Conduct Authority ("FCA") pursuant to the FSMA.
- 2.2 The opinion concluded that, in managing an LGPS fund, the authority is not carrying out a regulated activity, and does not require FSMA authorisation. In addition, the provisions of the Client Assets Sourcebook section (CASS) of the FCA handbook do not apply to the activities as administering authority of the fund, even though that authority may have FSMA authorisation for some other reason.

The full legal opinion can be accessed from the following link:

http://www.lgpsboard.org/images/Guidance/LGA_LGPS_FCA_opinion.pdf

Autumn Statement 2016

- 2.3 On 23 November, the Chancellor of the Exchequer, Philip Hammond MP announced in the Autumn Statement the following actions which apply to pensions:
- The Government issued a consultation on 5 December 2016 outlining proposals to tackle pension scams, including ending 'cold calling'. It includes options giving schemes greater power to block suspicious transfers where there is no evidence of a genuine employment link to the receiving occupational pension scheme.
 - It was also confirmed that the triple-lock guarantee on state pension increases will be in place during the current Parliament, which has led to speculation that it could be removed or modified after 2020. The triple-lock guarantee allows for state pensions to be increased by the highest of 2.5%, inflation, or wage growth.
 - A welcome omission from the statement was any plan to amend tax relief on pension contributions, although a consultation was announced for reducing the money-purchase annual allowance from £10,000 to £4,000 with effect from April 2017. This allowance applies to members of a defined contribution scheme who have flexibility accessed some of their benefits.

Publication of September 2016 CPI rate

- 2.4 On 18 October 2016, the Office for National Statistics (ONS) announced that the Consumer Prices Index (CPI) rate of inflation for September 2016 was 1.0%. Government policy in recent years has been to base both pensions increase under the Pensions (Increase) Act 1971 and revaluation of pension accounts under section 9 of the Public Service Pensions Act 2013 on the rate of CPI for September of the previous year.

We await confirmation from the Government in due course that revaluation and pensions increase for April 2017 will apply in the LGPS at a rate of 1.0%.

- 2.5 In early November, the ONS also announced that it was changing its preferred measure of inflation to the CPIH. This is the normal CPI figure but

with an element of housing cost included. For September 2016, the rate of CPIH was 1.2%.

There is no indication at the moment that the Government plans to use CPIH as its measure for uprating public service pensions.

Consultation on indexation and equalisation of GMP in Public Service pension schemes

- 2.6 On 28 November, HM Treasury commenced a consultation that proposes options for the indexation of GMP elements for members of public service pension schemes who will reach SPA on and after 6 December 2018.
- 2.7 As Members are aware, the government introduced the new State Pension on 6 April 2016, designed to radically simplify pension provision whilst ensuring that pensioners have security in retirement. This simplification removed layers of complexity from the system, harmonised the rate of National Insurance contributions paid by employees and employers and was intended to promote private saving by giving people a better understanding of the amount of support they can expect to receive from the State when they reach State Pension age.
- 2.8 Among the layers of complexity that has been removed is the Additional State Pension (AP), an earnings related element of the old state system.

The removal of AP has led to the need to consider how public service pension payments for a specific group of members should be increased in the future. Those who were in 'contracted-out' employment during the period 6 April 1978 to 5 April 1997 (inclusive) who accrued a guaranteed minimum pension (GMP) from their public service pension scheme and who will reach SPA after 5 December 2018 will be affected.

- 2.9 The consultation aims to consider two issues by putting forward a number of solutions. The two issues that are considered are:
1. How best to avoid the unequal payments to men and women in public service schemes that result from the abolition of AP? and;
 2. Whether, following the introduction of the new State Pension, public service pension schemes should, for someone who reaches SPA after 5 December 2018, provide full indexation on any GMP the public service pension scheme pays?

The consultation document can be accessed from the following link and the consultation period ends on 20 February 2017.

<https://www.gov.uk/government/consultations/indexation-and-equalisation-of-gmp-in-public-service-pension-schemes>

Scheme Advisory Board Valuation Benchmarking

2.10 The Fund's Actuary, Mercer, has calculated the funding position for the Fund as at 31 March 2016, based on the Scheme Advisory Board's (SAB) standardised funding calculation basis; the results are below and have been forwarded to the SAB.

	Fund	SAB
Assets	£6,850m	£6,850m
Liabilities	£8,005m	£7,019m
Surplus / (Deficit)	(£1,155m)	(£169m)
Funding level	86%	98%

2.11 Members were updated at the meeting of 15 November 2016 (minute 131 refers) that the preliminary disclosed funding level is 86%.

2.12 The main driver for the difference between the value of the liabilities, deficit and funding position as reported to the SAB are the different financial assumptions used in the two sets of calculations (although there are also some differences in the demographic assumptions).

In particular the discount rate over CPI is 3% pa (versus 2% p.a. in the Fund's valuation) although this is offset somewhat as the SAB basis does not include allowances for short term pay constraints.

2.13 Finally, it should be noted that the Section 13 basis, as covered at the meeting dated 19 September 2016, (minute 112 refers) has not yet been finalised by the GAD but could quite possibly be different from the SAB basis.

3.0 RELEVANT RISKS

- 3.1 There is a risk that the Scheme Advisory Board standardised funding measures will be used by employers to exert pressure on administering authorities to adopt more optimistic funding assumptions, which do not reflect the Fund's own circumstances and are not suitable for funding purposes.

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 If it is agreed that public service pension schemes should pay full indexation on GMP's for all members who reach State Pension Age from 6 December 2018, the burden of the additional liabilities for the LGPS is around £775 million. This equates to around 0.3% of the Scheme's total liabilities which corresponds to an increase in contributions of 0.1% of pay per annum if spread over a 20 year recovery period.
- 8.2 The impact will vary for individual employers, depending on their membership profile with regard to the numbers of staff with pre 1988 membership and the level of accrued GMP's.

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.

**REPORT
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APPENDIX

BACKGROUND PAPERS/REFERENCE MATERIAL

BRIEFING NOTES HISTORY

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

