

WIRRAL COUNCIL
PENSION COMMITTEE

21 MARCH 2017

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

1.0 EXECUTIVE SUMMARY

- 1.1 This report informs Members of the Fund's response to the recent separate consultations on Pension Scams and the Indexation/Equalisation of Guaranteed Minimum Pensions (GMPs) in Public Service pension schemes.
- 1.2 Fund Officers sought comments and approval from the Chairs of both the Pension Committee and Pension Board on the policy perspective within each response, before submission to HM Treasury on the appointed deadline dates for each consultation. The responses are attached as Appendices to the report.
- 1.3 The report also provides an update on the draft LGPS (Amendment) Regulations and the Enterprise Act 2016 Commencement Order

2.0 BACKGROUND AND KEY ISSUES

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

- 2.1 The publication of the consultation and an outline of the fundamental aspects were detailed within the LGPS Update report presented at the last committee meeting on 23 January 2017 (minute 144 refers).
- 2.2 The Fund response focuses on the necessity for a simple administration approach and postulates that full indexation of the GMP, or the Fund 's

prepared approach of converting the GMP into scheme benefits, is the simpler longer term solution as opposed to the case-by-case option.

- 2.3 The Fund accepts that the viable, simpler administration options are likely to involve the LGPS paying the value of the increase to the members. However, as the loss of GMP indexation appears to be an unintended consequence of State Pension reform, additional funding should be made available to public sector schemes to offset the extra liability.
- 2.4 The Fund believes that a necessary outcome of the consultation is a policy that maintains the level of promissory retirement income. This is required to retain employee confidence in pension saving and provisions which are understandable and can inform members' financial planning.

Pension Scams: Consultation

- 2.5 The Department for Work and Pensions (DWP) and HM Treasury published a joint consultation seeking views on a package of measures to tackle three different areas of pension scams, namely; a ban on cold calling, limiting the statutory right to transfer and making it harder to open fraudulent schemes.

The Fund is supportive of the suggested actions within the consultation.

- 2.6 As many pension scams are initiated through cold calls, the degree of success the ban achieves will be largely dependent on public awareness of the illegality of cold calling and the requirement to report targeted fraud to 'Project Bloom'; a multi-agency taskforce of government, regulators, financial service bodies and criminal justice agencies which work to disrupt and prevent pension liberation scams.
- 2.7 The focus of the Fund's response highlights the need for robust HMRC and statutory controls to provide ceding schemes with the required assurance that demonstrable appropriate due diligence checks will prevent the payment of unauthorised transfers; protecting members and pension funds from penal tax charges.
- 2.8 In addition, the Fund is mindful that primary legislation will be needed to introduce the controls and has raised the question as to the possibility of interim measures to prevent an upsurge of activity whilst the current law remains in force.

Consultation: Draft Local Government Pension Scheme (Amendment) Regulations

- 2.9 Members have previously been apprised of the above regulations and noted the Fund's technical response on the provisions at the committee meeting on 19 September 2016 (minute 111 refers).
- 2.10 DCLG is working on a formal response to the consultation which will be published in due course, but a number of points remain which require further clarification, relating to:
- Fair Deal - there are a number of gaps in the draft regulations and a further consultation may be needed on an amended set of provisions;
 - Freedom and Choice for AVCs – the advantages and disadvantages of offering uncrystallised fund pension lump sum (UFPLS) from LGPS AVCs are being considered along with identified administrative complexities.

Enterprise Act 2016 – Commencement Order

- 2.11 The above statutory order SI2017/70 has been issued by HM Treasury with an effective date of 1 February 2017 and is available from the following link

<http://www.legislation.gov.uk/ukxi/2017/11/contents/made>

- 2.12 These regulations enable the proposed £95k Exit Payment Cap to be introduced, although the commencement order does not bring the exit cap into effect but allows the Government to make further regulations implementing the cap.
- 2.13 A further consultation on draft regulations will be required but there is no hard deadline for the introduction of the cap, as the secondary legislation is still being finalised.

3.0 RELEVANT RISKS

- 3.1 The policy proposal to transfer the Government's obligation to fully index GMPs could alienate private companies who may consider bidding to provide public sector services; acting as a barrier to the greater plurality of public service provision by the private sector, stifling 'best value' delivery.

There is a risk that contractors may be less willing to bid for public service contracts if the government is seen to be arbitrary changing the legislation governing the schemes, in order to pass on costs which were not factored into the commercial agreements.

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 The extension of the Fair Deal pension protection to community admission bodies presents a significant restriction to their flexibility to outsource contracts.

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 GMPs for all members who reach State Pension Age from 6 December 2018, the burden of the additional liabilities for the LGPS is around £1 billion.

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 in regard to the numbers of staff with pre-1988 membership and the level of accrued GMPs.

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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APPENDICES

Appendix 1. MPF consultation response on GMP indexation and equalisation

Appendix 2. MPF consultation response to pension scams

BACKGROUND PAPERS/REFERENCE MATERIAL

BRIEFING NOTES HISTORY

| Briefing Note | Date |
|----------------------|-------------|
| | |

SUBJECT HISTORY (last 3 years)

| Council Meeting | Date |
|---|-------------|
| The LGPS update is a standing item on the Pensions Committee agenda. | |