

WIRRAL COUNCIL

PENSION COMMITTEE

29 OCTOBER 2018

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| SUBJECT: | LGPS UPDATE |
| WARD/S AFFECTED: | NONE |
| REPORT OF: | DIRECTOR OF PENSIONS |
| KEY DECISION? | NO |

1.0 EXECUTIVE SUMMARY

- 1.1 The purpose of this report is to provide a high level overview of the proposed changes to the valuation and cost management process for public service pension schemes, and the subsequent impact on the LGPS.

2.0 BACKGROUND AND KEY ISSUES

Scheme Valuations and Cost Management Process for public service pension schemes

- 2.1 The Chief Secretary to the Treasury, Rt Hon Elizabeth Truss MP, recently announced details of the quadrennial valuations of public service pension schemes.
- 2.2 In conjunction with the announcement, Her Majesty's Treasury (HMT) issued draft amendments to the Public Service Pensions (Valuations and Employer Cost Cap) Directions 2014 which in summary propose that;

- a) Member benefits will have to rise and/or member contributions reduce where the cost cap floor has been breached (expected to be the case for the majority of unfunded schemes).

The LGPS has a dual cost cap process which differs from the rest of the public sector schemes.

- b) Employer contributions to the unfunded schemes will rise (largely due to a reduction in the Scape discount rate) - Therefore, the newspaper

headlines regarding the NHS, Teachers and Uniformed services will not necessarily apply to the LGPS.

- c) Scheme valuations for the LGPS will move to every four years. The Treasury's aim is to have a single timetable for cost cap purposes across all public service schemes.

However, it has been confirmed that the 2019 triennial funding valuation will proceed and discussions with MHCLG and actuarial advisers are taking place to consider the implications of this change for future local Fund valuations.

- 2.3 The LGPS has a separate Scheme Advisory Board cost management process and there is likely to be tension between the LGPS and the process conducted by HMT. The HMT cost management process itself will be reviewed to ensure the original objective - to balance the costs of the scheme and the apportionment of risk, between the member and the taxpayer, remains within set parameters.

HMT Cost Management Process

- 2.4 The cost cap floor has been breached for a number of unspecified schemes, which necessitates either the requirement to increase benefits or reduce member contribution rates for the affected schemes.
- 2.5 The outcome is not unexpected, given that the baseline cost, against which the 2016 results are being measured, was higher than that on which the new schemes were originally costed. The baseline valuation allowed for:
- higher expected longevity improvements at that time (which may now potentially prove to be the highpoint in terms of future improvements);
 - use of commutation assumptions which, for the LGPS, appeared to underestimate the savings from members exchanging pension for cash at retirement and has been increased from 15% to 17.5% for the 2016 valuation;
 - higher expected salary growth compared to that experienced (and now expected over the next few years).

Implications for the LGPS

- 2.6 Whilst it has not yet been disclosed which schemes have breached the cost cap floor, there is a strong possibility this causes difficulties for the LGPS since the cost cap mechanism of the LGPS Scheme Advisory Board (SAB) appears more likely to suggest upward cost pressure, because:

- it allows for take-up of the 50:50 scheme which has been much less than originally assumed;
- it uses the original baseline cost of 19.5% of pay (split 13% employer and 6.5% member) rather than a re-drawn (higher) starting point;
- the baseline cost allowed for commutation at higher rates which reflect LGPS experience (so less likelihood of an emerging reduction in cost).

2.7 Other factors leading to upward cost pressures in the SAB process (i.e. the effect of the public service transfer club and bringing forward of revaluation by a year for consistency with the other public service schemes) are not being shared with members, so the upwards cost pressure from the SAB process is lower than it might otherwise have been.

Nevertheless, the two processes may lead to opposing results for the LGPS in England.

2.8 The supporting documents to the announcement appear to suggest that the previous agreement has been honoured; whereby the SAB process would run through before the HMT process, with any recommendations suggested by SAB being taken into account in the HMT process.

2.9 It is not yet clear how SAB will be able to square the circle of recommending changes to the LGPS, which might be contrary to those suggested by HMT.

Scape Rate

2.10 The amendments to the Public Service Pensions (Valuations and Employer Cost Cap) Directions 2014 highlight a further reduction to the Scape discount rate which is a key determinant of the cost management process and factors produced by the Government Actuary Department – used for processing benefit calculations in the LGPS.

2.11 This will lead to increased transfer value payments, and higher scheme pay factors for lifetime and annual allowance exercises; resulting in greater debits from member's benefits where tax charges are paid by the Fund at the member's request.

3.0 RELEVANT RISKS

3.1 Not relevant for this report

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 reduction in the SCAPE discount rate from CPI plus 2.8% to CPI plus 2.4% from 29 October 2018 will require transfer calculations to be put on hold until new actuarial factors are issued by the Government Actuary Department.

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 equality impact assessment is required

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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