

WIRRAL COUNCIL

PENSION COMMITTEE

25 MARCH 2019

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

1.0 EXECUTIVE SUMMARY

1.1 This report provides an update on developments relating to the cost management process for public service pension schemes - including the implications on the cost of the LGPS following the recent Court of Appeal decision in respect of the Judges' and Firefighter pension schemes.

2.0 BACKGROUND AND KEY ISSUES

Cost Management Process and the McCloud Judgement

2.1 Following the Hutton Review of public sector pensions, a cost management mechanism was implemented in all public sector schemes to ensure the cost of providing pensions is retained within an agreed range of costs.

Members considered the unique cost capping mechanism in operation within the LGPS at its meeting on 29 October 2018 (minute 26 refers); specifically the dual cost management processes undertaken by the Scheme Advisory Board (SAB) and Her Majesty's Treasury (HMT).

2.2 A recent review of the 2016 Valuation Results by the Government Actuary Department (GAD) determined that the costs of the LGPS are now below the 19.5% future service target cost . To bring costs back within the cost envelope the SAB has proposed the following improvements to the Scheme, which were due to be implemented on 1st April 2019:

- Removal of Tier 3 Ill Health;
- Minimum Death-in-Service lump sum of £75,000 per member (not Employment);

- Enhanced Early Retirement factors for all active members from 1st April 2019 to be applied to all service;
 - Revised member contribution rates and bandings, which take account of varying tax relief:
 - A 2.75% contribution rate for salaries between £0 and £12,850
 - An expansion of Band 2, which will now include salaries between £12,501 and £22,500, and a contribution rate reduction from 5.8% to 4.4%
 - An expansion of the 6.8% contribution band from £45,200 to £53,500
- 2.3 The proposals take into consideration the change in the annual revaluation of CARE (Career Average Revalued Earnings) benefits to CPIH (Consumer Price Index including owner occupiers' housing costs), as opposed to CPI (Consumer Price Index) announced in the October 2018 budget.
- 2.4 It is expected that the proposals will result in an increase to the average employer contribution rate across the scheme of approximately 0.9% of payroll costs, although the impact on individual employers will vary and will be dependent on the 2019 valuation process.

McCloud Case

- 2.5 A short consultation on the above regulation changes was expected during February; however, the decision to implement the proposed changes has been delayed as the Government has recently lost a case in the Court of Appeal which will have a direct bearing on the cost of all public sector pension schemes.

Consequently HMT and SAB have 'paused' the cost management mechanism and withdrawn the proposals to amend scheme provisions.

- 2.6 The appeal case known as the 'McCloud Case' concerns the transitional protections given to members of the judges' and firefighter pension schemes who in 2012 were within 10 years of their normal retirement age.

On 20 December 2018, the Court of Appeal found that these protections were unlawful on the grounds of age discrimination and could not be justified.

- 2.7 The Government has applied to the Supreme Court for permission to appeal the decision and it is expected that the Court will provide notice whether to grant the application by mid-April 2019.

- 2.8 If the protections are deemed to be unlawful, those members who have been discriminated against will need to be offered appropriate remedies to ensure they are placed in an equivalent position to the protected members.

Such remedies will need to be 'upwards' - that is the benefits of unprotected members will need to be raised rather than the benefits of protected members being reduced.

2.9 Protections were applied to all members within 10 years of retirement in all public service schemes, with the form of protection varying from scheme to scheme. Despite the case only applying to the judges' and firefighter schemes it is anticipated that the outcome will apply to all public service schemes.

2.10 In light of the uncertainty of the outcome of the case, the SAB is consulting on the approach to be taken for the 2019 Actuarial Valuations.

Although it is clear that there will be increased costs emerging either by virtue of the cost capping mechanism or outcome of the McCloud case, it is unknown how these costs will impact on individual employers because of individual member profiles.

2.11 It is therefore likely that the 2019 Valuation will need to proceed based on current known costs. As such it will be necessary for administering authorities to document within their Funding Strategy Statement scope to revisit employer contributions, in order to deal with the emergent increase in costs following the outcome of the McCloud judgement.

3.0 Relevant Risks

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 It is expected that the SAB proposals to return the future service cost to the 19.5% target level will result in an increase to the average

employer contribution rate across the scheme of approximately 0.9% of payroll costs.

- 8.2 In consideration of the suggested changes to employee contributions, employers with a high proportion of lower paid employees can expect increases in the region of 2% to 3% of payroll costs.

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 MHCLG 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 Committee Members note:

- a) developments in respect of the cost management process, and;
- b) the subsequent delay in implementing changes to the benefit package due to the McCloud case and the impact on the impending 2019 Triennial Valuation.

14.0 Reason/s for Recommendations

- 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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