Merseyside
PENSION FUND

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Please ask for: Yvonne Murphy

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Dear Sirs

Increasing the Normal Minimum Pension Age: Consultation on Implementation

I refer to the above-mentioned consultation and I am responding to the invitation for comments on behalf of Wirral Council in its capacity as the Administering Authority for Merseyside Pension Fund.

The Fund is part of the Local Government Pension Scheme (LGPS) and the 4th largest of the 87 funds in England and Wales, with assets of £9bn. MPF undertakes the LGPS pension administration and investments on behalf of the five Merseyside district authorities, over 200 other employers on Merseyside and elsewhere throughout the UK. The Fund has over 139,000 active, deferred and pensioner members.

Areas of General Concern

In addition to responding to the specific questions posed within the consultation, the Fund would like to highlight its main points of concern regarding the policy intent and the proposals. There is a tangible risk that the increase to minimum pension age from 55 to 57 will be unpopular with savers, as this will require employees to both work and lock money away for a longer period. As such the policy objective appears counterintuitive to the success achieved by Government, to extend pension provision amongst workers via the auto-enrolment programme.

There is also a possibility that some employees will rush to retire before the step-up in minimum retirement age takes effect, and as such additional resources will be necessary to enable schemes to implement engagement campaigns with members to ensure they make informed decisions when accessing benefits, as opposed to making 'knee-jerk' reactions to the change in the regulations.

Care will also need to be taken to alert members who are looking at moving pension schemes and transferring entitlements before the regulations take effect, specifically as to the impact this could have on their normal minimum pension age. Schemes will need to strengthen record-keeping and produce clear communication materials to highlight the minimum pension age that applies to their current pension entitlement and when a protected age of 55 may be lost.

Our Response to Consultation Questions

Q1 *Are there any specific considerations that should be taken into account regarding the government's proposed framework for the increase to the NMPA?*

A1 As the LGPS provides members with "an unqualified right" to access benefits from age 55, for members born after 6/4/1971, who join the scheme after the consultation date of 11/2/2021, the proposed changes represent a significant reduction to the flexibility of the Scheme as the protected normal minimum pension age of 55 does not apply to these members.

Section 2.5 of the consultation document advocates that:

> *"an individual member of any registered pension scheme (occupational or non-occupational) who has a right under the scheme rules at the date of this consultation to take pension benefits at an age below 57 will be protected from the increase in 2028"*

and consideration should be afforded to amend this statement to:

> *"an individual member of any registered pension scheme (occupational or non-occupational) who, at the date the Regulations come into effect, has a right under the scheme rules to take pension benefits at an age below 57 will be protected from the increase in 2028"*

The date new Regulations in respect of NMPA come into effect is a more logical "protection date" than that of the beginning of the Consultation on raising the NMPA. This suggestion would also extend by some months the protection date beyond the present proposed date of 11 February 2021. An extension of even 6 months would potentially benefit many pension scheme members across the UK, reduce potential member confusion and reduce the additional burdens on pension scheme administrators.

To explain, empirical evidence indicates that the life expectancy of an average LGPS member is broadly 20 years after Normal Retirement Age, but a significant number of members have reduced life expectancy and choose to access their pension early. The proposals curtail the options for these members and further inhibit returns from the scheme in comparison to those members with longer lifespans.

It would also appear that transferring out of a scheme which has a protected pension age will result in the loss of the right to take benefits from age 55, for individual transfer events that are not subject to a block transfer. This creates an issue for members transferring out from 11 February 2021 as they will lose the right to a protected pension age of 55 which may not have been communicated by the ceding scheme or independent financial adviser. Therefore, it would appear equitable that individual transfers completed following the consultation date and prior to the change in the schemes minimum pension age should retain their protected minimum pension age of 55.

Furthermore, consideration is required as to the impact on job mobility within the public sector as the policy appears to reduce the effectiveness of the 'Club Memorandum' which currently ensures that employees receive broadly equivalent entitlements when they transfer their pensionable service to a public service pension scheme.

From an employer perspective, the proposal reduces the flexibility of the scheme to assist with workforce restructuring as increasing the minimum pension age to access benefits significantly reduces redundancy packages and incentives for staff to volunteer for early retirement schemes.

Q2 *Are there any particular issues that the government should consider in the way NMPA is defined in the pension scheme rules?*

A2 NMPA is usually considered on a scheme-by-scheme basis depending on each individual set of rules. For example, some scheme rules specify benefits are payable from normal minimum pension age rather than explicitly referring to a particular age. As NMPA increases, it is expected that the date at which members can access their benefits will also increase and there will be no protected minimum pension age afforded to contributing members; unlike schemes where the normal minimum pension age is directly quoted within the regulations or pension plan.

If the government ignores this aspect of scheme rules in its implementation, it could be viewed as endorsing further inequalities across the pension industry.

Q3 *The government proposes that that the protected pension age will apply to all the member's benefits under the scheme (if the conditions for a protected pension age are met), not just those benefits built up before 2028.Are there any alternative options or issues the government should consider around the treatment of accrued and future pension saving?*

A3 It is welcomed that the protected pension age applies to all benefits accrued in the scheme, including benefits accrued after the change date as it would be unnecessarily complex to have two different benefit ages relating to entitlements in the scheme.

Introducing further protections in addition to '85-year rule' protections and the 'underpin protection' creates an additional layer of complexity within the LGPS, as there will now also be two different minimum pension ages to administer, resulting in costs for system reprogramming, communication, and staff training.

Further consideration of the overriding regulations is required as to whether a member's protected pension age extends to a consecutive pensionable employment which commences within the same scheme following the qualifying cut-off date (proposed to align with the consultation date of 11 February 2021).

In addition, members and administrators require a clear directive as to whether the protected pension age will be retained if members aggregate previous membership with consecutive employments when transferring between scheme employers or across LGPS Funds.

Q4 *Are there any issues associated with schemes informing members who meet the conditions of their rights to a protected pension age?*

A4 Pension Funds need to consider the impact of the proposed change to the NMPA on the members of their scheme and determine whether some or all of the members of their scheme will benefit from a protected minimum pension age.

Where a member's NMPA will change from April 2028, Funds will need to consider when and how to inform the individual to ensure that affected members have sufficient notice of the change and can adjust any plans they may have to retire or access their benefits accordingly.

There are also immediate actions required to communicate to members that there is potential to lose the right to retire from 55 for transfers that are 'in train' but not yet completed.

Where there are two different retirement age regimes in one scheme this creates a layer of complexity and additional costs in communicating the features of the scheme to members.

Q5 *Are there any circumstances why the increase in NMPA may impact on pension flexibility (which was introduced following the 2014 consultation on "Freedom and Choice in Pensions")?*

A5 Moving the NMPA to age 57 removes flexibility for LGPS members and as there are actuarial reductions applied to benefits accessed prior to normal pension age, there appears to be no justification for the increase. It is likely that members with a protected minimum pension age and a reduced life expectancy will make active choices to take their benefits early from the LGPS as transferring out to obtain an impaired life pension will result in a loss of the right to take benefits from age 55.

Q6 *Are there any implications the government should consider by not requiring that all scheme benefits must be crystallised on the same day as a condition for a protected pension age?*

A6 The LGPS already allows partial access, members can receive benefits, with employer consent, and remain in their pensionable employment, all be it in some form of reduced capacity.

Members may welcome the extended flexibility of voluntarily accessing partial accrued entitlements that are subject to different retirement ages and varying actuarial reductions. This will increase the complexity and resource requirements in administering the scheme.

Yours faithfully

Y Murphy

Yvonne Murphy
Head of Pensions Administration