WIRRAL

PENSIONS COMMITTEE

29 NOVEMBER 2021

REPORT TITLE:	LOCAL GOVERNMENT PENSION SCHEME UPDATE
REPORT OF:	DIRECTOR OF PENSIONS

REPORT SUMMARY

This report updates Members that on 15 October 2021, the Scheme Advisory Board (SAB) published the result of its cost management process for the 2016 Scheme Valuation, following publication of amendments to the HM Treasury (HMT) Directions on 7 October 2021.

It also covers the HMT response to its consultation on the proposed reforms to the cost control mechanism, which emerged due to industry concern that the mechanism was not operating in line with its original objectives; in that it would only be triggered by extraordinary, unpredictable events.

RECOMMENDATION

That the Pensions Committee be recommended to note the results of the employer cost control element of the 2016 Scheme Valuation and the impacts of the impending changes to the cost control mechanism to take effect for the 2020 Scheme Valuation.

1.0 **REASON/S FOR RECOMMENDATION**

1.1 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.

2.0 **OTHER OPTIONS CONSIDERED**

2.1 This is the most appropriate option for informing the Pensions Committee of industry developments.

BACKGROUND INFORMATION

3.0 **2016 Cost Management and McCloud Costs**

3.1 Members last considered the Cost Management Process of the reformed Career Average Revalued Earnings (CARE) Local Government Pension Scheme (LGPS) and the impact of the proposed McCloud remedy on the cost of the scheme at its meeting of 22 June 2021, minute 8 refers

3.2 Members may recall that at the implementation of the 2014 scheme, the target scheme cost was set at a rate of 19.5% of pay. Any change to this target scheme cost is to be measured by a national valuation carried out by the Government Actuary's Department every four years.

The LGPS is subject to two cost management processes; one relating to a process managed by HMT and an additional LGPS specific one managed by SAB.

3.3 The change in costs is expected to be shared between members and employers, with employers bearing the costs and risks from external factors such as changes in discount rates and price inflation. Members would bear the costs and risk of wage growth, changes in life expectancy, ill health retirement experience and commutation of pension.

3.4 The original result of the 2016 SAB cost management process was a reduction in cost of 0.9% of pay and a package of measures corresponding to 0.9% increase in employer costs were agreed. However, the process was subsequently paused due to the McCloud judgment.

3.5 The Written Ministerial Statement made by Luke Hall on 13 May 2021 confirming the key LGPS changes required to remove the unlawful age-restricted underpin protection, provided sufficient certainty regarding cost for HMT to publish the Public Service Pensions (Valuation and Employer Cost Cap) (Amendment) Directions 2021 on 7 October 2021. The Directions confirmed that costs resulting from McCloud will need to be treated as member costs within the cost management process.

3.6 As a result, on 15 October, SAB published the result of its cost management process for the 2016 Valuation, in which it agreed to spread McCloud costs over a ten-year period, acknowledging that this timeframe coincides with the point at which 60% of qualifying members are expected to have left the scheme.

3.7 The remedy results in an outcome of 19.4 per cent against the target cost of 19.5 per cent of pensionable pay. Despite the slight shortfall in cost, SAB will not recommend any further scheme changes as a result of the 2016 cost management process.

3.8   However, as part of a separate process, SAB plan to revisit the Tier Three ill Health provisions and the contribution rates for the lowest paid members - with the objective of bringing forward recommendations in these areas for future scheme changes.

3.9   SAB has also highlighted to the Minister that exercising its legislative duty to complete the process does not diminish its concerns that the Government has included McCloud costs as member costs.

HMT Consultation Response on the Cost Control Mechanism

3.10   HM Treasury requested the Government Actuary Department (GAD) to review the cost control process following industry concern that the mechanism was not operating in line with its original objectives, that it would only be triggered by extraordinary, unpredictable events.

3.11   As a response to GAD's findings, a consultation was issued on 24 June 2021 on the understanding that the outcome of the consultation will not impact on the 2016 cost control valuations.

3.12   HM Treasury published its response on 4 October 2021 confirming it will proceed with all three proposed reforms:

- moving to a reformed scheme only design so that the mechanism only considers past and future service in the reformed schemes. Costs related to legacy schemes are excluded

- the cost corridor will be widened from two per cent to three per cent of pensionable pay

- introducing an economic check so that a breach of the mechanism will only be implemented if it still would have occurred had the long-term economic assumptions been considered.

3.13   The Government is aiming to implement all three proposals in time for the 2020 valuations and will work with the Department for Levelling Up, Housing and Communities (DLUHC) and other LGPS stakeholders to consider:

- the most appropriate way to implement the reformed scheme only design in the LGPS (including how to treat the underpin)

- how the changes will feed through to SAB's own cost management process within the LGPS

4.0   **FINANCIAL IMPLICATIONS**

4.1   HM Treasury decision to consider only the reformed scheme in the cost control mechanism and the widening of the cost corridor means that, based on GAD's analysis, the mechanism is expected to breach around once every 40 years on average. Cost breaches will therefore be less frequent, but more material when they occur - providing reduced cost control whilst member benefits will be more stable.

5.0   **LEGAL IMPLICATIONS**

5.1   There are none arising from this report. Section 12 of the Public Service Pensions Act 2013 provides the legal framework for a 'cost control mechanism'.

6.0   **RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS**

6.1   SAB made the decision not to recommend any scheme changes despite the slight shortfall in the target scheme cost, in recognition that having to backdate any changes to April 2019 would be an additional burden on already overstretched pension administration teams.

6.2   SAB has requested that funding is made available to LGPS Funds in respect of the costs of required enhancements to pension administration systems necessary to deliver the McCloud remedy, as these directly result from the actions of Government.

7.0   **RELEVANT RISKS**

7.1   A failure to provide Pensions Committee with information on legislative changes and the Fund's activities could hinder the Committee in fulfilling its statutory requirements.

8.0   **ENGAGEMENT/CONSULTATION**

8.1   The relevant consultations are set out in this report.

9.0   **EQUALITY IMPLICATIONS**

9.1   DLUHC and HMT undertake equality impact assessments with regard to the statutory reform of the public sector pension schemes and the LGPS.

10.0   **ENVIRONMENT AND CLIMATE IMPLICATIONS**

10.1   There are none arising from this report.

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BACKGROUND PAPERS

Scheme Advisory Board Website – Cost Management Information
https://www.lgpsboard.org/index.php/projects/cost-management

Public Service Pensions: The Cost Control Mechanism
https://researchbriefings.files.parliament.uk/documents/SN06971/SN06971.pdf

SUBJECT HISTORY (last 3 years)

Council Meeting	Date

| The LGPS Update is a standing agenda item on Pensions Committee | |