WIRRAL

PENSIONS COMMITTEE

11 JULY 2023

REPORT TITLE:	**LOCAL GOVERNMENT PENSION SCHEME (LGPS) UPDATE**
REPORT OF:	**DIRECTOR OF PENSIONS**

REPORT SUMMARY

This report provides an overview of changes affecting the future administration and governance of the Local Government Pension Scheme (LGPS).

RECOMMENDATION/S

That the Pensions Committee be recommended to note the administration and governance changes to the LGPS, to ensure continued compliance with legislation, statutory guidance, and industry codes of practice.

SUPPORTING INFORMATION

1.0 REASON FOR RECOMMENDATION

1.1 There is a requirement for the Pensions Committee to be fully informed of national directives and legislative developments to assist in ensuring the effective and efficient governance and administration of the Scheme.

2.0 OTHER OPTIONS CONSIDERED

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

3.0 BACKGROUND INFORMATION

Care Revaluation Date

3.1 On 9 March 2023, the Department for Levelling Up, Housing and Communities (DLUHC) published its response to the consultation issued in February 2023, setting out proposals to change the annual revaluation date for the LGPS from 1 April to 6 April.

3.2 The response confirmed that the change would take place and on the same day the LGPS (Amendment) Regulations 2023 were laid (coming into effect on 31 March 2023).

3.3 The primary purpose of this change to the annual revaluation date is to remove the impact of inflation from annual allowance calculations which should only reflect the increase in a member's pension benefits above inflation for the pension input period; that is, the period over which pension growth is measured.

3.4 Historically, the government introduced a directive on 8 July 2015 to realign the pension input period with the tax year by April 2016, this inadvertently included inflation within the assessment of annual pension growth for members of public sector pension schemes. To date the impact has been negligible because inflation has been relatively low and consistent until very recently.

3.5 The amendment to the revaluation date has removed this unintended impact on annual allowance calculations and will reduce the number of LGPS members who would have been affected by an Annual Allowance Tax Charge for the 2022/23 tax year because of the recent high rate of inflation.

Annual and Lifetime Allowance Changes

3.6 The Spring Budget on 15 March 2023 announced several major changes to the taxation of pension benefits. These changes came into effect from 6 April 2023 and are summarised below:

- an increase to the annual allowance from £40,000 to £60,000, and the money purchase annual allowance from £4,000 to £10,000

- an increase to the adjusted income level for the tapered annual allowance from £240,000 to £260,000 and the minimum tapered annual allowance from £4,000 to £10,000

- The abolition of lifetime allowance charges for benefit crystallisation events occurring on or after 6 April 2023

- A change to the taxation of any lifetime allowance excess lump sum to be at marginal rate not 55%, with similar changes to serious ill-health or death benefit lump sum payments.

3.7 Alongside the above changes it was confirmed that the maximum tax-free lump sum available to member would remain at 25% of current lifetime allowance amount of £1,073,100.

3.8 These changes will be welcomed by higher earners in the LGPS, as well as some middle-income earners with long local government careers who receive a pay rise.

3.9 Although it should be remembered that the majority of LGPS members will not be affected by these changes and that the average LGPS pension in payment is in the region of £5,000 per annum.

Government response to McCloud Remedy

3.10 On 6 April 2023 the Department for Levelling Up, Housing and Communities (DLUHC) issued its response to the 2020 consultation on Amendments to the Local Government Pension Scheme statutory underpin.

3.11 The response confirms the main changes to the underpin that were proposed in the 2020 consultation as follows:

- underpin to be extended to younger members in scope.

- members will be in scope of underpin protection if they were active in the LGPS or another public service pension scheme on or before 31 March 2012,
  - were an active member of the career average scheme,
  - did not have a disqualifying gap in service (more than 5 years), and
  - leave active membership with a deferred or immediate entitlement to a pension, or they die in service.

- underpin service will be from 1 April 2014 to the earlier of 31 March 2022, the date of leaving active service, or reaching final salary normal pension age.

3.12 Key sections of the response include:

- proposed changes in respect of transfers to ensure consistency with other public service pension schemes, requiring past transfers to be revisited in terms of award and cash payments.

- annual benefit statements will include estimated underpin values, to take effect for statements issued from the 2024/25 scheme year.

3.13 A further consultation is to be held on draft regulations and a number of areas where final decisions have yet to be made, including whether service must be aggregated to qualify for the underpin, remaining issues regarding transfers and pension sharing, along with a proposal to enable underpin protection to continue to build up following flexible retirement.

3.14 Final regulations will be made later in the year expected to become effective from1 October 2023 backdated to 1 April 2014.

DLUHC intends to work with the Scheme Advisory Board (SAB) to set up a working group to consider the statutory and SAB guidance needed to ensure clear and consistent implementation of the remedy across the LGPS.

3.15 A McCloud remedy factsheet for members has been published alongside the consultation response in collaboration with the Scheme Advisory Board (SAB), accessible here:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1146603/LGPS_McCloud_factsheet.pdf

3.16 Further member communications are planned by the SAB McCloud Communications Working Group.

State Pension Age Review

3.17 On 30 March 2023, the Department for Work and Pensions (DWP) published its 2023 review of the State Pension Age in compliance with the regulatory framework for government to undertake a regular review in accordance with the Pensions Act 2014.

3.18 The State Pension Age is currently age 66 and will rise to age 67 between 2026 and 2028 before rising again to age 68 between 2044 and 2046.

3.19 At the first review in 2017, the Government accepted the recommendation that subject to further review, the timetable to increase the State Pension age to age 68 should be brought forward to between 2037 to 2039.

3.20 The 2023 DWP review confirms the rise to age 67 between 2026 and 2028 remains appropriate, although, the Government does not intend to change existing legislation to implement the recommendation of the 2017 review at the current time.

3.21 It plans to have a further review within two years of the next Parliament to consider whether the rise to age 68 should occur earlier, while confirming a commitment to the principle of providing 10 years' notice of any changes.

3.22 The Government must publish the next report no later than 29 March 2029.

Pension Dashboard Delay

3.23 On 2 March, the Pensions Minister, Laura Trott, issued a written statement announcing delays to the delivery of Pensions Dashboards. The statement explains that the Pensions Dashboards Programme (PDP) will be unable to meet the connection deadlines set out in legislation, and the timeline will need to be revised to allow more time to deliver the complex dashboards infrastructure.

3.24 All connection deadlines for schemes will be changing with the potential that the timetable could be delayed for a period of 12 months - potentially extending the connection date for the LGPS from September 2024 to September 2025. A further update from the minister is scheduled to be communicated ahead of the summer recess, although this may not confirm the revised timeline.

3.25 Since the written statement, the key message from the Pensions Minister, DWP, PDP and the Pension Regulator is that plans for Dashboards will still go ahead and that all schemes should continue with their dashboard planning and preparations.

TPR New General Code

3.26 The Pensions Regulator (TPR) is expected to publish the New General Code, formerly referred to as the Single Code of Practice, in its final form in the next few months. The Code consolidates and revises several existing codes, formalises the requirement for an Effective System of Governance and introduces the process of Own Risk Assessments.

3.27 New actuarial, internal audit and risk functions will also be required, and cyber risk stewardship along with climate change will be included in a code of practice for the first time.

3.28 The move from one dedicated code for public service pension schemes to a general code for all schemes will require innovative thinking, and the Fund is working with its professional advisers on the most effective approach to assess, implement, and demonstrate compliance with the requirements of the new Code. The initial stage of the workstream has commenced with actions in progress to undertake a gap analysis of current policies against the draft code.

4.0 FINANCIAL IMPLICATIONS

4.1 As the proposal to bring forward the date to increase the State Pension Age to 68 did not materialise following the 2023 government review, there will be no immediate impact on the costs of the LGPS due to the alignment of normal pension age with State Pension Age.

4.2 The cumulative cost of McCloud across employers participating in the Fund has been assessed by the actuary to be in the region of £100 million, representing 1% of the total Fund liabilities of £10.2 billion, as calculated at the 31 March 2022 triennial valuation.

5.0 LEGAL IMPLICATIONS

5.1 The administering authority solicitor, acting for the Fund, provides advice as to the implementation and interpretation of legislative and governance requirements.

6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

6.1 The change to the annual revaluation date will reduce the burden on Fund Officers to prepare Pension Saving Statements and respond to queries in respect of the 2022/2023 pension input period.

6.2 Although, in the short term, the timing of the change has had an impact on Fund resources and software suppliers being required to update calculations and reporting processes, central guidance was provided to Funds to assist in managing the change until systems are updated.

6.3 The administrative requirements of the McCloud remedy and the new General Code will be significant with the level of additional resource and professional advisory costs to ensure compliance dependent on the complexity of the final provisions and the timely development of systems to provide bulk calculations.

6.4 The changes to the taxation of benefits will necessitate an update of scheme literature, standard letters, and the website. Procedures will need to be reviewed relating to payment and reporting the correct tax on any benefits in excess in excess of the lifetime allowance for any benefit crystallisation events after 6 April 2023.

6.5 In its continuing preparations for connection to the Pensions Dashboard, the Fund are engaging with the Fund's system supplier, Heywood Pension Technologies, as the preferred supplier to connect to the secure national digital architecture. As part of this work, Fund Officers are working with the National LGPS Frameworks team to develop a procurement framework for approved Integrated Service Providers.

6.6 The Pensions Dashboard Programme and the Pensions Regulator continue to encourage schemes to ensure their member data is ready for connection to the national dashboard infrastructure.

6.7 The Fund continues with its programme to move all employers to monthly data collection by March 2024, as this provides timelier member data from employers but also actively integrates into the quality assurance and quality control reports and processes embedded within the operational activities of the administration teams.

6.8 For deferred members, the officers continue to work with the Fund's Data Tracing provider to validate postal addresses and to trace members who have moved house without notifying the Fund.

7.0 RELEVANT RISKS

7.1 There is a risk of miscommunication and incorrect payment of pension benefits to members if the legislative changes are not implemented in accordance with the revised regulations and guidance with an associated impact on employer costs.

7.2 Failure to comply with regulations or a failure to meet revised governance expectations may lead to sanction by the Pensions Regulator, including the possibility of financial penalties and reputational damage.

8.0 ENGAGEMENT/CONSULTATION

8.1 The changes to administration and governance of the LGPS are consulted on at national level by the relevant government department or the Pensions Regulator.

9.0 EQUALITY IMPLICATIONS

9.1 Department for Levelling Up, Housing and Communities (DLUHC) and the Pensions Regulator undertake equality impact assessments regarding the provisions of the LGPS Regulations and the administration and governance of public service pension schemes.

9.2 The Equality Statement published on the introduction of the Local Government Pension Scheme 2014 can be viewed at: https://mpfund.uk/lgpsequalitystatement

9.3 DLUHC and HM Treasury undertake equality impact assessments with regard to the statutory reform of the public sector pension schemes and LGPS.

10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

10.1 The Fund continues with its digital strategy across all operational areas and communications with stakeholders, with the aim to improve service delivery and to reduce its internal carbon footprint.

11.0 COMMUNITY WEALTH IMPLICATIONS

11.1 There are none directly arising from this report.

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BACKGROUND PAPERS

This report is being considered by the Pensions Committee in accordance with Section D of its Terms of Reference: (d) To monitor the Local Government Pension Scheme including the benefit regulations and payment of pensions and their day to day administration and to be responsible for any policy decisions relating to the administration of the scheme.

DLUHC response to the 2020 consultation on Amendments to the Local Government Pension Scheme Statutory Underpin

https://www.gov.uk/government/consultations/local-government-pension-scheme-amendments-to-the-statutory-underpin/outcome/amendments-to-the-

local-government-pension-scheme-statutory-underpin-government-response#executive-summary

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SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Standing Agenda Item	**21 February 2023**