

Lancashire Local Pension Board

Meeting to be held on Tuesday, 16 January 2018

Electoral Division affected: (All Divisions);
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Lancashire County Pension Fund – Discretionary Policies Update (Appendices A and B refer)

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Executive Summary

Lancashire County Council as the administering authority of the Lancashire County Pension Fund can exercise a number of discretions under the Local Government Pension Scheme (LGPS) Regulations. The discretionary policy statement represents the Funds current practice against all of the regulatory areas where a discretion exists. Although it is not mandatory for all discretions to be published, for reasons of transparency all the Fund's discretionary powers and related statements are represented in the discretionary policy statement. Those where it is mandatory to publish a written policy are asterisked within that statement.

The LGPS regulations require the Fund to keep their written discretions under review and formulate new ones as and when the scheme regulations require them to do so. The published discretions were approved by the Pension Fund Committee held on 29 January 2016, as such a review is proposed to confirm the statements are still appropriate in terms of the decision making process now that the Local Pensions Partnership administer the Pension Scheme on behalf of the Fund.

However there are 3 policy areas where it is proposed that changes are made. These relate to the Admissions and termination policy, the Pensions administration strategy statement and the actuarial calculation of early retirement costs (Pension Strain) More details on these changes are set out in background and advice below.

Recommendation

The Board is asked to note:

1. The proposed amendments to the Pensions Administration Strategy Statement, the agreed Admissions and termination policy presented at Appendix A and the proposal to revise the actuarial calculation for pension strain from 1 April 2018.
2. The contents of the current discretionary policy statement as presented at Appendix 'B', and note the intended actions to review the powers of delegation within those statements.

Background and Advice

The administering authority can exercise discretions under the following LGPS Regulations:

- The Local Government Pension Scheme Regulations 2013
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014
- The Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007
- The Local Government Pension Scheme (Administration) Regulations 2008
- The Local Government Pension Scheme (Transitional Provisions) Regulations 2008
- The Local Government Pension Scheme Regulations 1997
- The Local Government Pension Scheme Regulations 1995
- The Local Government (Early Termination of Employment)(Discretionary Compensation) Regulations 2000

It is proposed that discretionary policies covered under the Local Government Pension Scheme Regulations 2013, highlighted in the recommendations above and in more detail below, will now be tabled at the Pension Fund Committee on 23 March 2018 to be recommended for approval.

Admissions and Termination Policy

It was agreed at the Pension Fund Committee meeting on 15 September 2017 that the proposed changes to the Admission and Termination policy would be submitted for consultation with the Employers in the Fund. This is set out in **Appendix A**.

The subsequent consultation commenced on 20 September 2017 over a three month period in which all participating Employers were invited to respond. The consultation period has now ended.

The primary area being reviewed under the consultation related to the proposed changes in actuarial assumptions which are used to assess the value of the liabilities at the point an employer exits the fund. In discussions with the Fund's actuaries it was felt that current methodology did not provide enough protection for the remaining employers from the downside risks and as such the policy was updated to provide that further protection. As such an approach based on the yields available on corporate bonds at the date of exit has been proposed to be adopted being a recognised approach used by a number of other LGPS Funds based on publically available information and a similar approach as that used to calculate pension liabilities in employer's accounts.

All of the feedback provided during the consultation period by employers has been fully considered in determining the outcome of the consultation, and it is now proposed that the changes to the policy are to be recommended to the Pension Fund Committee.

Pension Administration Strategy Statement

Regulation 59 of the Local Government Pension Scheme Regulations 2013 allows for the Fund to prepare and publish, following consultation with Fund Employers, a Pension Administration Strategy Statement (PASS). The Fund has a PASS currently in place which was last reviewed in 2014.

A revised draft will be taken to the Pension Fund Committee in March for approval to then consult with Fund employers on the revisions to the PASS. It is proposed that the revised draft will extend the number of employer and fund performance standards to be measured. These performance standards will be in line with any updated service level agreement changes agreed with the Local Pensions Partnership. Any changes agreed will either be at the same or an improved level.

In addition whilst the current PASS makes reference to the circumstances where a recovery of additional costs for underperformance or late payment may occur, it does not detail a charging scale for non-compliance.

It is intended that the table below, setting out the charges which the Fund will levy on a scheme employer whose performance falls short of the standards, will be inserted into the PASS. This reflects the additional administration involved in securing payment of sums due to the Pension Fund and submission of required data and information.

Item	Charge
Late payment of employee and employer contributions	£50 plus interest*
Late or non-provision of a schedule of contributions paid or the poor quality of information submitted	£50 per occasion
Underpayment of employee or employer contributions	£50 plus interest*
Late or non-provision of monthly data collection files	£250 plus £100 for every month the information is late
Late or non-provision of starter information	£50 per month for data not received or late
Late or non-provision of leaver information	£50 per month for data not received or late
Fines or additional costs incurred by the Pension Fund in relation to a specific scheme employers' poor performance	Full cost of fines or additional charges

* Interest will be charged in accordance with regulation 44 of the LGPS Administration regulations, which states interest should be charged at Bank of England Base Rate plus one percent.

Pension strain

It was broadly expected that the Public Sector exit payment regulations would bring about a consistent LGPS-wide approach to the calculation of early retirement

costs. However, given the delays being experienced it is unlikely that a standardised approach and set of factors to calculate Early Retirement Costs across all LGPS Funds will be in place in the near future.

As a result of the delays, it is therefore appropriate for the factors currently underlying the calculation of Early Retirement Costs to be reviewed in light of the assumptions adopted at the 2016 actuarial valuation. The factors were previously updated following the 2013 valuation exercise.

Following completion of the actuarial valuation of the Fund as at 31 March 2016, the Fund, on the advice of the Actuary, has decided to review the factors currently underlying the calculation of Early Retirement Strain costs, as such it is proposed to increase strain costs by 5% in relation to an early retirement.

Although costs will increase slightly, paying the higher amount reflects more closely the underlying funding cost of an individual retirement. It therefore means that there is less chance of these costs giving rise to additional deficits (and additional deficit contributions) for fund employers at the next actuarial valuation.

The planned update to the factors is scheduled to take place with effect from 1 April 2018. Fund employers will be notified in advance of these proposed changes.

Consultations

In relation to the revised Pension Administration Strategy Statement the Fund is required to consult its employers.

Implications:

This item has the following implications, as indicated:

Risk management

No significant risks have been identified.

Local Government (Access to Information) Act 1985 List of Background Papers

N/A