

Lancashire Local Pension Board

Meeting to be held on Tuesday, 24 April 2018

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|---------------------------------------|
| Electoral Division affected: None; |
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Lancashire County Pension Fund – Regulatory Update

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Executive Summary

This report provides an update in relation to regulations in order to enable members of the Board to exercise their functions effectively.

Recommendation

The Board is asked to note the contents of this update.

Background and Advice

To assist members of the Pension Board to exercise their functions effectively, this report provides an update on regulations affecting the pension fund.

Regulatory Update

1 Consultation outcome on indexation and equalisation of GMP in public service pension schemes

The above consultation run by HM Treasury ceased on 27 February 2018.

Historically a Guaranteed Minimum Pension (GMP) was required to be provided for, at a member's state pension age, by the LGPS (and all other public service pension schemes) as a consequence of being contracted out of the State pension scheme.

The way in which annual pensions increases were applied to the GMP element of a LGPS member's pension was shared between the LGPS pension and the State pension. However when the new single-tier state pension was introduced the government was no longer able to share the indexation.

As an interim solution, for those reaching state pension age (SPA) between 6 April 2016 and 5 December 2018 inclusive, public service pension schemes are required to fully index the GMP.

The consultation considered what should happen with members with a GMP who attain SPA from 6 December 2018.

The consultation considered the following options:

- a) Case-by-case basis – Where a GMP is not fully indexed, the member will obviously lose out. However, it should be remembered that some members will gain as a result of the introduction of the single-tier pension (i.e. they may get more state pension than they would have got under the old state pension rules). Under this approach, the scheme will pay a top-up to someone whose loss as a result of their GMP not being fully indexed is not outweighed by any gain from the single-tier pension.
- b) Full indexation – the scheme would be required to fully index the GMP (i.e. an extension of the interim approach)
- c) Conversion – the scheme would convert the GMP into a scheme benefit. This would have similar outcomes to option 2 but the scheme would no longer need to consider GMP legislation.

The Government responded to the consultation on 22 January 2018.

The outcome is as follows:

- a) The interim solution will be extended to those reaching SPA between 6 December 2018 and 5 April 2021 (inclusive).
- b) The government will review the possibility of implementing conversion as a longer-term solution for those attaining SPA from 6 April 2021. They will also continue to take account of alternative solutions that may also address this issue (though the Case-by-Case option is ruled out).

2 The Pensions Advisory Service dispute function moves to the Pensions Ombudsman

The Pensions Advisory Service's (TPAS) dispute resolution function has now moved to The Pensions Ombudsman (TPO).

LGPS members and prospective members used to approach both TPO and TPAS for help when dealing with a pension complaint. TPAS usually focussed on complaints before the pension scheme's internal dispute resolution procedure (IDRP) had been completed, whilst TPO deals with complaints that have been through IDRP.

The transfer of functions is expected to simplify the process for our members as the intention is that they will be able to access all pension dispute resolution, previously handled by two services, whether pre or post IDRP, in one place.

Our own IDRP documentation is currently being revised to reflect these changes.

3 Annual updates confirmed

- The pay ranges to establish employee contribution levels have been increased by 3% and are effective from 1 April 2018 as set out below:

| Band | Range | Contribution rate | |
|------|----------------------|-------------------|---------------|
| | | Main section | 50/50 section |
| 1 | Up to £14,100 | 5.5% | 2.75% |
| 2 | £14,101 to £22,000 | 5.8% | 2.90% |
| 3 | £22,001 to £35,700 | 6.5% | 3.25% |
| 4 | £35,701 to £45,200 | 6.8% | 3.40% |
| 5 | £45,201 to £63,100 | 8.5% | 4.25% |
| 6 | £63,101 to £89,400 | 9.9% | 4.95% |
| 7 | £89,401 to £105,200 | 10.5% | 5.25% |
| 8 | £105,201 to £157,800 | 11.4% | 5.70% |
| 9 | £157,801 or more | 12.5% | 6.25% |

- The LGPS annual Additional Pension purchase limit for members applicable for 2018/19 is increased by 1% from £6,755 to £6,822
- The Lifetime Allowance (linked to the Sept 2017 CPI figure of 3%) will increase from £1,000,000 to £1,030,000 with effect from 6 April 2018. (The lifetime allowance is a limit on the value of pension benefits at retirement that can be made without triggering an extra tax charge.)
- The Annual Allowance (the limit on the total amount of benefits that can be built up in a defined benefit pension scheme each year without triggering a tax charge) remains unchanged at £40,000 for 2018/19.
- The full year increase to be applied on 1 April 2018 to the career average pension earned up to 31 March 2018 is 3.0%.
- The increase to be applied from 9 April 2018 to a pension in payment and deferred pensions, which began before 10 April 2017, will be 3.0%.
- The maximum “week’s pay” for calculating a statutory redundancy payment has increased from £489 per week to £508 per week from 6 April 2018.

4 Scheme Advisory Board (SAB) - 50/50 section awareness project

A member survey initiated by the shadow board that ran between April and July 2017 indicates that the low take up rate of the 50/50 section could be attributed to poor communication. The SAB are, therefore, of the view that improving the level of awareness amongst the scheme’s membership, in particular optants out and those considering opting out of the scheme, should result in an increase in the take up rate and in turn, the prospect of the scheme savings assumed from the Treasury’s assumption on take up being realised.

Treasury assumed when the new scheme was designed that 10% of scheme members earning less than £21k would opt into the 50/50 section. The cost of future service of 19.5% was partially based on that assumption. However, in reality the take up rate is not exclusive to those earning less than £21k and the Board’s actuarial adviser has suggested that the same scheme cost savings would be achieved if there was a take up rate of 4-5% across the scheme.

Within the Lancashire Fund the take up rate for the 50/50 scheme is currently 0.7% of the total active membership.

As a result the SAB are to consider proposals for an awareness project and how that might be taken forward.

5 High Court judgement in the case of Elmes v Essex – co-habiting partners

The case above was heard in the High Court on 18 January 2018.

The outcome of the case effectively removes the requirement for a nomination form to be in place in order for cohabitees (who meet the other regulatory requirements) to be eligible for a partner's pension in the LGPS. Previously the requirement to nominate a partner only existed for deaths between 1 April 2008 and 31 March 2014 for the LGPS in England and Wales. The necessity to nominate a co-habiting partner was removed for all deaths following the implementation of the new regulations on 1 April 2014.

As a fund Lancashire have already identified potential eligible cohabitees who would have been entitled to a partner's pension but for the nomination requirement. However the Ministry of Health Communities and the Local Government (MHCLG) has confirmed that they are waiting for the Judge's reasoning to be issued, before deciding what the judgment means for the LGPS regulations. Once issued, it will be for MHCLG to take a legal view on the implications. The Lancashire Fund are currently awaiting that steer before progressing this (the potential cases affected number less than 20).

6 LGPS amendment regulations

It is expected that the amendment regulations published under a DCLG consultation on 27 May 2016 would be issued over the summer 2018 but will contain technical amendments only (the exit cap and fair deal proposals will be dealt with separately).

Consultations

N/A

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

| Paper | Date | Contact/Tel |
|-------|------|-------------|
| N/A | | |

Reason for inclusion in Part II, if appropriate
N/A