

Lancashire Local Pension Board

Meeting to be held on Tuesday, 29 January 2019

Electoral Division affected:
(All Divisions);

Regulatory Update.

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Executive Summary

This report provides an update on various regulatory matters to assist members of the Pension Board to exercise their duties effectively.

Recommendation

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

Background and Advice

Regulatory Update

1 The Local Government Pension Scheme (LGPS) (Miscellaneous Amendment) Regulations 2018 [SI 2018/1366]

As reported in the last update on 3rd October 2018, the Ministry of Housing, Communities and Local Government (MHCLG) opened an eight week consultation on amendments to the LGPS which were necessary to respond to recent legal judgements and meet existing policy objectives. That consultation ended on 29th November 2018 and subsequently the above regulations were laid before parliament on 18th December 2018 and came into force on 10th January 2019 with some backdated provisions.

The regulations now empower the Secretary of State to issue statutory guidance for 'the administration and management of the Scheme', however, they must still firstly consult with relevant parties before preparing and issuing any guidance.

The required amendments have now been made to correct the unintended error in the LGPS (Amendment) 2018 Regulations to provide that deferred members who left under the 1995 Regulations are able to take payment of their LGPS pension without the need for their former employer's consent from age 55, with the appropriate actuarial reduction. This has been backdated to 17 April 2018 (the date that the previous amendment regulations were made that originally made this change). As a fund Lancashire, in line with many other funds, had already adopted the original intention of this regulation so no further administrative action is required on this point.

The Final change is that amendments have now been made in respect of survivors of registered civil partnerships and same sex marriages to replicate the benefits that would be provided to widows. As a Fund we will need to revisit any deaths since 5th December 2005 (in respect of civil partners) and 13th March 2014 (in respect of same sex marriages) and recalculate partner pensions where there have been underpayments, or, payment of a survivor pension where it was previously refused. We anticipate guidance on how to address these cases will be issued shortly, and we will liaise with the Local Pensions Partnership to ensure the necessary actions are carried out.

2 Actuarial factors

The change to the discount rate meant that a number of transfer cases were put on hold from 29 October until new factors were released.

The majority of the transfer related actuarial guidance were released on 19th November 2018. The MHCLG had confirmed that the remainder of the Scheme's actuarial factors would be revised in due course. Their intention was to introduce revised factors from around February/March 2019.

The intention is also to incorporate unisex factors for the majority of the actuarial tables, in addition changes are needed to show adjustments for members with new state pension ages.

However on 9th January 2019 the MHCLG issued revised factors early for:

- Non-club in transfers
- Early retirements
- Trivial commutations
- Pension credits (where the debited member left the LGPS prior to 1 April 2014 or the transfer date is prior to 1 April 2014)
- Pension debits (pre and post 2014)

The early inclusion of the early retirement factors is significant in so far as these are more beneficial to members and were expected to be included as part of the consultation to covering the benefit improvements as part of the cost cap process (detailed in 3/ below). We will liaise with LPP to ensure the new factors are implemented to the software systems as soon as possible.

3 Cost Cap update

Cost management for the LGPS in England and Wales is taking place as part of the wider review of public service pension schemes under HM Treasury directions. The LGPS in England and Wales has a separate cost management process undertaken by the Scheme Advisory Board (SAB) which is completed prior to finalisation of HM Treasury's (HMT) cost cap calculations.

SAB met on 10 October to finalise the methodology and assumptions used for calculating the results of the SAB cost cap mechanism.

The results of the Board's cost management process showed the scheme's total future service cost at 19%. As the target for the process is 19.5% the Board agreed to consider recommendations to return the total cost back to the target under their cost cap mechanism.

It is now expected that a consultation will be published in late January/early February in order that any regulation changes agreed take effect from 1 April 2019. The proposed regulatory changes to be included in that consultation are set out briefly below:

- Ill health
Removal of the third tier of ill health, in effect the current criteria for tier 3 would provide tier 2 benefits in the proposed changes.
- Death in service
Introduction of a minimum payment of £75,000.
- Early Retirement
Enhanced early retirement factors for all members who are active on 1st April 2019. (Implemented on 09 January 2019)
- Employee contributions
Reduction in contribution levels for those earning under £22,500.

If following the consultation these proposals are accepted and submitted for legislation, the HMT process will take the changes into account when determining if the cost cap floor of (2%) has been breached. The rationale is that the changes being proposed by the consultation will mean that the cost cap floor will not be breached and therefore no requirement for further changes to benefits under the terms of the Public Service Pension Schemes Act 2013.

4 Quadrennial valuations

As confirmed in the last board update the scheduled local valuation due in March 2019 will be required and a further national (cost cap) valuation will be undertaken in 2020.

SAB have further advised that discussions are underway to move local fund valuations to a quadrennial timeframe to ensure consistency with future scheme valuations.

5 Pensions Increase

On 17th October 2018, the Office for National Statistics announced that the Consumer Price Index (CPI) rate of inflation for the year to September 2018 was 2.4%. As such we expect that this will be the percentage used to increase pensions in April 2019 although this won't be confirmed until the Pensions increase order is laid in February/March.

6 Fair Deal – Strengthening pension protection – Consultation

This consultation was launched on 10 January 2019 and contains proposals which would strengthen the pension protections that apply when an employee of a Local Government Pension Scheme (LGPS) employer is compulsorily transferred to the employment of an external contractor.

The proposed amendments to the LGPS Regulations 2013 would, in most cases, give transferred staff a continued right to membership of the LGPS, effectively introducing Fair Deal proposals into the LGPS.

The consultation (which can be found [here](#)) will last for 12 weeks with any responses required by Thursday 4 April 2019.

A brief summary of the proposals are set out below:

- Introduces the concept of a 'Fair Deal employer' (which is wider than the definition of a best value authority) and 'protected transferees' who as a consequence of being employed by a 'Fair Deal employer' will retain the right to participate in the LGPS for as long as they are wholly or mainly employed on the outsourced service (even through any subsequent transfers)
- Removes the option to transfer 'protected transferees' to a broadly comparable scheme rather than the LGPS
- Introduces a new provision for 'deemed employers' as an option to the current requirement for a contractor to have an admission agreement. Under the 'deemed employer' route, the original outsourcing employer remains the employer for pension purposes. This broadly replicates the policy currently adopted by the Lancashire Fund for contractors who are small in comparison to the original outsourcing employer.
- Transfers back into the LGPS from a broadly comparable scheme will be treated as individual transfers into the LGPS using current GAD factors
- Introduces a new provision for the automatic transfer of assets and liabilities within and between funds where there are reorganisations or mergers, without triggering an exit valuation.

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