

Pension Fund Committee

Meeting to be held on 30 November 2012

Electoral Division affected: None

Update on LGPS 2014 and the Public Service Pensions Bill

(Appendices 'A' and 'B' refer)

Contact for further information:

Diane Lister, 01772 534827, County Treasurer's Department

diane.lister@lancashire.gov.uk

Executive Summary

This report updates the Committee on the progress of the Local Government Pension Scheme (LGPS) 2014 proposals and the statutory consultation framework relating to draft regulations.

This report also covers the key provisions of the Public Service Pensions Bill and its impact on the LGPS 2014.

Recommendation

The Committee is asked to note the report.

Background and Advice

(i) Update on LGPS 2014

A joint statement has been issued by the LGPS 2014 Project Board to inform stakeholders of progress in respect of the reform of the LGPS. The update is attached at Appendix 'A'.

The proposals on the 2014 LGPS scheme design (Work stream 1), as jointly agreed by the Local Government Association (LGA) and trade unions, were endorsed by employers and members in a consultation exercise undertaken during the summer.

Draft regulations were expected to form the basis of a statutory consultation in the autumn. However the work involved in developing the details required for regulations has taken longer than initially envisaged and draft regulations are now expected before the end of the year with consultation then taking place early in 2013.

The delay does not change the basis of the LGPS 2014 proposals on Scheme Design. Details of the proposals are attached at Appendix 'B'.

In respect of Scheme governance and cost management (Work stream 2), the LGA and trade unions have reached agreement on a set of proposals covering the future governance and cost management of the scheme.

However, despite detailed discussions with the government on these proposals, final sign off has not yet been reached. The essential elements of these proposals include governance, transparency and future cost management of the Scheme.

Final regulations are still expected during 2013 in order that Scheme Actuaries can take account of expected cost savings as part of the 2013 round of formal triennial LGPS Valuations.

(ii) Public Service Pension Bill

The Independent Public Service Pensions Commission published its final report (The Hutton Report) in March 2011. The Government accepted its recommendations as the basis for consultation with public servants, trades unions and other member representatives.

The Public Service Pension Bill implements the agreement reached and introduces primary legislation to adopt a new common UK legal framework for public service pension provision.

The Bill is a framework Bill and its powers supersede those in the Superannuation Act 1972. It does not contain details on individual scheme design as this will be set out in secondary legislation and individual Scheme rules.

The Bill was published on 13 September 2012. By the introduction of the Pensions Bill the government expects to cut the cost of public sector pensions by nearly one-half over the next fifty years. The Bill will:

- enable the creation of new, Career Average public service pension schemes to replace the largest existing final salary schemes;
- link normal pension ages to State Pension age to manage longevity risk;
- introduce an employer cost cap to ensure unforeseen changes in cost are controlled to protect the taxpayer;
- set out requirements for scheme governance, regulation and administration to deliver transparency and accountability;

- allow for the provision of protections, protecting those closest to retirement, so that those ten years from their Normal Pension Age on 1 April 2012 will not see any change in when they can retire, nor any decrease in the amount of pension they receive on retirement;
- provide that existing schemes will be closed to future accrual with effect from 31 March 2014, although transitional arrangements will allow for benefits accrued in current schemes to continue to be linked to final salary when leaving.

In respect of Scheme governance in particular, the Bill provides that:

- each scheme must have a Scheme Manager (for LGPS this is expected to be the Administering Authority) responsible for administration, governance and the provision of a Pension Board. This provision enables the Scheme Manager to delegate responsibilities to a Pension Board in which case it is expected that the current Pension Fund Committees would become the Pension Board, although certain requirements in terms of the composition of the Board may be set out in regulations. The remit of the Pension Boards will be to ensure compliance with legislation, regulation and codes of practice.
- the Pensions Regulator will have a significant role overseeing the operation of public sector pension schemes with the requirement for the Regulator to issue a code of practice for scheme management. The Regulator will have the power to appoint an appropriately skilled person to help the Pension Board carry out its functions if they consider it to be appropriate for the purpose of ensuring compliance with the new legislation. If such an appointment is made, the board must have regard to the advice of the appointed person, and their costs are to be met by the Scheme Manager. The exact circumstances under which the Regulator will appoint such a person are not yet clear and further reports will be presented to the Committee as the new regulatory framework is published. The Regulator will also require Board members to have knowledge and understanding about the scheme and the law relating to pensions in much the same way as the requirements for trustees of private sector pension schemes. In addition, the Regulator will have the power to intervene and help recover contributions that are owed to the scheme by the employer.
- an actuarial valuation is made of schemes in accordance with Treasury directions. In relation to the LGPS this appears to give the Treasury wider powers than currently enjoyed albeit that the expectation is that this provision covers only the separate work which might be carried out in connection with the LGPS nationally i.e. any cost capping calculations. However, to remove any ambiguity and in recognition of the financial management of the funded LGPS in comparison to the unfunded public sector schemes, amendments to the Bill may be necessary.

The Bill will now work its way through Parliament before being enacted during 2013. Individual schemes, including LGPS, will then issue secondary legislation defining new scheme regulations ahead of the commencement date, expected to be 1 April 2014.

Consultations

N/A

Implications:

Public Sector Pension Reform will fundamentally change the framework that the LGPS currently operates within. This change will need careful management at a local level to ensure compliance with the new requirements, especially in terms of governance and administration.

Risk management

Reports on the implications of the new regulatory framework will be presented to the Pension Fund Committee as the new framework becomes clear.

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

[Public Service Pensions Bill](#)