

Pension Fund Committee

Meeting to be held on 29 January 2016

Electoral Division affected: None

Lancashire County Pension Fund - Discretionary Policies Update

(Appendix 'A' refers)

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Executive Summary

On 30 September 2015, the Pension Fund Committee agreed to consult on various proposals covering five 'key' discretionary policy areas, namely:

- abatement of pensions;
- transfer in of pension rights;
- commutation of pensions;
- admissions and terminations; and
- bulk transfers.

The purpose of this report is to:

- summarise consultation feedback in respect of the above and make recommendations accordingly;
- present a summary of the remaining refreshed or restated policies (other than death grants); and
- propose specific changes to the death grants policy.

Recommendation

The Committee is recommended to:

- (i) Approve the original proposals in respect of the five key discretions above;
- (ii) Approve the proposed policies covering remaining dicretions (excluding death grants); and
- (iii) Approve proposed changes to the existing death grants policy.

Background and Advice

The Local Government Pension Scheme (LGPS) regulations provide for individual funds to set their own discretionary policies in certain areas. On 30 September 2015,

the Pension Fund Committee agreed to consult on various proposals covering five key discretionary policy areas:

- abatement of pensions;
- transfer in of pension rights;
- commutation of pensions;
- admissions and terminations; and
- bulk transfers

These five policy areas are amongst around 100 discretionary policies which LGPS funds can determine at a Fund level, and are deemed the 'top five' most significant.

The reason for amending and or refreshing policies is to ensure they remain fit for purpose and relevant in the light of both regulatory changes and operational experience, hence all existing/new discretionary policies have now been reviewed and where necessary updated.

Subject to Committee approval as above, existing policy documents will be amended or created, ready for publication and 'go live' from 1 April 2016.

Outside of the five most significant policy areas, which have been subject to consultation, it is proposed that any changes to the remaining discretionary policy areas are not subject to consultation: many of these policy areas can appear somewhat esoteric and do not have as material an impact on the Fund, members or employers.

'Top Five' Consultation Feedback

Nine responses were received and were all supportive in principle, with the majority of respondents answering 'yes' to the various proposals.

Some useful feedback was given in respect of the abatement policy, which will help inform how that is taken forward once the impact of Government's proposed cap on public sector exit payments becomes clear.

In respect of transfers in, one respondent expressed concerns about the potential impact of large transfers in from private sector schemes and how these could potentially impact on small employers – however as the policy proposal was to 'generally' accept private sector transfers-in, it is felt this wording would provide sufficient flexibility in such a scenario.

Given the level of support from consultation respondents, it is recommended that the policy proposals presented to the Committee in September 2015 be adopted.

Other Discretionary Policies

Appendix 'A' sets out the proposed Fund position on these discretions.

Death Grants

The Fund's death grants policy was last amended in 2014. The existing policy generally works well in practice, however it is proposed that changes be made to two specific aspects of this policy:

- the payment of death grants where the beneficiary would be a young adult or child; and
- the payment of grants where a pensioner does not have mental capacity to manage their own financial affairs.

(i) Payments to Children or Young Adults

The LGPS provides for the payment of a death grant following the death of a member:

- during employment;
- having left employment before becoming eligible to receive pension benefits; or
- during the minimum pension guarantee period of a pensioner.

LGPS funds have discretion as to whom death grants are paid, and the existing policy sets out LCPF's approach. Where it is decided, under this policy, that all or part of a death grant should be paid to a child or young adult, payments above a certain value are paid into a trust fund, which is controlled by LCPF and family (where relevant) as follows:

Existing Death Grant Payment Arrangements

(For context, during 2014 to 2015 inclusive, 10 cases arose, affecting 11 children/young adults with ages ranging from 2-23 years, and an average grant of £28,000.)

The table below summarises existing payment practice, which differs according to size of grant.

Above £25,000	Between £5,000 and £25,000	Below £5,000
Paid into trust until age 25; or	Paid into trust until age 18; or	Below age 16 paid to parent/guardian for the benefit of child
Can be partially paid out below age 25 at the discretion of trustees	Can be partially paid out below age 18 at the discretion of trustees	Above age 16, paid to the child

This particular aspect of the death grants policy is difficult to administer for a number of reasons, and administrative delays can cause financial penalty to both LCPF and the recipient; additionally, paying death grants to recipients dependent upon age could present difficulties for young people who may wish to access their death grant earlier than current policy allows, for example to support university study or to purchase property.

It is proposed to change the existing payment arrangements as follows:

Children/Young Adults below the age of 18

- payment to be made to person/s with parental responsibility for the child/young adult;

Children/Young Adults above the age of 18

- payment to be made to the child/young adult;

In exceptional circumstances

- payment to be made into Trust as per existing policy and practice, at the discretion of the Fund (delegated to the Head of Your Pension Service).

It is believed the 'exceptional circumstances' clause is necessary to deal with particularly complex cases or those where there are other concerns; clearly these cannot be specified in advance but could cover, for example, cases where there may be concerns about family dynamics or other sensitivities.

(ii) Death Grants - Whether, Where a Person is Incapable of Managing their Affairs, to Pay the Whole or Part of that Person's Pension Benefits to Another Person for their (i.e. Pensioner's) Benefit

The Mental Capacity Act 2005 sets out a framework for the management of the affairs of those who lack 'Mental Capacity', the meaning of which is defined within the Act. The above discretion is relatively new, as is the Act, despite its title. Policy in respect of this discretion has not been stated previously.

It is relatively common for conditions such as Alzheimer's Disease and similar causes of dementia to occur, and which can make managing financial affairs difficult or impossible for those affected. The County Council/Fund has statutory responsibilities in this area and must ensure it is satisfied, in any situation where another person manages (a pensioner's) financial affairs, that adequate safeguards are in place. Formal arrangements such as Lasting Power of Attorney or Deputyship, both of which are supervised by the Court of Protection, exist to provide protection for vulnerable people. However whilst such formal arrangements exist, in many situations more ad-hoc arrangements may be in place but which can work effectively. This is a sensitive area and each case must be assessed on its own merits.

Suggested Policy Statement

Where in the Fund's opinion a member is unable to manage their own affairs, then having considered the individual circumstances of the particular case they may decide to pay some or all of the benefits to someone else, to be applied for the benefit of the member. In such cases a medical declaration will be required signed by a GP or consultant. However where the annual pension exceeds £3,000 per annum, or otherwise as determined by the Fund, then Lasting Power of Attorney or Deputyship arrangement will be required to be in place.

Consultations

N/A

Implications:

Risk management

The recommendations contained within this report are intended to mitigate financial and reputational risk where possible. Overall the impact of adopting these revised policies should be fair, transparent and justifiable to the scheme member, the fund employer and the Fund itself.

Financial

The recommendations, whilst not solely focussing on financial implications, are intended where possible to make financial savings and reduce liabilities.

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

Paper	Date	Contact/Directorate/Tel
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N/A

Reason for inclusion in Part II, if appropriate

N/A