Lancashire Local Pension Board
Meeting to be held on Tuesday, 16 October 2018

Electoral Division affected: (All Divisions);

Lancashire County Pension Fund – Regulatory Update

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Executive Summary

This report provides an update on a variety of 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 Pension Regulator 2017/18 Scheme return

The annual scheme return request has been sent to all funds with a return date set at 06 November 2018.

As part of the return, schemes are required to report and score on the consistency of common and conditional data. As there is still some debate over what conditional data should be reported on, it has been agreed by the Regulator that the first year of conditional data will be based on Fund's adopting their own approach. These approaches will then be used to assess the methodology adopted by each scheme for following years. On that basis, in the first year, the Regulator are not overly concerned with consistency across all Local Government Pension Scheme managers on the reporting of conditional data. For the Lancashire Fund the basis for the return will be the data extracts used at valuation.

2 Equitable Life

Although the Fund no longer accepts new business for Equitable Life, we still continue to administer those members who have historically stayed invested with Equitable Life.

On 15 June 2018, Equitable Life announced that they have entered into an agreement to transfer the Society and all its policies to Reliance Life. As a result, they hope to be able to increase the current 35% capital distribution on with-profits policies to between 60% and 70%. However, for this to take place eligible policyholders will be asked to vote (expected to take place mid-2019) in favour of removing policy guarantees as well as on the arrangements to transfer to Reliance Life.

3 Tier 3 employer project

This is being driven by the Scheme Advisory Board who appointed Aon Hewitt to help them in their review of Tier 3 employers in the Local Government Pension Scheme. Tier 3 employers are all those with no tax-payer backing (i.e. colleges, universities, housing associations, charities and any admission bodies with no guarantee from a Council, academy or other tax-payer backed employer).

Their report has now been issued. The report does not make any recommendations, instead, it outlines a range of issues raised by stakeholders and how they envisage these concerns being resolved. The Scheme Advisory Board will now establish a small working group to evaluate the options for change. The working group will report to the Scheme Advisory Board later this year with a set of recommendations for further consideration.

Once approved, stakeholders will be given the opportunity to comment on the Scheme Advisory Board recommendations before any formal approach is made to the Ministry for Housing, Communities and Local Government for changes to the scheme regulations and guidance.

Apart from the funding issues, a lot of the areas covered in the report were around engagement, data quality and general understanding of the tier 3 employers' responsibilities and risks in participating in the Local Government Pension Scheme.

4 Cost Management and quadrennial valuations

Local Government Pension Scheme fund valuations, used to determine local employer contributions, are governed by the scheme’s regulations and currently take place on a triennial basis. However, the national scheme valuations, used to test the employer cost cap mechanism, are governed by HM Treasury’s valuation directions.

Historically the Local Government Pension Scheme national scheme valuations have been aligned with their triennial local fund valuation cycle. All other major public service schemes undertake quadrennial scheme valuations.

Having considered the matter further, HM Treasury believes that bringing the Local Government Pension Scheme valuations onto the same quadrennial cycle as the other public service scheme valuations should minimise complications, and will assist with comparisons between the schemes.

For the Local Government Pension Scheme it has been confirmed that the scheduled local valuation due in March 2019 will be required and that a further national (cost cap) valuation will be undertaken in 2020. Further discussions will be held to see whether the local and national valuations will be aligned to every 4 years from 2024.

5 Employer cost cap mechanism

One of the Scheme Advisory Board's statutory duties, under the regulations, was to introduce and maintain a process to manage costs in the scheme (employer cost cap), alongside the process introduced by HM Treasury for all public service schemes. The results of this valuation are now known. Under the terms of the employer cost cap, ministers are required to act if the underlying costs of the Local Government Pension Scheme (the future service cost) vary by more than 2% between successive national valuations carried out by the Government Actuary Department.

That underlying cost has reduced below this 2% cap and therefore we currently await to see if a decision is taken to increase Member benefits or decrease member contributions. The consensus opinion is that this scenario was not anticipated and legislation may well be brought in for the future to avoid compulsorily enhancements to the benefit structure where costs reduce.

6 Consultations

On 3 October 2018, the Ministry for Housing, Communities and Local Government opened an eight week consultation on amendments to the Scheme which are necessary to respond to recent legal judgements and meet existing policy objectives. The Ministry for Housing, Communities and Local Government intend to undertake a separate technical consultation on draft amendment regulations to give effect to the proposed changes.

There are 3 areas under consultation:

- Survivor benefits – introducing changes to provide that pensions paid to survivors of civil partnerships or same-sex marriages will be equal to those provided to widows of male members. The changes will be backdated to the date civil partnerships and same-sex marriages were implemented, this means that Local Government Pension Scheme administering authorities will need revisit all awards made under the current rules to civil/same-sex partners and pay any additional sums that are due.
- Introducing a general power for Ministry for Housing, Communities and Local Government to issue statutory guidance.
- Correcting the unintended error in the Local Government Pension Scheme (Amendment) 2018 Regulations to provide that deferred members who left under the 1995 Regulations are able to take payment of their Scheme pension without the need for their former employer's consent from age 55, with the appropriate actuarial reduction.

The consultation closes on 29 November 2018. It is expected that the Fund will support the proposals, indeed we are already operating bullet point 3 above based on a statement of intent issued by the Ministry for Housing, Communities and Local Government.

We still await further consultation documents for Fair Deal and exit payments which MHCLG have confirmed will be issued before the end of the year.

7 SCAPE Discount rates

The discount rates are used to anticipate the expected investment returns and assess the current cost of future payments. As a result a reduction on those rates can lead to potential increased costs to employer contributions.

The 2016 Budget announced a reduction in the annual rate from 3.0% above the Consumer Prices Index (CPI) to 2.8% above CPI and a further reduction to CPI plus 2.4% is now proposed.

It is expected that the announcement will be made in the autumn budget. As a result the reduced rate will become effective for actuarial purposes from the date that it is formally announced. Once the change is announced, transfer and interfund calculations will need to be put on hold until new actuarial factors are issued. There will also need to be transitional arrangements in place for other areas of the Local Government Pension Scheme where actuarial factors, impacted by the change in discount rate, are used.

The Ministry for Housing, Communities and Local Government have confirmed that the Government Actuary's Department are currently reviewing the factors in use for the LGPS based on the 2016 Local Government Pension Scheme valuation and will now likely need to take account of the discount rate reduction in that review.

8 Section 13 report

The Ministry for Housing, Communities and Local Government have now (27/09/2018) published the first statutory review of the Local Government Pension Scheme under section 13 of the Public Service Pensions Act 2013 covering the period to 2016.

The department is required to report on the Scheme every 3 years. As part of the review each of the 91 individual funds which make up the Local Government Pension Scheme have been assessed in terms of its compliance, consistency, solvency and long term cost efficiency.

The Government Actuary has reported that in aggregate the Local Government Pension Scheme is in a strong financial position and funds have made significant progress since the 2013 valuation based on the criteria.

The report highlights (View the final report on Gov.uk):

- total assets for the Local Government Pension Scheme have grown from £180 billion to £217 billion

- aggregate funding level has improved from 79% to 85%, due in part to better than expected returns on assets and strong returns have continued (Lancashire's Funding level in the report is shown as 89.7%)
- total employer contributions received were £6.9 billion per annum on average of which circa £2 billion per annum were deficit recovery payments

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