Lancashire Local Pension Board
Meeting to be held on Tuesday, 18 January 2022

Electoral Division affected:
(All Divisions);

Regulatory Update

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Executive Summary

This report sets out an update on various pension related regulatory issues to assist Board members to exercise their functions as a member of the Pension Board effectively.

Recommendation

The Board is asked to consider and note the contents of the report.

Background and Advice

1. Public service Pensions: cost control mechanism consultation response

As reported at the last meeting the Government had committed to reviewing the cost control mechanism and a report setting out their response and proposals was published on 4 October 2021 highlighting three areas of reform for future cost control exercises. In effect there was no requirement for scheme changes following the cost control exercise undertaken at the 2016 valuation.

Shortly after this report, on 15 October 2021, the Scheme Advisory Board published their findings concerning the result of its cost management process for the 2016 valuation.

Although the Scheme Advisory Board reached agreement on how to include McCloud costs in the process in the summer, it was not able to publish the outcome until HM Treasury published the Cost Cap Directions 2021. The Board agreed to spread McCloud costs over a 10-year period (rather than the four years used in the HM Treasury process), resulting in an outcome of 19.4 per cent against a target cost of 19.5 per cent. Despite the slight shortfall in cost the Board will not recommend any scheme changes.

However, going forward the Board remain committed to revisiting tier three ill health, and contributions for the lowest paid members, and will make recommendations in these areas separate from the cost management process.

Lancashire County Council

2. SF3 data published

On 27 October 2021, DLUHC published local government pension scheme statistics (SF3 statistics) for England and Wales: 2020 to 2021. The report contains information on Local Government Pension Scheme Funds expenditure, income, and membership for the financial year 2020-21 in England and Wales.

The key findings were:

- Total Local Government Pension Scheme (LGPS) expenditure in England and Wales in 2020-21 was £13.4 billion.
- Total LGPS income in England and Wales in 2020-21 was £17.2 billion.
- Employers' Contributions to the LGPS in 2020-21 in England and Wales amounted to £10.2 billion. Employees' contributions to the scheme were £2.4 billion.
- The market value of LGPS funds at end of March 2021 was £332.7 billion.
- The LGPS in England and Wales encompassed 6.1 million people at the end of March 2021. Of this number, 2.0 million are employees who still contribute to the scheme, 1.8 million are pensioners and 2.2 million are former employees who are entitled to a pension at some time in the future.
- There were 82,567 retirements from the LGPS in 2020-21

The full report can be accessed at the following link:https://www.gov.uk/government/statistics/local-government-pension-scheme-funds-for-england-and-wales-2020-to-2021

3. Finance (No.2) Bill 2021/22

On 2 November 2021, HM Treasury formally introduced the Finance (No.2) Bill 2021/22 to Parliament. The Bill includes several provisions that may affect the administration of the LGPS.

One of these was reported to the Board at the last meeting concerning the increase in the normal minimum pension age to age 57 from 6 April 2028.

Additionally, an extension to the mandatory scheme pays deadlines was introduced to enable members who have been granted a retrospective increase in their pension savings to ask the scheme to pay an annual allowance tax charge on their behalf where the increase has meant that they have exceeded the standard Annual Allowance in a previous tax year from tax year 2016/17 onwards.

Annual allowance tax charges potentially apply where the value of a member's pension benefits increase by more than £40,000 in a year.

4. Guidance on Transfer requests

As reported at the last Board meeting, a recent Department of Work and Pensions consultation which ended on 3 September 2021, focussed on draft regulations that will require occupational pension schemes, in most situations, to engage further with members aged 50 or above applying to access or to transfer out their benefits for the purposes of accessing their benefits.

On 8 November 2021:

• the Government published its Response to Pension scams: empowering trustees and protecting members consultation

• the Occupational and Personal Pension Schemes (Conditions for Transfers) Regulations 2021 [SI 2021/1237] were laid , and;

• the Pensions Regulator published guidance on dealing with transfer requests.

The regulations take effect from 30 November 2021 and introduce further legal restrictions on a member's statutory right to transfer. The regulations give administering authorities tools to act if they have suspicions about the circumstances that have led the member to request a transfer. The member will no longer be able to insist on a statutory transfer taking place in these circumstances.

These changes will affect the payment of cash equivalent transfers for:

- deferred members who request a statement of entitlement on or after 30 November 2021 (main scheme benefits only).
- AVC members who elect for payment of a transfer on or after 30 November 2021.
- pension credit members who elect for payment of a transfer on or after 30 November 2021 (main scheme and / or AVCs).

There are two key new measures introduced around decision making and disclosure, whereby the administering authority will be required to apply more diligence against pre-determined red and amber flags. If there are any red flags present, a transfer must not be paid. If there are any amber flags present, the transfer must be paused until the member can provide evidence that they have received pension scams guidance from MoneyHelper.

Further details around those flags are contained in the Pensions Regulator published guidance: https://www.thepensionsregulator.gov.uk/en/pension-scams/dealing-with-transfer-requests#51215b60f7f64a078b47f895a8bc7782

The regulations are significantly different from the draft regulations originally published with the consultation. As such the Local Government Association are currently putting together guidance to assist administrators to deal with these new requirements. LPPA are currently reviewing their transfer documentation and processes to account for these changes.

5. September 2021 CPI rate

On 20 October 2021, the Office for National Statistics announced the Consumer Prices Index (CPI) rate of inflation for September 2021 as 3.1%.

As such it is expected that this rate will be applied to LGPS active pension accounts, deferred pensions and pensions in payment as part of the pensions increase and revaluation processes in April 2022.

6. Prudential

Prudential representatives were recently asked to attend a meeting with the Scheme Advisory Board to discuss the significant drop in Prudential's service level in the past 18 months. The Scheme Advisory Board are particularly keen to see a recovery plan that includes timescales. As the Board are aware Prudential's performance has caused delays in the retirement process for members with AVCs.

Prudential has already reported itself to the Pensions Regulator because it has missed statutory deadlines.

In terms of the effect on the Lancashire Fund, LPPA have reported that whilst there are still delays for retirements with associated prudential AVC funds, those delays are much shorter than those cases reported earlier in the year. The situation continues to be monitored by LPPA and reported to the Fund.

Pensions Tax Relief

As part of the Autumn 2021 Budget, the Government responded to the call for evidence on pension tax relief administration. The response addressed the anomaly of the tax position for those who do not pay tax, based on what type of pension scheme they belong to. Individuals get tax relief on pension contributions as an incentive to encourage savings. Most defined contribution schemes operate relief at source. In a scheme that operates relief at source, contributions are deducted after tax and the scheme then claims back tax relief from HMRC. Members benefit from that tax relief even if they do not earn enough to pay tax.

In a net pay arrangement, such as the LGPS, pension contributions are deducted before a member's income is assessed for tax. This means that those who do not pay tax do not benefit from any tax relief. The Government will introduce a system from the 2024/25 year to allow low earners who are members of a scheme that operates a net pay arrangement to claim back a top-up payment. HMRC will identify and notify scheme members who are able to claim a payment. Payment will be made directly to the individual, but only if the person makes a claim.

Further guidance is expected around how this is to be managed by Funds and employers.

7. Section 13 report

On 16 December 2021, the Department for Levelling Up, Housing and Communities published the Government Actuary's Department review of Local Government Pension Scheme actuarial valuations as at 31 March 2019.

The report is required by section 13 of the Public Service Pensions Act 2013 and can be accessed at the following link. GAD's report on the 2019 fund valuations

The Government Actuary is required to review the actuarial valuations of LGPS funds under the Public Service Pensions Act 2013, reporting on whether the aims of compliance, consistency, solvency and long-term cost efficiency have been met.

The report outlines that LGPS funds had made "good progress" with relation to most of the recommendations made under the previous section 13 report but noted further work was needed on the clarity and consistency of actuarial assumptions as well as finding a common basis for academy conversions.

It also noted that the LGPS appeared to be in "a strong financial position" with assets of £291bn against liabilities of £296bn - a funding position that has improved markedly, from 85% to 98%, since the 2016 valuation, due in large part to strong asset returns.

However, the GAD report did include the following four recommendations to improve consistency and long-term cost efficiency among LGPS funds.

1. The LGPS Scheme Advisory Board for England and Wales should consider the impact of inconsistency on the funds, participating employers, and other stakeholders. It said it should specifically consider whether a consistent approach needs to be adopted for conversions to academies, and for assessing the impact of emerging issues including McCloud.

2. It recommended the advisory board consider how all funds ensure that the deficit recovery plan can be demonstrated to be a continuation of the previous plan, after allowing for actual fund experience.

3. GAD also recommended fund actuaries provide additional information about total contributions, discount rates and reconciling deficit recovery plans in the dashboard.

4. Finally, it recommended the scheme advisory board review asset transfer arrangements from local authorities to ensure that appropriate governance is in place around any such transfers to achieve long term cost efficiency.

The pensions team, in conjunction with Mercers, will consider the results of this report when progressing the 2022 valuation project. For example, the way that climate change risks are factored into funding strategy will be considered as the year proceeds.

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