NORTHUMBERLAND COUNTY COUNCIL PENSION FUND
Pension Fund Panel Meeting 23 November 2018

South Tyneside Council

Pensions Committee
Date: 23rd November 2018

Pensions Administration
(for information and discussion)

Report of the Head of Pensions

Purpose of Report

1. This report briefs the Committee on developments in pensions administration.

2. The Committee is asked to note the report.

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MHCLG Consultation: LGPS Technical Amendments to Benefits

3. MHCLG have opened a policy consultation on technical amendments to LGPS benefits. The consultation focuses on three areas:

   - 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 LGPS administering authorities will need to 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 MHCLG to issue statutory guidance.

   - Correcting 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.

4. In respect of each of the three policy areas, MHCLG is seeking views on proposed amendments to the rules and intends to undertake separately a technical consultation on draft amendment regulations that will give effect to any change. This consultation closes on 29th November and the Fund will be submitting a response to this consultation. The Fund is generally supportive of the proposed changes but is still considering the underlying detail. An update will be given to the Committee at the meeting.

Ongoing Consultation – Guaranteed Minimum Pensions

5. In a number of earlier reports the Committee has been advised that in February 2017 the Fund responded to an HM Treasury consultation on options for how the Guaranteed Minimum Pension element of pensions paid to those members who will reach state pension age on or after 6th December 2018 should be indexed. Since then members have been provided with an update at each meeting.

6. In January 2018, HM Treasury published its response to this consultation. This acknowledged that it is a complex area and more time is required to identify a long term solution. As a result, it will now extend the existing interim solution, covering those members of public service schemes reaching state pension age between 6th April 2016 and 5th December 2018 to those that reach state pension age on or before 5th April 2021.

7. Further time will be then be taken to identify the longer term solution.

8. This interim solution increases the value of liabilities in the LGPS, though this increase is not generally material and the Fund Actuary does not envisage any need to review employer contributions to the Fund before the 2019 valuation.

9. The original consultation set out three options for indexation:

   - Case by case – A comparison of total income received by the pensioner from public and state pensions provision under the old and new system,
   - Full indexation - Public sector schemes to directly meet the cost, and
   - Conversion - To convert the GMP into a scheme benefit on 1:1 basis.

10. In their response to the consultation, HM Treasury confirmed that it will discount the case by case solution, acknowledged that full indexation is overly burdensome and indicated that it is likely to further investigate the possibility of conversion. The direction of travel therefore appears to be towards a move to conversion, but it is understood that there is a willingness to keep options open.

11. It is expected that further consultation will take place, but to date no further progress has been made. The Committee will be kept up to date on this matter.

SAB Review - Academies

12. The Scheme Advisory Board (SAB) has commenced a review of the participation of existing academies and had commissioned PwC to investigate these issues and prepare a report.

13. The report, which was released on 17th July 2017, made no recommendations but set out three broad types of approach or mechanisms to try and resolve these issues. These are:

   - non-regulatory measures within the LGPS
   - regulatory measures within the scheme, and
   - measures outside of the LGPS, including through primary legislation.

14. Following the release of the report, the SAB commenced a consultation aimed at seeking responses from interested parties on draft objectives for the development of options for academies. This consultation was aimed at LGPS Pension Fund Managers and Pensions Committees. The following objectives were proposed:

   - Protect the benefits of Scheme members through continued access to the LGPS
   - Ring fence local taxpayers and other Scheme employers from the liabilities of the academy trust sector
   - Improve the efficiency and effectiveness of administrative practices.
   - Increase the accuracy and reliability of data.

In achieving the above, any options for change should not:

- significantly alter cash flows at the fund level
- significantly alter assets at the pool

15. The Fund responded in agreement with the proposals, with the following further caveat added – "the options for change should not significantly alter assets at the fund level. We think that this is important to protect the position of individual funds".

16. To progress with this issue the workload has been split into two areas; Funding and Administration.

17. The Funding working group is looking at the following:

    - Options for ring fencing Academies from other employers in funds
    - Standardising the approach to allocating assets and liabilities when schools convert to Academy status
    - The possibility of having a single future service rate for all Academies within each fund
    - The approach by which Multi Academy Trusts consolidate the individual academies across funds

18. The future of the Academies Funding working group is the subject of ongoing discussions with MHCLG and DfE.

19. The Administration working group is looking at improving the consistency of approach, communication and training along with a greater clarification of the duties and responsibilities between all parties. Work will also be progressed about producing a standard data extract.

20. The Committee will continue to be updated on this matter.

SAB Review – Tier 3 Employers

21. In addition to the review noted above, the SAB has also commissioned some work in respect of "Tier 3 Employers" in the LGPS.

22. Broadly speaking, Tier 3 employers include any employer with no ability to raise taxes and which is also not an Academy.

23. It is understood that the SAB is seeking to identify the potential funding, legal and administrative issues and liabilities relating to admitted and scheduled bodies that do not benefit from local or national tax payer backing.

24. Aon Hewitt has been appointed to undertake this review.

25. In December 2017 the SAB sought to gather information from Tier 3 employers, and their employees who are members of the LGPS, to help identify the duties, benefits, issues and challenges for LGPS funds, Tier 3 employers and their scheme members with regard to their participation in the LGPS, as well as options for change that would improve the funding, administration, participation and member experience with regard to Tier 3 employers. The Fund circulated the SAB's surveys to all of our Tier 3 employers.

26. At the Board meeting on 27th June 2018 Aon presented a summary of the final draft of their report, which was subsequently published on 24th September 2018.

27. The Report makes no attempt to make any recommendations, but instead outlines a range of issues raised by stakeholders. The main issues identified by Tier 3 Employers in the report are:

    - Issues relating to the valuation process, including:
        - A general lack of transparency, inability to negotiate and insufficient consideration of affordability by administering authorities and their actuaries
        - A perceived inconsistency in approach across funds
        - Valuation cycles not matching employer year-ends and insufficient notice of contribution changes to enable effective budgeting
    - A lack of flexibility in funding exit costs, leading to higher contributions than necessary potentially leading to further employer exits from the LGPS, or, employers being trapped in the scheme as they would be unable to afford the exit payment
    - High costs and a lack of visibility of costs associated with transferred-in benefits on redundancy

28. The Board have established a small working group to review these concerns expressed by Third Tier Employers in the report, and the ways in which they could be resolved. The working group is tasked with reporting back to the Board later in the year with a set of recommendations for further consideration.

29. Once the recommendations are approved, scheme stakeholders will be given the opportunity to comment on the Board's recommendations before any formal approach is made to MHCLG Ministers for changes to the scheme's regulations or guidance. At the current time no changes are expected in advance of the 2019 valuation.

30. The Committee will continue to be updated on this matter.

SAB Review – Options for the Separation of Host Authority and Pension Fund

31. In 2014/15 the SAB commissioned a project to look at the issues and challenges of potentially separating the pensions function of LGPS administering authorities from their host authorities.

32. The review centred around the potential conflicts of interest that can arise. The view was expressed that in principal, the greater the separation between the Pension Fund and the employers, the lesser the risk there is of a conflict arising.

33. Whilst a report was produced by KPMG on this subject no firm decisions were taken on how to progress and the initiative was largely put on hold as the SAB prioritised other areas of work such as pooling and academies.

34. The SAB now believes that it is appropriate to re-start this initiative and has recently issued a tender for some follow up work, focussing on two options:

    - A greater degree of separation within existing structures. This involves establishing a single unit to look after pensions within the host authority, which would retain the scheme manager responsibility. This approach appears to be close to the one currently adopted at Tyne and Wear Pension Fund with a separate standalone Pensions Service within South Tyneside Council as the Administering Authority.

    - Separation via new structures. This envisages delegation of the function of the scheme manager function in its entirety to a new body, which would then be responsible for all decisions in relation to the Fund. The constitution of the new body would need to be contained in a formal agreement. One option noted for the legal structure of such a new body is a combined authority similar to those in place for transport and planning.

35. It is understood that three organisations submitted tenders. At the time of writing it is not known who these organisations are or who has been successful.

Non-Pension Administration-Related Developments that will impact our Employers – Public Sector Exit Payment Reforms

36. The following items are not strictly a matter for LGPS Administering Authorities to consider. They are employer issues which are brought to the Committee for information purposes.

37. As members will be aware, the Government has committed to restricting the size of redundancy payments and other early exit costs across the public sector. There are three areas of potential report in this area:

- The £95,000 Public Sector Exit Payments Cap
- Clawback provisions for high earners (those earning £80,000 or more) returning to public sector employment within twelve months
- Further fundamental reforms to the rules governing the availability and calculation of public sector exit payments.

38. There has been very little progress in these areas for some time. The delays have been such that there was speculation as to whether the required regulatory changes would actually be made to give effect to these areas of previously stated Government policy. This is against the background of the current minority Government and lack of parliamentary time due to the focus on Brexit.

39. It is now understood that MHCLG are minded to introduce standardised factors for early retirement strain on the fund costs across the LGPS, purely for the purposes of testing against the £95k cap. In order to do this, it is expected that there will be a period of voluntary information gathering to see what funds currently do.

40. As so often happens with LGPS regulatory changes, implementation may follow long behind. As strain on the fund factors are reviewed following a triennial valuation, it would be helpful if information could be provided to coincide with the forthcoming 2019 Valuation.

Recommendation

41. The Committee is recommended to note the report.