Bulletin

ISSUE: November 2016

Surrey Pension Fund Committee

Welcome…

Welcome to the first edition of the bulletin for the Surrey Pension Fund Committee. The purpose of this bulletin is to keep Members up to date with hot topics and issues relevant to the Committee without overloading the agenda. The bulletin will be distributed to Members on a quarterly basis prior to each committee meeting.

Contents

1. Section 13 of the Public Service Pensions Act – the Dry Run

The Government Actuary (GAD) was been appointed by the Department of Communities and Local Government (DCLG) to report under section 13 of the Public Service Pensions Act 2013 in connection with the Local Government Pension Scheme (LGPS).

Section 13 provides for a review of LGPS funding valuations and employer contribution rates to check that they are appropriate and requires remedial steps to be taken where scheme managers consider appropriate.

Aims of section 13
Section 13 will apply for the first time to the 2016 round of ninety-one separate fund valuations for the LGPS. Specifically, in relation to each fund within the LGPS, section 13 requires the Government Actuary to report on whether four main aims are achieved:

- Compliance: whether the fund's valuation is in accordance with the scheme regulations
- Consistency: whether the fund's valuation has been carried out in a way which is not inconsistent with the other fund valuations within the LGPS
- Solvency: whether the rate of employer contributions is set at an appropriate level to ensure the solvency of the pension fund
- Long term cost efficiency: whether the rate of employer contributions is set at an appropriate level to ensure the long-term cost-efficiency of the scheme, so far as relating to the pension fund

Section 13 Dry Run
DCLG has asked GAD to carry out a "dry run" based on the round of LGPS valuations completed as at 31 March 2013 to demonstrate how they may have approached their analysis had section 13 applied to those valuations. This dry run report was designed to help those administering authorities and their actuarial advisors to prepare for the 2016 round of valuations with some knowledge about how GAD might approach reporting under section 13 following the 2016 round of valuations.

In this dry run report there was no specific recommendations for remedial steps in relation to solvency and long term cost efficiency, as section 13 did not apply as at 31 March 2013. However some areas were highlighted where GAD may have sought further information and engagement before recommending remedial steps if section 13 had applied at 31 March 2013.

Standardised actuarial basis
The Section 13 Dry Run compares 2013 valuation results on a local Fund basis with the basis derived from the Scheme Advisory Board (SAB).

Surrey Pension Fund 2013 results comparison
Local basis: 72% funded
SAB basis: 86% funded

SAB basis compared with Surrey 2016 local basis

Assumption	SAB basis	2016 Surrey local basis	
Pension increases	2% pa	2.1%	
Salary increases	3.5% pa	2.4%	
Discount rate	5.06%	4.2%	
Pensioner mortality rates	Set locally	Men: 22.6	Women: 24.7
Actives mortality rates	Set locally	Men: 24.3	Women: 26.7

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/555304/reforms_to_public_sector_exit_payments_consultation_response.pdf

2. Reforms to the treatment of exit payments in the public sector

A. Exit payment recovery

Status: Draft regulations

Expected implementation: In force before the end of 2016

The last government enacted framework powers in the Small Business, Enterprise and Employment Act 2015 to allow for the recovery of public sector exit payments. Regulations setting out the detail of the policy will be laid in Parliament to implement this policy from April 2016.

All relevant public sector employments as defined by the ONS are included.

Exit payment recovery applies to all individual with a minimum salary of £80,000 per annum.

All payments in relation to loss of employment, including discretionary payments to buy out actuarial reductions to pensions and severance payments will be in scope.

The following payments are excluded:

- Contractual entitlements unconnected to loss of employment
- Those payments that have a potential, if not actual, monetary value.
- Payments and Compensation in lieu of notice.
- Payments equal to minimum statutory redundancy payments.
- Payments made in respect of incapacity or death as a result of accident, injury or illness.
- Payments made in respect of leave not taken.
- Payments made in compliance with an order of court or tribunal.

Exit payments will have a tapered recovery from the date of exit up to 12 months. There will be no recovery after 12 months.
The only exception is if the full Council of a local authority agrees to waive or relax the exit recovery, but, it is unclear how this power will be extended to other public sector

employers (e.g. schools).

B. Exit payment cap

Status: Draft regulations expected autumn 2016

Expected implementation: Early 2017

An exit payment cap of £95,000 is contained in Enterprise Bill 2015, published on 1 December 2015 and is expected to take effect from summer/autumn 2016, after the Bill receives royal assent.

The cap includes all payments in relation to all exits from relevant public sector employments as defined by the Office of National Statistics (ONS) that occur with a 28 day period.

Payments towards the cap include:

- Redundancy
- Payments on voluntary exit
- Pension strain
- Ex-gratia payments
- Payment for an outstanding entitlement
- Pay in lieu of notice
- Any other payment made 'as a consequence of, in relation to, or conditional on loss of employment whether under a contract of employment or otherwise'

There will be no transitional arrangements.

All payments are covered (even if an individual has separate employments which end at the same time); however, if there is a gap (of say three months) payments could be judged separately.

The Local Government Pension Scheme (LGPS) Regulations are to be amended to permit actuarial reductions to pension benefits to enable costs to be reduced to within the cap. There will also be provisions to allow the individual to pay all or part of the strain cost themselves in order to receive an unreduced pension.

The only exception is if the full Council of a local authority agrees to waive or relax the cap, but, it is unclear how this power will be extended to other public sector employers (e.g. schools).

An analysis of Surrey redundancy/early retirement cases that were referred to the Severance Review Group in 2015 shows that only one of 20 cases would have breached the £95,000 cap.

C. Reforms to public sector exit payments

Status: Government has responded to consultation

Government departments to respond with proposals by 26 December 2016

Amendments made to exit arrangements by 26 June 2017

Expected implementation: Summer 2017

Proposal to create a new compensation scheme for the public sector, with the following guiding principles:

- Maximum limit of three weeks' pay per year of service.
- Maximum months' salary that can be used in calculating redundancy capped at 15, with possible further scope to make a distinction between compulsory and voluntary exit payments.
- Maximum applicable salary of £80,000 (as NHS).
- Lump-sum compensation tapered as individuals approach NRA (67 or 68 currently).
- Increasing minimum age when employee can receive pension top up (strain) or removing this option completely.
- Most employer funded payments will be in scope.
- Transitional protection is to be considered (e.g. for exits formally agreed before the new regulations take effect).
- Ill health and death benefits outside of the scope.

All major public sector workforces are in scope.

Potential impact on Surrey County Council:

- Existing severance terms generally less than those being proposed.
- Impact on employees earning £80k or more. This, combined with tax restrictions in annual allowance and lifetime allowance, makes pension significantly less attractive. This could impact on recruitment of senior officers and have the potential to adversely affect senior sponsorship of pension schemes in the public sector.
- Potential to impact management of organisational planning by limiting the attractiveness of early retirement.

http://lgpsboard.org/images/Reports/Section13DryRun20160711.pdf

http://lgpsboard.org/images/Reports/Section13DryRunAppendices20160711.pdf

Committee Contacts

Denise Le Gal - Committee Chairman
Phone: 0208 213 2834
denise.legal@surreycc.gov.uk

Angela Guest – Committee Manager
Phone: 020 8541 9075
angela.guest@surreycc.gov.uk

This page is intentionally left blank