

SURREY COUNTY COUNCIL

PENSION FUND COMMITTEE



DATE: 16 DECEMBER 2022

LEAD OFFICER: ANNA D'ALESSANDRO, DIRECTOR OF CORPORATE FINANCE

SUBJECT: LGPS UPDATE (BACKGROUND PAPER)

SUMMARY OF ISSUE:

1. This report considers recent developments in the LGPS.

RECOMMENDATIONS:

2. The Pension Fund Committee is asked to note the content of this report:

REASON FOR RECOMMENDATIONS:

3. The report provides background information for the Committee.

DETAILS:

4. The report provides background information for the Committee.

Highlights

5. **Cost-of-living issues** – We are monitoring member take-up of opt-outs and 50:50 pension benefits. We have produced an information video and are aware of the heightened risk of pension scammers in the current environment. More information can be found in points 11, 21, and 42.
6. **McCloud** – Further consultation expected early 2023 on the draft Regulations for the LGPS to implement McCloud, with final regulations being laid by October 2023. In addition to this further work will need to be done for Teachers Pension Scheme members who may be entitled to LGPS membership for the 'remedy period'. More information can be found in point 14.
7. **Pensions Dashboards** – confirmation frozen refunds not in scope. More information on the dashboards can be found in points 25 to 32.
8. **Colleges** - possible reclassification of colleges and provision of guarantee akin to Academies. More information can be found in point 17.
9. **Climate-related risks** - consultation launched on proposals to require LGPS administering authorities to assess, manage and report on climate-related risks, in line with the recommendations of the Taskforce on Climate related Financial Disclosures (TCFD). More information in point 15.
10. **Death benefits** - request sent to DLUHC for changes to the LGPS regulations relating to payment of Death Grants beyond the age of 75 and equalisation of spouse's benefits. More information in point 18.

LGPS updates

11. A new [FAQ has been added to the main LGPS member website](#) which considers whether a member's pension is affected by uncertainty in the financial markets.
12. The Department for Education (DfE) published an updated version of its [policy paper on the academy guarantee](#) together with a [departmental minute](#) on the issue.
13. The LGPS Governance Conference 2023 takes place on 19 and 20 January at the Cardiff Marriott Hotel and can be attended [in person](#) or [online](#), although early booking is recommended for attending in person. The conference is aimed at elected members and others who attend pension committees/panels and local pension boards. The [conference flyer](#) contains an updated programme with confirmed speakers.

Department for Levelling Up, Housing and Communities (DLUHC)

14. The implementation of the McCloud remedy in the Teachers' Pension Scheme (TPS) will mean some teachers will be retrospectively eligible for the LGPS covering the period from 1 April 2015 to 31 March 2022. The TPS did not move to being a CARE scheme until 1 April 2015, prior to which it was final salary. For the TPS implementing the McCloud remedy, members affected will be put back into the 'legacy' scheme (final salary) from 1 April 2015 to 31 March 2022 (remedy period) and then moved across to the 'reformed' scheme (CARE scheme) from 1 April 2022. Upon members taking payment of their benefits, they will have the option of taking the benefits built up during the 'remedy period' as either 'legacy' or 'reformed' benefits, this will be known as the Deferred Choice Underpin (DCU). Under the TPS 'legacy' scheme if a teacher has a full time role as well as a part time teaching role, the part time role was not pensionable under the 'legacy' scheme and will be classed as 'excess service'. Where the employer offers the LGPS, the teacher would have been eligible to join the LGPS in relation to the part time role. Under the 'reformed' scheme (CARE) both full time and part time roles are pensionable in the TPS. Teachers affected by this 'excess service', which is estimated to be around 18,000 and is a mix of active, deferred and pensioners, will need records/benefits created in the LGPS. If the member already holds LGPS membership, this will not be affected. Teachers who remain or restart employment after 31 March 2022, will have the option of transferring the LGPS 'excess service' to the TPS. Due to the considerable work this will involve, the LGA will be working with DfE and DLUHC to agree a process for dealing with these cases and the DfE and DLUHC will consult on how this will work in practice in due course.
15. DLUHC have launched a [consultation called Governance and reporting of climate change risks](#). This is seeking views on proposals to require administering authorities to assess, manage and report on climate-related risks, in line with the recommendations of the Taskforce on Climate-related Financial Disclosures. Following the launch of the consultation the Scheme Advisory Board emailed administering authorities inviting them to complete a survey on the upcoming climate risk reporting regime so that they may better understand readiness or apprehension about the proposed changes, in addition to helping shape the SAB's response to the consultation.
16. DLUHC have published the [LGPS statistics for England and Wales 2021/22](#). Highlights include:
 - Total expenditure of £14.4 billion, an increase of 6.6% from 2020/21.
 - Employee contributions of £2.6 billion, an increase of 4.8% from 2020/21.

- The market value of LGPS funds on 31 March 2022 was £364 billion, an increase of 8%.
- Total income of £15.9 billion, a decrease of 8.1% from 2020/21.
- Employer contributions of £7.8 billion, a decrease of 24.3%.
- There were 6.3 million scheme members on 31 March 2022; 2 million active, 1.9 million pensioners and 2.3 million deferred members.
- There were 94,724 retirements in 2021/22, an increase of 14.2% compared with 2020/21.

The decrease in total income and employer contributions is common in the final year of the three-year valuation cycle, due to employers making early payment of contributions in the previous two years.

Scheme Advisory Board (SAB)

17. A request has been sent to managers at administering authorities on behalf of DLUHC and the SAB following a request from the Department of Education (DfE) for additional data on colleges. This is in relation to the [Office for National Statistics \(ONS\) announcement](#) that Further Education, Sixth Form Colleges and Designated Institutions in England will review their classification, currently they are classified as part of the private sector. The data will be used to better understand colleges funding requirements and consider the merits of providing additional covenant measures, such as a guarantee like that provided to academies. However, this work does not mean that a guarantee will automatically apply. DfE wish to consider the options available in the Autumn.
18. The Chair of the [SAB sent a letter](#) to the LGPS Minister, recommending amending the regulations on death grants and survivor benefits. The letter expressed concern about continuing to limit the death grant payment to members who die before the age of 75 and that this restriction poses risk of legal challenge and should therefore be removed. The letter also reminded the minister that the LGPS rules on survivor benefits have not yet been amended to reflect the Goodwin judgement, together with reminding about a previous recommendation of removing all differences in survivor benefits from a time to be agreed rather than retrospectively.
19. The Chair has also sent [a letter](#) to the LGPS Minister, asking for an update on the Fair Deal consultation which ran from 10 January 2019 to 4 April 2019.
20. The SAB have issued a survey on funding strategy statement guidance, commissioned by the Compliance and Reporting Committee. This seeks opinions on the funding strategy statement guidance produced by the Chartered Institute of Public Finance and Accountancy (CIPFA).
21. The SAB have requested data from administering authorities on the number of members opting out or moving to the 50/50 section of the scheme to allow them to understand the extent the cost-of-living crisis is changing member's behaviour. The exercise is then likely to be repeated early next year and again in Spring 2023.

HM Treasury (HMT)

22. HMT launched a consultation on 8 August 2022 on [public sector exit payments](#) which closed on 17 October 2022, the proposals will apply to Central Government and not local authorities or bodies under devolved administrations, but will apply to academies. This would introduce an expanded approval process for employee exits and special severance payments where the payment is more than £95,000. This payment would include relevant statutory, contractual or discretionary payments (so would include any strain cost if an LGPS member aged 55 or over, leaves due to redundancy or efficiency. A further approval would also be needed if special severance payments (payments in excess of contractual obligations) are to be offered. If payments are made above the £95,000 then these would need to be reported to HMT. The SAB have [responded](#) to the consultation.

HMRC

23. Published [newsletter 143](#) which includes confirmation that the Government has decided against introducing a new reportable event for certain public service pension schemes from April 2023. The newsletter also confirms that HMRC expect to release the event report for 2023/24 on the Managing pension schemes eservice in summer 2023 which they had previously hoped to release in Spring 2023.

Department of Work and Pensions (DWP)

24. On 1 August 2022 [Collective Money Purchase Schemes](#) (also known as Collective Defined Contribution or CDC schemes) were launched and applications opened to the new type of pension scheme. They are designed to provide improved retirement returns for savers along with more predictable costs for employers.

Pensions Dashboard Programme (PDP)

25. The DWP have confirmed that frozen refunds are out of scope for the initial dashboards as they are not considered to be member benefits. It may be at some point in the future they will be included.
26. The Pensions Administration Standards Association (PASA) have published [Guidance on Value Data](#) for pensions dashboards which includes a checklist of steps that scheme administrators can take now. This is to help administrators understand what the Value Data requirements mean, identify any gaps in data that may exist and options for filling those gaps, along with work that can be undertaken in advance of schemes staging dates. PASA have also updated their guidance on [Data Matching Conventions](#).
27. The DWP published [draft guidance on applying to defer the staging date](#) together with a template application form. Once the dashboard regulations come into force they will issue final guidance.
28. DWP have laid a draft of [The Pensions Dashboard Regulations 2022](#) before each House of Parliament.
29. DWP have responded to the further consultation on dashboards, this confirmed that there will be an increase from 90 days to 6 months where schemes will be given notice of the point that the Dashboards will be available to the public, known as the Dashboard Available Point (DAP).

30. PDP published an [update on the program](#) which outlines the next three steps for early participants (those who volunteered to help with testing and development) connecting to the pensions dashboards ecosystem.
31. PDP published their [sixth progress update report](#). PDP have also published the [results of the research carried out by Ipsos](#) into the value that people attach to pension dashboards and their likelihood of using them.
32. PDP have also published two videos on '[Get you data ready for pensions dashboards](#)' and '[An introduction to find and view data](#)'.

The Pensions Regulator (TPR)

33. TPR has published a new [strategy to compensate pension scams](#), which sets out their plan to combat scams which includes; educating industry and savers on the threat of scams, prevent practices which can harm savers' retirement outcomes and fight fraud through the prevention, disruption and punishment of criminals.
34. TPR have [published a press release](#) warning employers to ensure they are complying with their automatic enrolment duties. This is as a result of in-depth compliance inspections with more than 20 large employers earlier in the year where TPR found several common errors relating to calculating pension contributions and communications to staff. The employers involved were from the transport, hospitality, finance and retail sectors.
35. TPR has published:
 - A [revised enforcement policy](#), setting out TPR's approach to investigating cases and any subsequent enforcement action. It is web-based and divided into standalone chapters, each with links to other relevant documents and consolidates previous policies.
 - An [updated prosecution policy](#), which has been brought up to date and explains how TPR will approach prosecuting workplace criminal offences.
 - A new [enforcement strategy](#), which sets out the overarching aims of TPR's enforcement work and provides an insight into the framework TPR applies when selecting cases for enforcement action.
36. TPR has published an [extract of a speech](#) they delivered, titled 'Looking Ahead: Regulating for the Saver', at the Pensions and Lifetime Savings Association (PLSA) conference. This covered a range of issues including dashboards, liability-driven investments and the cost-of-living crisis.

The Pensions Ombudsman (TPO)

37. TPO have published their [corporate plan for 2022 – 2025](#) which outlines TPO's key performance indicators, strategic goals, priorities for the period and actions required to deliver those priorities.

Other news and updates

38. The Supreme Court has ruled in favour of a zero hours contract worker who worked on a term-time only contract within a school and the calculation of their holiday pay. The [Harper Trust v Brazel](#) case also has implications for those who work varying hours during only certain weeks of the year but with a continuing contract. LGPS employers may wish to review their policies on the calculation of holiday pay in light of the case as well as whether any backdated payments are due.
39. The government has launched the [Public Sector Fraud Authority \(PSFA\)](#) to tackle fraud committed against public funds. They will work with public bodies to test their defences and help them build stronger safeguards.
40. A [supplementary consultation](#) has been published by the government relating to the consultation on reform of the Civil Service Compensation Scheme 2017 which has been ongoing since 2017. This is seeking views on reforms to the Civil Service Compensation Scheme which includes; changes to the maximum payments made under compulsory redundancy, voluntary redundancy and voluntary exit, allowing employer-funded top-up to pension from age 56 to track ten years behind the State Pension Age and clawback arrangements for those returning to the organisation within six months of receiving a compensation payment. Whilst this does not apply to local government, it is expected that DLUHC will be looking at limits to exit payments for LGPS members with amendments to regulations.
41. [The High Court has dismissed a challenge](#) against Retail Price Index (RPI) reform. The judicial review claim was brought about by British Telecom, Ford and Marks & Spencer pension schemes as a result of the UK Statistics Authority's decision to align the RPI with a housing cost-based version of the Consumer Price Index (CPI) from 2030.
42. The Financial Conduct Authority (FCA) issued [a press release warning](#) that the cost-of-living-crisis could cause an increase in pension scams. This comes following research that suggests a quarter of consumers would consider withdrawing money from their pension earlier than planned to cover the cost of living, making them vulnerable to pension scammers.
43. The Financial Reporting Council (FRC) have published [version 5.0 of the Actuarial Standard \(AS\) TM1](#) which specifies the assumptions and methods to be used for calculating statutory money purchase illustrations (SMPs). SMPs are included in Annual Benefit Statements and whilst this does not apply to Defined Benefit schemes, it will apply to the LGPS AVCs. The aim is to make pension projections more consistent and reliable when values are shown on the pension dashboards and will apply to illustrations/statements issued on or after 1 October 2023.
44. The Government Actuary's Department (GAD) have published a [blog on liability driven investments \(LDIs\)](#). The blog explains what LDI is and the recent issues with this type of investment during market volatility.
45. CPI for September 2022 has been announced as 10.1%, whilst it has been confirmed that the State Pension will retain the triple lock and increase in April by 10.1%, Government confirmation will be required for the pensions increase and revaluation that apply to LGPS members for active pension accounts, deferred pensions and pensions in payment.

CONSULTATION:

46. The Chairman of the Pension Fund Committee has been consulted on this report.

RISK MANAGEMENT AND IMPLICATIONS:

47. None.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

48. None.

DIRECTOR OF CORPORATE FINANCE COMMENTARY

49. The Director, Financial and Commercial is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed.

LEGAL IMPLICATIONS – MONITORING OFFICER

50. None.

EQUALITIES AND DIVERSITY

51. There are no equality or diversity issues.

OTHER IMPLICATIONS

52. There are no potential implications for council priorities and policy areas.

WHAT HAPPENS NEXT

53. No next steps are planned

Contact Officers:

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Consulted: Pension Fund Committee Chairman

Annexes:

None

Sources/background papers:

None

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