

CIPFA Pensions Network CFO Pensions Briefing

Legal Round Up and Regulatory Update

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2015)



Agenda

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- 2014-15 – A year in perspective
 - Pensions Freedom and Choice – What does it mean in LGPS?
 - Unfinished business

- “New” scheme
- New regulatory regime
- Practical Points



- “New” scheme
 - LGPS 2014 in place from 1 April 2014
 - Future accrual on CARE basis
 - Transitional protection for those within 10 years of retirement age
 - Smooth delivery of such significant changes a real achievement given late delivery of implementing legislation
 - 25 year settlement?
 - England & Wales funds completed valuations as at 31 March 2013
 - Many funds dealing with increased deficits
 - Continuing public scrutiny of costs in times of austerity
 - Future cost pressures
 - April 2016: end to contracting-out
 - Government has committed to no further benefit changes
 - Increased employer and employee NICs
 - Cost-cap mechanism
 - Monitoring by GAD and the Scheme Advisory Board
 - How will experience of LGPS 2014 compare with assumptions? e.g. lower take up of 50:50 option

■ New regulatory regime

➤ Scheme Advisory Board

- In place from April 2015
- Shadow Scheme Advisory Board has been running since 2014
- Makes recommendations about the LGPS to the Minister
- Chair is appointed by the Minister (currently advertising)
- Employer, member and practitioner representatives
- Funded by levy on LGPS funds
- Wide and varied work programme

➤ Local Pension Boards

- Every individual LGPS fund has to have one from April 2015
- Assists (oversees?) the scheme manager in its operation of the fund
- Equal numbers of employer and member representatives (plus “other” observers)
- Detailed guidance issued by Shadow Scheme Advisory Board

➤ Pensions Regulator

- New responsibility for (all) public service pension schemes – but not over funding
- Codes of practice and guidance
- Enforcement / compliance approach

- Ill health cases – learning points
 - Employer must always make the decision
 - No rubber stamping
 - No piggybacking
 - Employer must satisfy itself IRMP certification reasonably given
 - “Independent” in IRMP means “independent” and “reasonable perception of independence”
- Exit debts
 - December 2014 consultation
 - March 2015 response

Pensions Freedom and Choice – What does it mean in LGPS?



Pensions Freedom and Choice – What does it mean in LGPS?

- Myths
- Realities
- Consequences for LGPS

Pensions Freedom and Choice – What does it mean in LGPS?

- Myths

- “Members can take their whole pension as a lump sum”
- “Transfers from public sector schemes like the LGPS are now prohibited”
- “Freedom and Choice does not apply to LGPS”

Pensions Freedom and Choice – What does it mean in LGPS?

■ Realities

- Principal flexibilities apply to Defined Contribution savings
 - 100% cash lump sum (UFPLS)
 - Flexi access drawdown
 - Short term annuities
- No change to means of access to LGPS benefits whether DC or DB
- BUT members can transfer benefits to another scheme to access the flexibilities
- New requirement for members transferring DB benefits to DC schemes to obtain independent financial advice

Pensions Freedom and Choice – What does it mean in LGPS?

- Consequences

- Query more members opting out and/or transferring out?
- Query more/less scope for scams?
- Query more AVC contributions?

- Fair deal
- Reform of investment regulations?
- Structural change?

- Where are we now?
 - 1999: Treasury Code: A Fair Deal for Staff Pensions
 - 2011: Government announced intended change to require offer of continued access to public service scheme (rather than broadly comparable private scheme)
 - 2013: Treasury guidance for central government, NHS, schools and academies etc.
 - BUT LGPS 2007 Best Value Directions still allows “broadly comparable”
- What next?
 - DCLG considering implications and options
 - Working group working
- Likely outcome?
 - Compulsory admitted body status for relevant cases
 - Amendments to LGPS regulations
 - Amendments to/replacement of 2007 Best Value Directions
 - Timing?

- Kay Review of UK Equity Markets – July 2012
- Law Commission Report: Fiduciary Duties of Investment Intermediaries – July 2014
- BIS Progress Report – October 2014:
 - Regulation 9 to be amended (short termism of investment manager appointments)
 - IORP Article 18 to be transposed into the Investment Regulations

■ Introduction

- The Unison 2007 Opinion: SSAB's further Opinion (September 2014)
- The issues:
 - Is there an ultimate guarantor for LGPS benefits and if so, who is it?
 - In those interests must LGPS assets be invested?
 - What are the consequences of the LGPS funds being IORPs?
 - If IORP applies to the LGPS, does the law need to change at all?

Structural Changes

- May 2014 Consultation on LGPS opportunities for collaboration, cost savings and efficiencies (closed July 2014)
- Party manifestos

Conclusion

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- 2014-15 – A year a change
 - 2015-16 – No let up!

ANY QUESTIONS



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