

The LGPS Regulatory Situation

CIPFA Pensions Audit & Accounting Workshops 2019

Bob Holloway
Pensions Secretary

8th February

Jeff Houston
Head of Pensions

19th February

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Pensions Secretary

26th February

Despite the B word a lot going on....

- Business as usual – survivor benefits, pensions tax, MiFID, Fair Deal, £95k cap, Section 13, TPR data requirements etc, etc

But briefly today.....

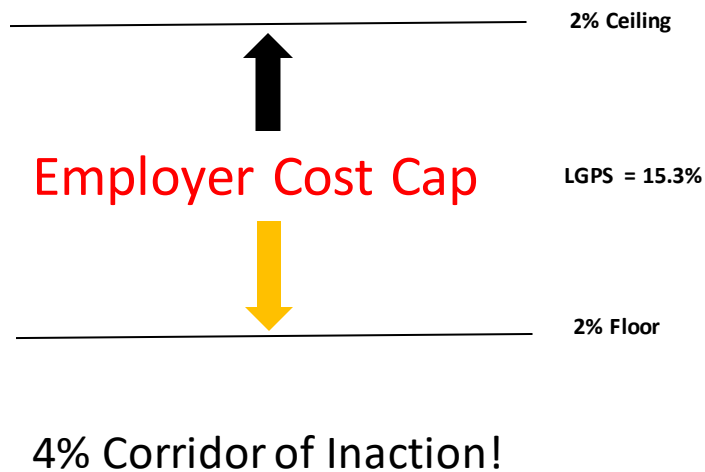
- Affordability, sustainability and the Cost Cap
- Life after McCloud
- Responsible investment – ideology or legal necessity?
- Cost transparency – what next
- Pooling – making sense of the informal consultation
- Simplification – stronger role for the scheme advisory board?

Cost Cap – Another Fine Mess?

- 2010 coalition government
- Manage escalating costs of providing public service pensions
- Lord John Hutton commissioned to undertake independent report
- Coalition government accepts recommendations in full
- Future costs should be borne by those who carry the risk
- Employers and scheme members carry different risks
- Public Service Pensions Act 2013
- Section 12 – Employer Cost Cap
- 6 years on.....?



Quadrennial Scheme Valuations



Employee v Employer Cost Risks

Employee



Pay Growth



Longevity

Employer

SCAPE Discount Rate

Investment Returns (LGPS)



But in the real World.....

Pay growth lagging behind long term assumption of 4.25%



Increase in mortality rate since 2011



And the outcome was?

“Our initial results show that the protections in the new cost cap mechanism mean public sector workers will get improved pension benefits for employment over the period April 2019 to March 2023.”

(Chief Secretary to the Treasury – 6th September 2018)



..... there's more!

“In addition, early indications are that the amount employers pay towards the schemes will need to increase. This is because of proposed changes to the discount rate, which is used to assess the current cost of future payments from the schemes, to reflect the Office for Budget Responsibility's long-term growth forecasts.”



But the LGPS is different!

- We are funded. Employer contributions set locally
- Important to micro-manage costs in the new scheme
- Separate SAB cost cap arrangement established
- SAB arrangement takes precedence over HMT arrangement
- Looks at total cost of the new scheme – 19.5%
- Changes less than 2%, SAB should or may recommend changes
- Changes more than 2%, SAB must make changes
- Indicative cost = 19.0%
- SAB agreed package worth 0.9% submitted to MHCLG Ministers
- No agreement!
- 30th January - Government suspends the HMT cost cap arrangement.
- 8th February – SAB pauses its cost cap arrangement – What next?



The McCloud Case

- McCloud and Sargeant two cases (Judges Scheme and Fire Scheme) taken together
- Appeal court in December found against government
- In short the protections for those within 10 years of retirement found to be age discriminatory
- Government has sought leave to appeal to Supreme Court –if agreed may not be heard until end of 2019
- If judgement stands all public service pension scheme protections will need to change
- For unfunded schemes that will mean anyone who was active in April 2015 may need to go back into the Final Salary scheme
- For LGPS that may mean extending the underpin to all members in service at April 2014
- So wither the cost cap?



Responsible investment

- Financial and non-financial factors – blurred lines?
- Law Commission’s recommendations to Government
- DWP consultation – but trust based schemes only.
- Should LGPS follow the private sector lead or are we already ahead of the game?
- Need for a clear response to those questioning ESG policies



Good Governance in the LGPS

- Statutory rather than trust status brings assurance to scheme members and democratic link to local tax payers
- But also brings potential for conflict of interest and functions
- Difficulty in matching of resources and priorities in a time of austerity
- Service is under pressure from a complex scheme and increased demands both internal and external
- Is the ‘ring fence’ high enough or are different solutions needed
- Hymans Robertson commissioned to explore scope for improving the position of the pensions function within local government



Cost Transparency



The LGPS Code – 85 managers signed up covering over £160bn in assets - almost 60% of total assets and over 90% of listed equity assets www.lgpsboard.org/index.php/structure-reform/cost-transparency

Compliance procurement exercise nearing completion

Q&A guidance to be published shortly



Pooling Statutory Guidance

- Informal consultation launched by MHCLG in December
- Purpose is to :-
 - Give the government's policy on pooling statutory status
 - Define who does what
 - Clarify governance and reporting arrangements
 - Clarify what is required, eg, FCA regulated company
 - Define key terms
- Not a public consultation
- Closing date for comments 28th March



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