

# LGPS update

Lorraine Bennett / Con Hargrave

LGA Pensions Adviser

July 2016

# What we'll cover

- **Amendment regulations**
  - Fair Deal, Freedom and Choice and other amendments
- **Scheme Advisory Board**
  - Members, sub-committee structure and work plan
- **Valuation and Cost Control**
  - Deficits, valuation and cost control
- **Investment Pooling**
  - Investment regulations and asset pooling
- **Exit Payments**
  - Recovery, cap and further consultation
- **Other items of interest**
  - Ending of contracting out, taxation of pensions and LISAs

# Amendment regulations



- **12 week consultation – closes 20<sup>th</sup> August**
- **Fair Deal**
  - Final piece of reform process that began with the Hutton report
  - Members (and eligible non-members) compulsorily transferred out of public sector become ‘protected transferees’ and retain eligibility for LGPS.
  - New employer is a ‘protected transferee employer’ and must enter into an admission agreement with administering authority.
  - Applies to all LGPS employers *except* for HE, FE and PCCs.
  - The Directions Order planned to be revoked in due course.
  - As things stand, those previously transferred out under the Directions Order will *not* be covered by the Fair Deal regulations.

# Amendment regulations



- **Freedom and Choice**

- Changes in how members may take AVCs following introduction of pensions flexibilities in April 2015.
- Members may be able to take an UFPLS between the ages of 55 and 75 without having to access their main scheme benefits.

- **Other amendments**

- Proposed that members who left LGPS pre-April 2014 will be able to access pension from 55 without employer consent.
- If employer exits scheme with surplus, it is proposed that this can now be paid back to the employer.
- LGPS funds may have to extend underpin protection to certain members who were in another public service scheme on 31<sup>st</sup> March 2012.

# Scheme Advisory Board - membership

## Independent chair

Cllr Roger Phillips

## Scheme members

Jon Richards  
(UNISON, vice Chair)

Chris Tansley  
(UNISON)

Garry Warwick  
(GMB)

Vacancy (GMB)

Fiona Farmer  
(Unite)

Dick Banks  
(Unite)

## Scheme employers

Cllr Kieran Quinn (LGA)

Cllr Michael Adam (LGA)

Cllr Denise le Gal (LGA)

Vacancy (LGA)

Cllr Mary Barnett  
(WLGA)

Emelda Nicholroy  
(UCEA)

## Non-voting members

ALAT

TUC

PLSA

## Board advisers

Actuarial adviser?

Legal adviser?

## Secretariat

Jeff Houston  
(Board secretary)

Liam Robson  
(Pensions Analyst)

Vacancy  
(Pensions Adviser)

# Scheme Advisory Board

- **Sub-committee structure**

- Reduced number of sub-committees planned.
- Two standing sub-committees - Cost Management and Scheme Design & Investment, Engagement and Governance.

- **Work plan**

- Deficits project to be resumed. Working group expected to meet shortly to discuss deficit management work plan.
- Investment transactions transparency template. SAB have been working with FCA to agree template that investment managers will be asked to complete. FCA hope to adopt as standard.
- What else? Knowledge and understanding guidance? Separations project? TPR code guidance?

# Valuation and cost control

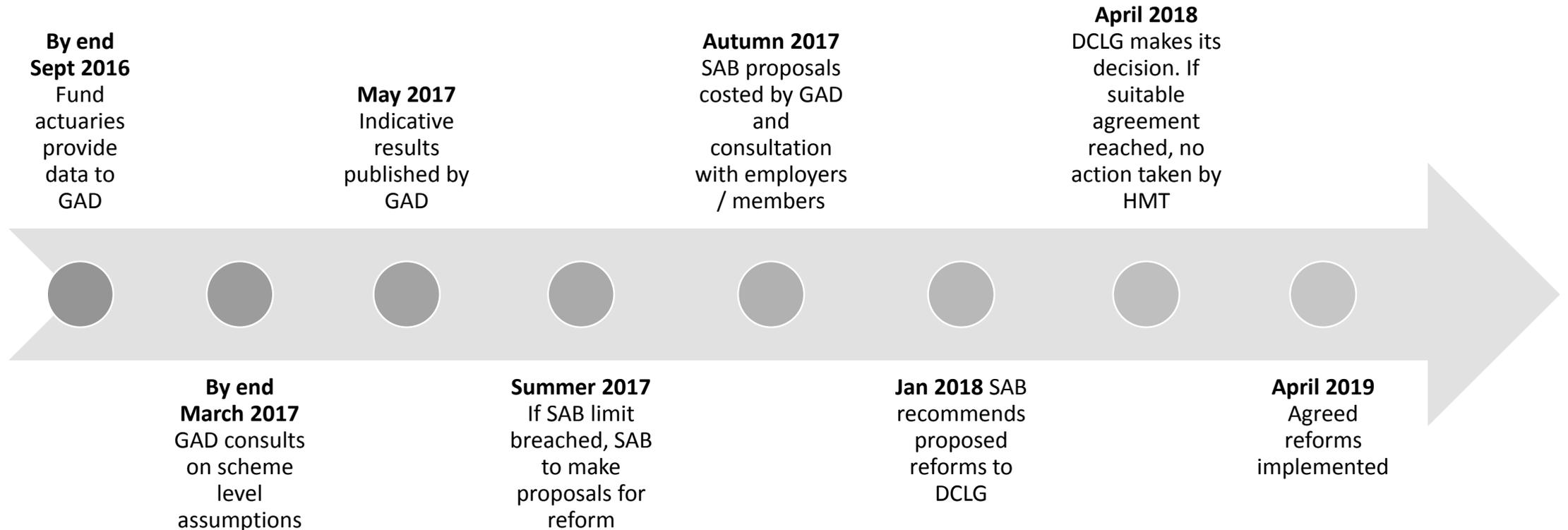
- **2016 fund valuations**

- Indications are that it may be another tough set of results.
- Whilst fund returns and news on longevity have been positive, interest rates and gilt yields have still not recovered.
- Could lead to pressure for further reform?

- **Cost control**

- Two processes in England and Wales – one managed by HM Treasury, the other by the Scheme Advisory Board.
- 2%+ movement in costs in either process would mean that reforms must be made to bring scheme back to target rate.
- Indications are that the SAB process may breach (+0.4% revaluation, +0.3% Club transfers, +0.3-0.5% 50/50).

# Cost control – reform timeline



# Investment reform

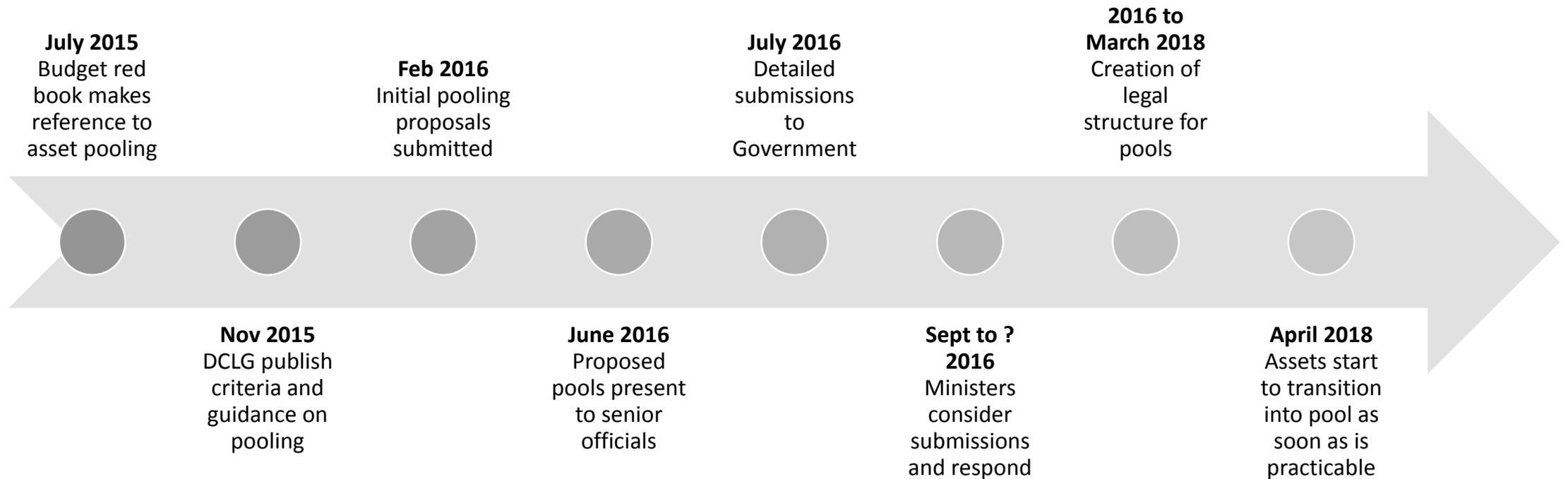
- **Investment regulations**

- Expected before summer recess
- Investment strategy statement (ISS) not needed until April 2017
- Guidance on consideration of non-financial factors
- DCLG power of intervention in limited circumstances

- **Asset Pooling**

- Creation of 7-8 asset pools
- Aim is to drive down investment costs and develop the capacity and capability for the LGPS to be able to invest in infrastructure

# Investments – Pooling timeline



# Investments – the criteria

**Size**  
£25bn

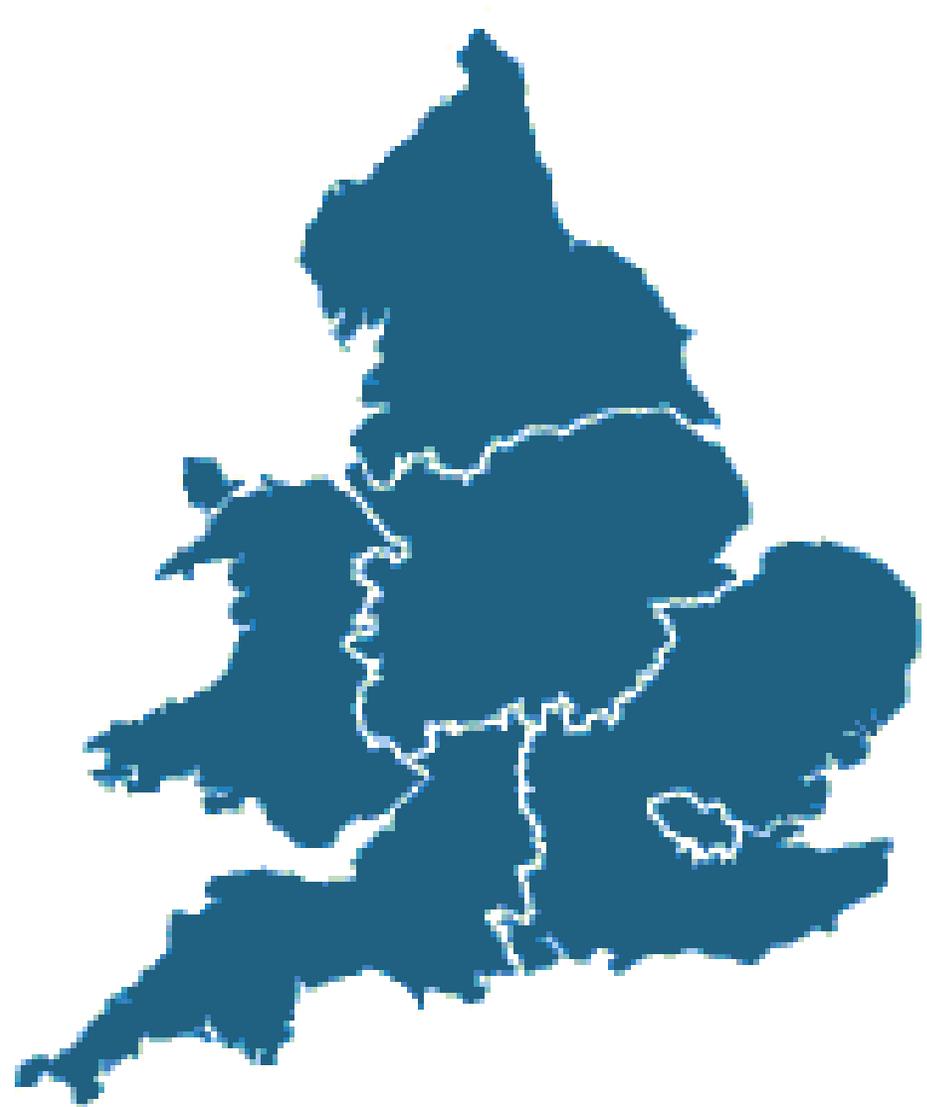
**Governance**  
Accountability  
to admin.  
authorities

**Cost**  
Significant  
and  
transparent  
cost saving

**Infrastructure**  
Capability,  
capacity and  
ambition

# Potential Pools

- Central
- Access
- Brunel
- Borders to Coast
- Northern funds
- LPP
- London
- Wales



# Exit Payments



- **Recovery**

- Covers those who earn £80k or over and return to the public sector within 12 months. Includes pension strain costs.

- **Cap**

- Exit payments capped at £95k for exits within 28 days, includes pension strain cost. Possible waiver.

- **Further consultation**

- A max salary of £80k in calculation? Increase to minimum pension age? Removal of power to pay pension strain?

# Other items of interest

- **Ending of contracting out**

- Indexation of GMPs – public service pension schemes to bear full cost for members attaining SPA between April 2016 – Dec 2018
- Public consultation on longer term solution – potential £1bn cost if long term solution the same

- **Taxation of pensions**

- New LTA £1m
- Introduction of tapered AA for high earners

- **LISA – lifetime ISA**

- The start of an alternative to pensions?

# Disclaimer

The information contained in these slides has been prepared by the LGPC Secretariat, a part of the Local Government Association (LGA). It represents the views of the Secretariat, based on our current understanding of the law. It should not be treated as a complete and authoritative statement of the law. Readers may wish, or will need, to take their own legal advice on the interpretation of any particular piece of legislation. No responsibility whatsoever will be assumed by the LGPC Secretariat or the LGA for any direct or consequential loss, financial or otherwise, damage or inconvenience, or any other obligation or liability incurred by readers relying on information contained in these slides.