

LGPS update – CIPFA network

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What we'll cover

- Amendment regulations update
 - Fair deal, freedom and choice
 - Investment reform update
 - ISS guidance and investment regulations
 - Scheme Advisory Board work plan
 - Deficit working group, cost control, academies in the LGPS
 - Exit payment reform update
 - Exit cap, recovery and further reform
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Amendment LGPS regulations

- Consultation closed 20th August
 - LGA submitted response in two parts
 - Policy perspective
 - Detailed technical perspective
 - Fundamental issues with drafting of the regulations – significant re-write?
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Fair Deal

Members compulsorily transferred out of the LGPS will become “protected transferees” and retain eligibility for the LGPS

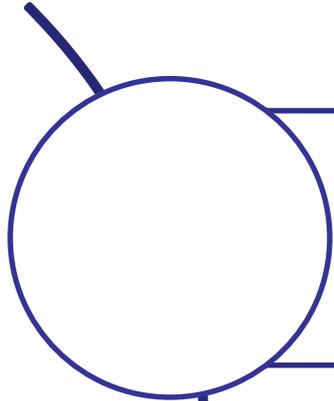
New employer becomes a “protected transferee employer” and must enter into an admission agreement with the administering authority

Applies to all LGPS employers except FE, HE and PCCs

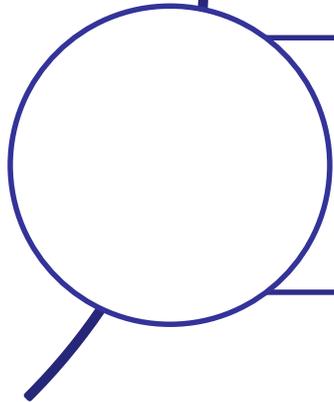
The Directions Order will be revoked in due course

No pass through included in the regulations

Freedom & Choice



A change in the way members can take their AVCs



The ability to take one or more uncrystallised lump sums from an AVC pot independently of main LGPS benefits

Investment reform update

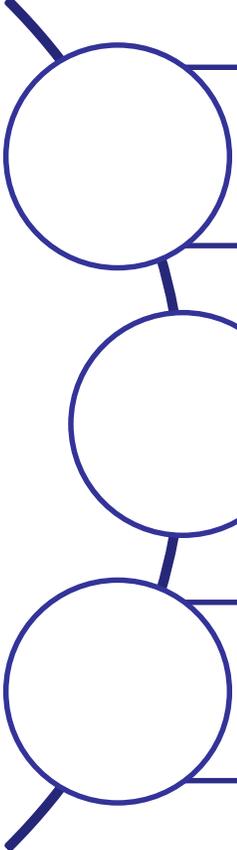
- Investment regulations laid before parliament on 23rd September – effective from 1st November 2016
 - Power to intervene
 - Requirement to publish ISS by 1 April 2017
 - Revoke 2009 regulations
 - Investment Strategy Statement (ISS) guidance published September 2016
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Power to intervene

Where an authority fails to act in accordance with guidance the Secretary of State (SoS) may make a direction requiring all or any of the following:

- An authority change its investment strategy within a specified period of time
 - An authority invest in specified assets or descriptions of assets
 - The investment function be exercised by the SoS or nominated person for a period of time
 - The authority comply with any instructions of the SoS or the nominee
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Power to intervene



Intervention only after full consultation with the relevant authority

Only where justified

SoS must have regard to evidence of how the authority is discharging or proposes to discharge its investment functions

Investment Strategy Statement

- Requirement for a wide variety of investments
 - Assessment of suitability of particular investments
 - Approach to risk
 - Approach to pooling
 - Policy on social, environmental or corporate governance
 - Policy on the exercise of rights attaching to investments
 - Must set maximum percentage of the total value of all investments that will be invested in particular investments or classes of investment i.e. replaces Sch 1 of the 2009 regulations
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Investment Strategy Statement

“The Government has made it clear that using pension policies to pursue boycotts, divestment and sanctions against foreign nations and UK defence industries are inappropriate, other than where formal legal sanctions, embargoes and restrictions have been put in place by the Government”

Scheme Advisory Board - Academies

PWC commissioned to investigate the implications for the LGPS of significant increase in academy employers

Next few months talking to stakeholders

Full report to SAB in March 2017

Report will present options not recommendations

Further period of work to look at implementation once options considered by SAB

Scheme Advisory Board – Deficit working party

- Almost a third of the membership is employed outside of local authorities
 - Smaller employers in catch 22 – can't afford to stay, can't afford to leave
 - Sixth form, FE and HE colleges private sector employers but still scheduled bodies
 - Is the LGPS becoming a taxpayer backed scheme with a significant danger from defaulting non LA employers?
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Scheme Advisory Board - Cost Control

- Two processes in England and Wales
 - HM Treasury
 - Scheme Advisory Board
 - Member driven costs only (e.g. choice, profile, longevity)
 - Neither include investment returns
 - +2% movement in costs mean reforms must be made to bring the scheme back to its target rate
 - SAB process – early indications between +1% to +2% increase in cost which “should” result in reforms
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Exit Payment Reform

Recovery – covers those who earn over £80k and return to the public sector within 12 months. Regulations expected later this year. Includes pension strain cost.

Cap - £95k cap for exits within 28 days – includes pension strain cost. Further consultation in the autumn with the expectation that regulations will be in force early next year.

Exit Payment reform – further consultation

- Government responded in September 2016
 - Departments and other bodies will be responsible for designing exit arrangements within the overall framework set by Government
 - Proposals for reform to be put forward within 3 months
 - Changes made within 9 months
 - Should agreements not be made within the timescale the Government will consider options to legislate set terms across the public sector
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Exit payment reform – framework

- Maximum tariff of 3 weeks per year of service to calculate redundancy payment
 - A ceiling of 15 months on the maximum number of months' salary that can be paid
 - A maximum salary on which an exit payment can be based - £80,000 suggested
 - A taper on the amount of lump sum compensation an individual is entitled to receive as they get closer to their normal pension age
 - Action to limit or end employer-funded early access to pension within exit packages
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