

# LGPS update

Lorraine Bennett / Con Hargrave

LGA Pensions Adviser

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# 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

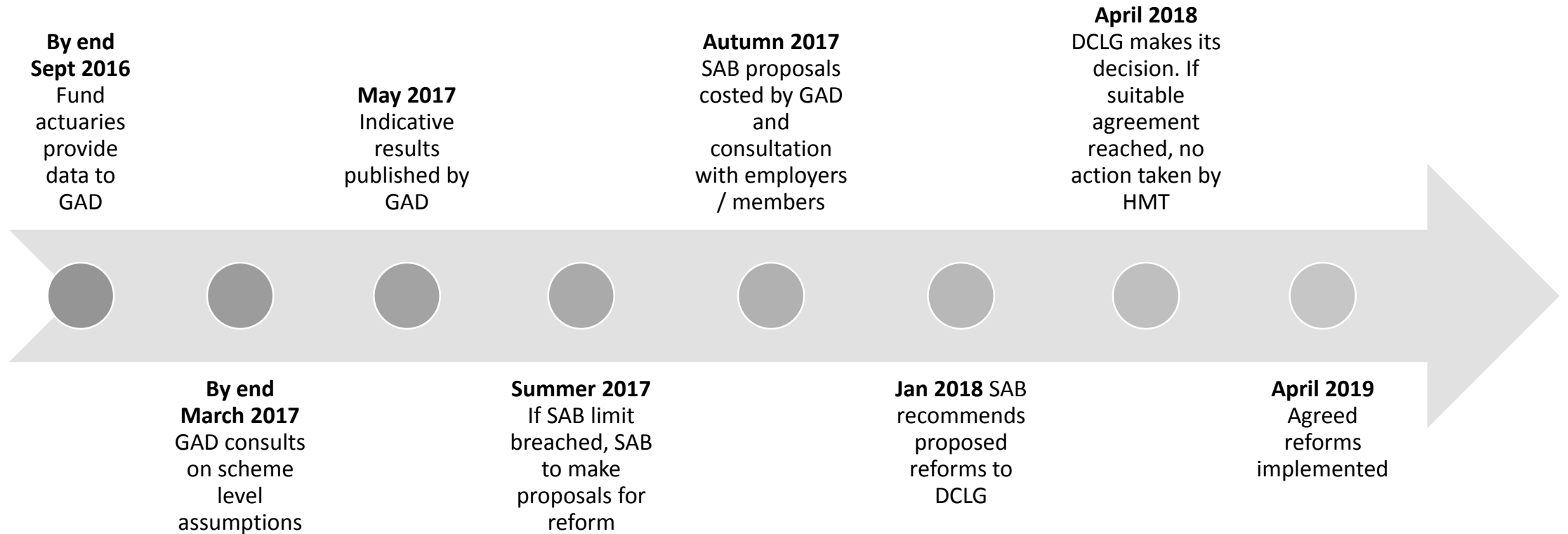
- **2016 fund valuations**

- 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

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