



<u>Committee and date</u> Pensions Board 29 April 2022 10.00am

<u>Item</u> <u>Public</u>

Administration and regulatory updates

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1. Synopsis

- 1.1. The report provides Pension Board members with the latest administration and regulatory updates affecting the Local Government Pension Scheme (LGPS) including updates on the McCloud remedy, Pension Dashboard and the Pension Regulator's Single Code of Practice.

2. Executive Summary

- 2.1. This report includes specific updates on the fund's latest work towards the McCloud remedy; the latest position on the national Pensions Dashboard consultation and issues identified by the fund.
- 2.2. An update on the latest news on The Pensions Regulator's single Code of Practice
- 2.3. This report also provides an update on the annual projects currently underway within the administration team and the actions required.

3. Recommendations

- 3.1. Pension Board members are asked to note the contents of this report with or without comment.

REPORT

4. Risk Assessment and Opportunities Appraisal

- 4.1. Risk Management

By ensuring the guidance and legislation mentioned in this report is followed and adhered to, risks to the fund are minimised. A risk register is kept and updated in line with council corporate policy.

- 4.2. Human Rights Act Appraisal

The recommendations contained in this report are compatible with the Human Rights Act 1998.

4.3. Environmental Appraisal

There is no direct environmental, equalities or climate change consequence of this report.

5. Financial Implications

- 5.1. The Pensions Dashboard and the legislative changes required because of the McCloud remedy will both increase costs for the Fund. The extent of these cost increases, direct and indirect, are unknown at present.

6. Climate change appraisal

- 6.1. Energy and fuel consumption: No effect
Renewable energy generation: No effect
Carbon offsetting or mitigation: No effect
Climate Change adaptation: No effect

7. Administration and regulatory update

- 7.1. In addition to this report, the Pensions Board are advised to note the pensions administration reports submitted to the Pension Committee on 18 March 2022.
- 7.2. On 22 March 2022, the Local Government Association (LGA) forwarded a letter to administering authorities from Teresa Clay, Head of Local Government Pensions at the Department of Levelling Up, Housing and Communities (DLUHC). The letter which can be found at **Appendix A**, sets out DLUHC's recommendations on how administering authorities should take the McCloud remedy into account in the 2022 triennial valuation. During the 2019 valuation, the Fund's scheme employers were given the option to include the potential costs for the McCloud remedy in their employer contribution, some employers took up this option. As the McCloud remedy position is slightly further on since the 2019 valuation, the fund's calculation approach for member benefits for the 2022 valuation will automatically include the assumptions listed in the letter from DLUHC and will apply in the calculation of employer contribution rates by the Fund's Actuary.
- 7.3. The Government tabled further amendments to the Public Service Pensions and Judicial Offices (PSPJO) Bill on 21 January 2022. The main purpose of the Act is to give the relevant government departments the regulation powers to resolve the discrimination identified in the McCloud judgment. In summary, the amendments relevant to the administration the LGPS are:

- redefine “remediable service” so that it also potentially covers members who were not in pensionable service on 31 March 2012 in a relevant public service pension scheme but who were in such service before then
- extend the types of schemes where pensionable service of which would not count as a disqualifying break
- allow regulations to provide final salary benefits for transferred-in service from different public service schemes where the service benefitted from final salary protection in the other scheme
- allow regulations to restrict service between 1 April 2014 (1 April 2015 in Scotland) and 31 March 2022 from having final salary protection unless the member has transferred in or aggregated previous service
- allow regulations to make provision adjusting pension credits and debits to reflect the McCloud remedy

- 7.4. The Public Service Pensions and Judicial Offices (PSPJO) Bill received Royal Assent on 10 March 2022.
- 7.5. Robert Jenrick MP tabled an amendment to the Public Service Pensions and Judicial Offices Bill (PSPJO). The amendment was passed on 22 February 2022. The amendment will allow the responsible authority to issue guidance to administering authorities instructing them not to make investment decisions that conflict with the UK’s foreign and defence policy. The responsible authority for the LGPS in England and Wales is the Secretary of State. Further measures in this area will be introduced by the Boycotts, Divestment and Sanctions Bill which is expected during this Parliament. You can read more about the Boycotts, Divestment and Sanctions Bill and this amendment on the SAB’s website:
<https://www.lgpsboard.org/index.php/structure-reform/bds-main>
- 7.6. Members may wish to note there is nothing required from funds on this amendment at this point.
- 7.7. Fund officers are currently busy on several annual projects. Including, the year-end data reconciliation with scheme employers, increasing deferred benefits and pension in payments in line with the 2022 Pensions Increase, applicable from 11 April, and producing end of year P60’s. Preparations are also underway to produce the 2021/22 annual report, the 2022 Valuation data extract for the Fund Actuary and then the Annual Benefit statements for all active and deferred members.

- 7.8. A request was put forward for the number of scheme members on file without addresses. 10 pensioners and 561 deferred are recorded as gone away. There are 4 overseas deferred members overseas. The fund has had a mortality and tracing service in place for several years. A monthly mortality screening takes place on all pensioner records to try and ensure any deaths the fund has not been made aware of are picked up. Member tracing is used to locate scheme members approaching Normal Pension Age.

8. Pensions Dashboard

- 8.1. The Department for Work and Pensions (DWP) published a consultation on the draft Pensions Dashboards Regulations on 31 January 2022. The consultation ran for six weeks and closed 13 March 2022.
- 8.2. Pensions dashboards will allow individuals to see information about all their pensions, including the State Pension, in one place. These draft regulations set the requirements to deliver this and will place a legal duty on pension providers to provide information to the dashboards.
- 8.3. The consultation proposed a staging deadline of the end of April 2024 for public service pension schemes, including the LGPS. This means that LGPS administering authorities will need to be able to connect to the digital architecture by this date and be ready to provide individuals' data to them via the dashboards.
- There is concern on the ability of the Fund to meet the staging deadline given other pressures such as revisiting all calculations since 1 April 2014 due to the McCloud remedy. This will involve a significant amount of work including:
 - recalculating member and survivor pensions
 - paying arrears and interest
 - dealing with the resulting pension tax implications
 - recalculating deferred benefits and concurrent calculations
 - exchanging service information with other administering authorities for members who have transferred
 - potentially re-visiting past trivial commutation payments, CETVs, death grants and Club transfers

8.4. The Local Government Association (LGA) stated, in their response, which this fund supported, that for the above and additional following reasons they are doubtful a staging deadline of April 2024 is achievable:

- The exclusion of deferred refunds from dashboards will make the system less effective at achieving the Government's aim of reuniting people with lost pensions.
- Although a longer period is allowed to respond to a request from a recent joiner, the rules do not appear to cater for the fact that administrators may not have been informed about the new joiner.
- It is not clear what value data must be supplied in respect of a member who has not yet met the vesting period.
- Some of the provisions in the draft regulations are very different from the rules that the LGPS must currently follow. Statements for deferred LGPS members are not covered by the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013.
- Signpost data must be returned immediately after the scheme receives a view request. Signpost data includes 'the scheme's implementation statement', a statement that LGPS administering authorities are not currently required to publish. The information contained in an implementation statement is likely to be replicated in an annual report.
- The value data that must be returned will generally be included in a benefit statement for active members. It is not known whether any figures relating to the McCloud remedy will have to be included in annual benefit statements.

8.5. The Money and Pensions Service (MaPS) will draft standards which it is expected to consult on later in 2022, to provide further detail on how schemes and dashboards providers must comply with their legislative duties. It is understood the MaPS standards will cover:

- Data: data elements and formatting requirements that schemes must follow when returning data to members via dashboards
- Technical: covering how dashboards must connect to MaPS and pension schemes

- Design: how view data must be presented on the dashboards
 - Reporting: what information schemes must keep and report to MaPS and regulators in relation to compliance and performance.
- 8.6. Until more information is known, and the issues highlighted in the consultation response from the LGA are addressed, it is difficult to assess the full implementation and ongoing costs for the fund to set up, participate in and administer the Pensions Dashboard. Procurement of a supplier of the IT infrastructure required cannot be investigated until more detail is available. The people resource requirement to administer the data and deal with the queries is also unknown currently. Officers will be monitoring the development over the coming months.

9. The Pensions Regulator's (TPR) Single Code of practice

- 9.1. The Public Service Pensions Act 2013 introduced the framework for the governance and administration of public service pension schemes, such as the LGPS and provides an extended regulatory oversight by the regulator – it is covered in Code of Practice 14. The TPR's fifteen existing codes of practice's are set to be moved into single online code, providing one up-to-date and consistent source of information on pension scheme governance and management.
- 9.2. A consultation on the Code was issued on 17 March 2021 and closed on the 26 May 2021:
<https://www.thepensionsregulator.gov.uk/en/document-library/consultations/new-code-of-practice>
- An interim response was issued by TPR in August 2021:
<https://www.thepensionsregulator.gov.uk/en/document-library/consultations/new-code-of-practice/interim-response-to-consultation-on-tprs-new-code>
- 9.3. TPR is expected to lay the Code before Parliament in June/July 2022 with the Code expected to be in force from October 2022. A key aim of the Code is for all schemes to be held to comparable standards (allowing for differences in legislation). It will apply to defined benefit and defined contribution schemes and across the private and public sectors.
- 9.4. In appendix 1 of the consultation document a table was provided on the modules which may be 'existing', 'new' or 'best

practice' to each audience. Where a module is shown to contain 'existing' content, updates may still mean that new expectations are presented within the module, or that they are presented in a different way. Some content marked as 'new' will be existing content that is new to that audience. Modules showing 'best practice' also do not apply to that audience, but consideration should be given to following them for best practice purposes.

- 9.5. For the LGPS, there are twelve modules described as 'new', twenty 'existing' and four 'best practice'
- 9.6. Some of the 'new' modules listed for Public Sector schemes such as scams and cyber controls have pre-emptively been worked on by the Fund. An assessment will be required, of all the modules in the Code when it is published in its final version and comes into force to ensure the fund is compliant.

10. McCloud update

- 10.1. Heywood, the provider of the software used by the Fund to administer the LGPS, is updating the software for the McCloud remedy in 4 phases, due to the delay by DLUHC providing the amendments to the LGPS.
- 10.2. Work has continued to progress on this project and the first developments for phase 1 have been made available in the recent software release.
- 10.3. The costs relating to this project are in two parts. The first is a one-off cost for each phase of the development. The second is an increase in the annual support and maintenance fees required due to the increased complexity and the ongoing maintenance of the calculations.
- 10.4. Approaches through the CLASS management team have been made to the LGA who are now speaking to DLUHC about whether there is any possibility that the development costs for McCloud remedy could be centrally funded, or whether there are any other avenues to investigate whereby the development costs could be recouped centrally rather than CLASS Group funded.
- 10.5. The team are currently working with the Fund Actuary to ascertain which employers have not continued to do as required and provide hours changes and breaks in service since 01 April 2014.

11. Communications

- 11.1. The fund monitors member take-up of its online area member self-service (MSS), known by members as 'My Pension Online'. The annual benefit statements for both active and deferred members are now available to view on 'My Pension Online' unless a member has requested a paper copy. As of 31 March 2022, a total of 47% active members and 40% of deferred members and 41% of pensioners were registered to view their records on 'My Pension Online'. Officers have recently been able to use an analytical tool to report on the usage of the functionality within 'My Pension Online'. Aside from the login, registration and forgotten password/username pages the top five most visited pages are:
1. Voluntary retirement benefit projector
 2. Early payment of deferred benefits projector
 3. Latest valuation – pensioner member
 4. Latest valuation –active member
 5. Annual benefit statements
- 11.2. The Local Government Association's Communications Working Group is currently drafting a digital engagement guide for LGPS funds. It is understood that a survey will be issued to all LGPS funds to capture member portal sign up rates and portal usage which officers will feed into. It is hoped national benchmarking figures will be available to report following this survey.
- 11.3. In the January 2022, pension board members requested a communication to be sent to employers which covered how unpaid absences should be dealt with for LGPS members. An update was provided in the February 2022 email bulletin to all employers.
- 11.4. The fund's bi-annual pensioner newsletter InTouch is currently being prepared for distribution via email along with the notification that the P60 end of year certificates are available in 'My Pension Online'. Member's who have requested a hard copy of the P60 document will also receive a hard copy of the newsletter.
- 11.5. At the last pensions board meeting member's requested an update on the number of members affected by the annual and lifetime allowance limits in the previous tax year. The fund issued Pension Savings Statements to 50 scheme members who exceeded the HMRC Annual Allowance limit for 2020/21 tax

year. The annual allowance limit is currently £40,000. The annual allowance is set by HMRC. It is the maximum a pension can increase by in a tax year before a tax charge is applied. The benefits held by the scheme member including any Additional Voluntary Contributions, are calculated for growth at the end of each year to work out pension input amount (PIA). This is then tested against the annual allowance for each tax year.

- 11.6. Four scheme members were affected by the lifetime allowance tax limit in 2020/21. The lifetime allowance is a limit on how much pension can be built up over an individual's lifetime before incurring a tax charge. The current limit £1,073,100.

12. Update from Scheme Advisory Board (SAB)

- 12.1. Pension Board members can read a detailed summary of the meeting on the Board updates page of the SAB website. The SAB board meetings page includes full details of the meeting and agenda papers. The latest news from the SAB can be found on their website <https://www.lgpsboard.org>

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)
Pensions Committee Meeting 18 March 2022 Pensions Administration Report Pensions Board Meeting 28 January 2022 Administration and Regulatory updates
Cabinet Member (Portfolio Holder) N/A
Local Member N/A
Appendices Appendix A – DHLUC 2022 valuation letter McCloud