



<u>Committee and date</u> Pensions Board 7 July 2023 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).

2. Executive Summary

- 2.1. This report covers the administration and regulatory issues which have arisen since Pensions Committee on the 23 June 2023 and Pensions Board on the 9 May 2023.

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. Currently there are no direct financial implications arising from this report.

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 23 June 2023.

8. Cyber security

- 8.1. The Data Protection Act 2018, along with guidance from The Pensions Regulator, sets out rules that pension funds must follow to make sure they have good cyber security. Shropshire County Pension Fund takes data security very seriously and works closely with Shropshire Council's IT team and any companies providing pensions software to confirm that the systems holding personal data are protected.

9. Communications

- 9.1. 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 at 31 March 2023 a total of 49% active members and 42% of deferred members and 47% of pensioners were registered to view their records on 'My Pension Online'.
- 9.2. The newsletter to accompany this year's deferred annual benefit statements has been signed off and is ready for release this month. Work on the active annual benefit statement newsletter is ongoing. The active newsletter is due for completion in August.
- 9.3. Sample data for the deferred benefit statements has been generated and is currently going through the checking process. Notes, to help members understand their deferred benefit statement, have been updated in preparation for the release date.
- 9.4. An employer update is sent monthly via an email bulletin to all registered contacts at participating employers within the fund. The topics covered recently were:

May 2023:

- Change to strain factors used in early retirement calculations
- McCloud remedy
- Employer role training

June 2023:

- Pensions Board vacancy

- 9.5. The joint communications working group met on 8 June 2023. The meeting covered the shared newsletter project, how funds are meeting accessibility requirements and updates to McCloud and the dashboard project.
- 9.6. One employer has taken up the offer from the fund to offer a presentation and 1to1 sessions for Fund members. The presentation is booked for the end of June.

10. Local Government Pension Scheme (LGPS) cost management

- 10.1. The Local Government Pension Scheme (Amendment) (No. 2) Regulations 2023 enable the switch to a four-yearly cost-management process and give the LGPS Scheme Advisory Board (SAB) for England and Wales more freedom on when and how to recommend that costs are put back on track.
- 10.2. The Department for Levelling Up, Housing and Communities (DLUHC) has announced the outcomes from a consultation exercise on an earlier, draft version of the Regulations. The LGPS, like the other public-service schemes, is subject to a statutory cost-control mechanism (CCM) operated by His Majesty's Treasury (HMT). Unlike the other, unfunded schemes, the funded, locally operated LGPS has an additional cost-management process, conducted by the SAB, the recommendations from which are fed into HMT's CCM exercise.
- 10.3. The Regulations facilitate the switching of the SAB's cost-management process from a triennial to a quadrennial exercise, thereby bringing it into sync with HMT's CCM and the intervals between actuarial valuations of the unfunded public-service schemes.
- 10.4. The Regulations also remove the 2% margin that extended on either side of the target overall cost of the LGPS, the breach of which was previously a trigger for mandatory recommendations from the SAB on steps to bring costs back to the target. Moreover, the SAB will have more leeway for its recommendations, because the brief will in future be to suggest ways to bring costs 'back to or towards' (emphasis added) the target, rather than 'back to' it. The Regulations came into force on 1 June 2023.

11. More cost-control news

- 11.1. His Majesty's Treasury has issued a policy statement describing how the CCM will operate, from the 2020 valuations onwards, so that only the costs of the reformed (career-average revalued earnings) schemes are considered. It covers both the unfunded arrangements (for NHS workers, teachers, civil servants, Armed Forces personnel, police officers and firefighters) and the LGPS.
- 11.2. The statement describes how the policy will apply to the remedy for 'McCloud' discrimination. Service completed before the initial introduction

of the new CARE schemes will not be considered for the CCM, whereas all service after 31 March 2022 will. The unfunded schemes and the funded LGPS had different approaches to the ill-fated, discriminatory transitional protections, so the treatment of service in the transitional period is correspondingly different.

- 11.3. In the unfunded schemes, service between 1 April 2015 to 31 March 2022 (the McCloud remedy period) will be excluded from the CCM, because members' benefits will be treated as paid from their old schemes (regardless of whether old- or new-scheme benefits are eventually paid for the period).
- 11.4. In the LGPS, McCloud remedy period service will be taken into account for the CCM, but the effects of the benefit underpin will not. Treasury Directions will set out the technical details 'in due course'.

12. More McCloud news

- 12.1. The Department for Levelling Up, Housing and Communities (DLUHC) is consulting on a set of draft regulations for the LGPS, on issues arising from the implementation of the 'McCloud' remedy. The topics range from the mundane to some being obscure and difficult to understand, covering aggregation, transfers under the Public Sector Transfer Club, flexible retirement, divorce, 'excess teacher service', the ability to compensate members for losses, and interest on late payments. The consultation period ended on 30 June 2023 and it is expected that the final regulations will come into force on 1 October 2023.
- 12.2. The length and complexity of the legislation required to implement the McCloud remedy confirms the immensity of the expectations being made of public-sector scheme administrators. Strikingly, in its consultation document on the draft LGPS regulations, the DLUHC says about certain aspects of the implementation that: 'Whichever approach is taken... will raise complex issues and will be challenging administratively', and that, 'This... is a unique and complex part of the government's McCloud project, and the administration... is likely to be exceptionally challenging.'
- 12.3. This will be taken into consideration when the timescales and resources required for other projects are being planned.

13. Pensions Dashboards

- 13.1. On 8 June 2023, Laura Trott, Parliamentary Under Secretary of State for Pensions, published a written ministerial statement, giving an update on pensions dashboards ('dashboards').
- 13.2. The statement confirms the Department for Work and Pensions (DWP) has laid the draft Pension Dashboards (Amendment) Regulations 2023 before each House of Parliament for approval. Neither house has set a date to debate and approve the regulations. The regulations will apply to England, Scotland and Wales.

- 13.3. The draft regulations remove the phased staging timeline, replacing it with a single connection deadline of 31 October 2026. The regulations will allow the DWP and the Money and Pensions Service (MaPS) to issue guidance setting out a staged connection timeline for individual schemes, to which the Fund must have regard. MaPS aim to collaborate with industry on this guidance later this year.
- 13.4. As a consequence of the above, the Pensions Regulator (TPR) has amended its dashboard guidance and expects pension funds to continue to prepare for dashboards to:
- assess the potential impact of these changes on the fund and to agree a practical delivery plan
 - continue activity on getting to grips with members' data, and
 - avoid competing demands on capacity and other resources.
- 13.5. The fund is working on creating its own delivery plan to meet the new timescales.

14. SCAPE discount rate and impact to actuarial factors

- 14.1. On 30 March 2023, the Chief Secretary to the Treasury issued a written ministerial statement that announced that the Superannuation Contributions Adjusted for Past Experience (SCAPE) discount rate had been reduced to a real rate of 1.7% per annum above CPI, from the previous real rate of 2.4% per annum. Although this change does not impact contribution rates for the LGPS, set as part of a triennial actuarial valuation exercise, in the same way it impacts employer contribution rates in the other, unfunded, public-sector schemes, there will be an impact on the LGPS given the SCAPE rate is used by GAD to set actuarial factors, which will impact early retirements / transfer values etc.
- 14.2. Certain member calculations had to be suspended whilst factors were reviewed by GAD, which had administrative implications for the fund. However, the first tranche of factors have now been received and updated on the pension fund's administration system and the pension team now has to work through the backlog of requests impacted. Two further sets of factors, including the early payment reduction factors are expected over the summer months.

15. Update from Scheme Advisory Board (SAB) meeting held on May 22 2023

- 15.1. The SAB last met on 22 May 2023 and the agenda can be found [here](#).
- 15.2. The Board discussed:
- Consultations
 - Risk register
 - Guidance

- 15.3. 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.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)

Pensions Committee Meeting 23 June 2023 Pensions Administration Report

Pensions Board Meeting 9 May 2023 Administration and Regulatory updates

Cabinet Member (Portfolio Holder)

N/A

Local Member

N/A

Appendices

None