



<u>Committee and date</u> Pensions Board  13 October 2023  10.00am
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<u>Item</u>  <u>Public</u>
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## **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 15 September 2023 and Pensions Board on the 9 May 2023, including the McCloud remedy, Pensions Dashboards and the Pensions (Extension of Automatic Enrolment) Bill.

### **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 report submitted to the Pension Committee on 15 September 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. Business Plan**

- 9.1. The fund is working on a business plan for 2023-25. This document is in its first draft and each section has been allocated to the relevant officer/team to pull together information before a final draft version is produced ready for sign-off. Monthly meetings are scheduled for the project team to meet, discuss progress, and agree actions for the next meeting.
- 9.2. All sections have been agreed and information from other documents will be pulled into the plan to form a high-level overview. Progress is now being made adding and amending information within the plan heading towards a final first draft.

## **10. Communications**

- 10.1. 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 31/08/2023 a total of 51% active members and 43% of deferred members and 49% of pensioners were registered to view their records on 'My Pension Online'.

- 10.2. The Pension Attention campaign returned on September 20 with childhood hero Timmy Mallet inviting the UK down memory lane to capture their nostalgia for the 80s and 90s and feel less 'bleurgh' about their pension. Enlisting the support of Mallet's Mallet and Pinky Punky, Timmy is asking consumers to take a nostalgic look back to yesterday and uncover their pensions so they can ensure their pots are maximised for their futures. Find out more about the campaign at <https://pensionattention.co.uk>
- 10.3. 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:

**August:**

- 2023 annual pension benefit statements are ready - make sure you tell your members!
- Change to strain factors used in early retirement calculations
- McCloud
- Age 65 pay
- Pass through process
- McCloud
- New early retirement factors
- Strike FAQs

**September:**

- Invite to Pensions Savings webinar on October 10 2023 for employers who may have employees affected.
- 10.4. A separate direct communication was sent to members receiving Pensions Savings Statements and any members with a salary of more than £50,000 to invite them to the October 10 webinar. These members, numbering more than 300, were identified by our actuary Mercers as being in scope for advice on future tax liabilities. Following the webinar, for certain individuals, needing further support about their own personal circumstances, there will be an opportunity to attend a one-to-one 45-minute guidance session with a Mercer tax specialist. These sessions will be for education only. The Mercer specialist will answer any questions of a generic nature, but no formal

advice will be provided. Dates for these sessions are:  
07/11/2023, 10/11/2023, 24/11/2023 and 27/11/2023.

- 10.5. The Autumn InTouch magazine due to be sent to all pensioner members in late October will include an article about recruitment for a new employee representative for the Board. This follows the resignation of Mike Morris. The vacancy will also be advertised on the fund's website and in a future member communications with the aim of having a new Board member in place for the January 2024 meeting. A new employer representative, Madeline Murphy, has been appointed and will be attending this meeting. She works for Wrekin Housing Group.
- 10.6. The employers meeting is due to take place on 14/11/2023 (King Charles III's 75th birthday). This meeting was advertised to employers on 30/06/2023 and the main topic is likely to be McCloud as the remedy was implemented in legislation on/from 01/10/2023.

## **11. Disaster recovery exercise**

- 11.1. A disaster recovery exercise was held for all Heywood Cloud customers. This test was to ensure all our hosted Altair services remain functional in the case Heywood lose one of our data centres. For a window of two weeks a copy of the Live Altair service was made available from an alternate datacentre. The team undertook a number of business as usual tests to establish there would be no change to the performance or usage of the service. It was established that Altair remained functional with no issues.

## **12. Update from Scheme Advisory Board (SAB)**

- 12.1. On 10 August 2023, the SAB published its 2022 Scheme valuation report. The report is compiled from data drawn from local fund valuation reports. It shows:
- the average funding level has improved from 98 per cent in 2019 to 107 per cent in 2022 (on local funding bases) – all fund valuation reports show an improvement since 2019
  - the average contribution rate to meet future service costs rose from 18.6 per cent of payroll in 2019 to 19.8 per cent of payroll in 2022 overall contribution rates fell from 22.9 per cent of payroll in 2019 to 21.1 per cent of payroll in 2022 – this reflects lower deficit contributions
  - employee contribution rates marginally increased from 6.5 per cent of pay to 6.6 per cent.

The report also looks at the main assumptions used by administering authorities in their 2022 valuations, looking at

trends around the setting of the discount rate, life expectancy and future expectations for inflation and salary increases.

### **13. SAB Gender pensions gap working group**

13.1. Following on from the LGPS gender pensions gap reports, the SAB is setting up a small working group to consider next steps. The group will be looking at key areas such as:

- Are there any in-scheme changes that would help address the levels of inequality – for example around the ability to buy back service?
- Can employers be directed to best practice in managing the career paths of those who take time off for caring responsibilities?
- How to communicate with members to ensure they are informed about the potential pension implications of the career choices they make.
- How to mainstream this kind of analysis to properly evaluate “what works” and how much is left to do.

### **14. SAB Surpluses working group**

14.1. The SAB plans to set up a small working group to look at the issues presented by the improving funding position across the Scheme. The objective is to provide general advice for administering authorities and employers that are in surplus or are likely to become so.

### **15. McCloud remedy**

15.1. On 8 September 2023 the Government issued its response to its 30 May 2023 consultation regarding the implementation of the McCloud remedy and the McCloud Regulations were laid covering England and Wales. These Regulations became effective on 1 October 2023 alongside the corresponding Regulations in the other Public Service pension schemes.

15.2. The final regulations are generally in line with those issued in draft back in May and reflect the treatment set out in the main areas of the consultation which focused on aggregation, transfers from other public service schemes and flexible retirement (alongside divorce, compensation and the application of interest). Any changes to the draft appear to relate to points of detail and ensuring additional scenarios are dealt with. Residual matters raised in the consultation responses not picked up by the Regulations are expected to be dealt with by the Statutory Guidance that will follow.

- 15.3. The new Regulations (and subsequent amendments to existing Regulations) require actuarial guidance to be issued by the Secretary of State in a number of areas, although this is not expected to be available before the 1 October 2023 in force date of the regulations.
- 15.4. The new Regulations will require previous bulk transfer payments to/from funds prior to 1 October 2023 to potentially be revisited and adjustment payments made. Of course, the extent to which such cases are revisited will need to be agreed with administering authorities and may depend on what allowance (if any) has been incorporated into payments already made/received.
- 15.5. Given the complexity of the remedy and the material volume of additional work that will need to be undertaken, the statutory guidance referred to above will be key to ensuring the new Regulations are implemented on a consistent basis across all funds. In particular, the final Regulations present additional administrative challenges linked to the policies on aggregation and determining membership in other public service pension schemes.
- 15.6. Ultimately, clean and complete data will be key for funds to be able to implement the remedy and we believe Shropshire is in a good position with regards to this aspect. A working group has been set up and a team away day on October 6 went over the Regulations to ensure all team members knew what was expected of them.
- 15.7. The bulk of the estimated cost of the additional liabilities arising due to the McCloud remedy is already factored into the actuarial valuations at 31 March 2022 for England and Wales. Whilst the valuation allowance will not reflect the final implemented position precisely, for the vast majority of employers, it is expected to substantially cover the cost of the additional McCloud liabilities. Overall, the differences coming through as at the 31 March 2025/2026 valuations (and in subsequent contribution rates) are not expected to be material, although individual employer impacts will vary. Employers' accounting figures likewise are based on the allowance for McCloud incorporated into the latest actuarial valuations and therefore the position is expected to be similar. For employer exit costs during the inter-valuation period, however, the fund will consider the extent to which updated data (which reflects the final remedy) should be used.
- 15.8. Whilst Regulations have been released, unfortunately the McCloud project is by no means near completion - the time and resource needed to deal with the remedial work will be

substantial and should not be underestimated. In addition, a further consultation process is expected (with amending Regulations thereafter) in relation to the treatment of excess Teachers Service (which was one of the new areas consulted on in May) and where further discussion and agreement is required with the relevant stakeholders. In February 2024, the Judicial Review in relation to McCloud (raised by the BMA and Firefighter Unions) and the Cost Management process will be heard. Any fallout from this review has the potential to result in further benefit impacts for LGPS members, therefore additional employer costs and of course fund administration/governance implications.

15.9. The LGA has worked with the Communications working group to produce member resources relating to the McCloud remedy and has now published:

- dedicated areas of the member websites ([www.lgpsmember.org](http://www.lgpsmember.org)) including information about the McCloud remedy, a video, frequently asked questions and an interactive tool for members to find out if they are affected
- a member factsheet in Word format that administering authorities can edit and adapt for their own use
- template paragraphs to add to existing member letters outlining how the McCloud remedy affects the calculation
- templates of new letters that will be needed for members affected by the McCloud remedy who have already left the LGPS.

## **16. Pensions dashboards ('dashboards')**

16.1. On 9 August 2023, the Department for Work and Pensions (DWP) updated the deferred connection guidance and forms. The updates reflect the changes made by the Pensions Dashboards (Amendment) Regulations 2023, which came into force on 9 August 2023. In particular, the changes made to the connection deadline and the deferred connection rules. The connection deadline for all relevant schemes is 31 October 2026.

## **17. The Pensions Regulator**

17.1. On 30 August 2023, the Pensions Regulator (TPR) has published guidance on annual benefit statements (ABS) for 2023 to 2025 for public service schemes. The guidance is primarily aimed at those schemes who will need to send remediable service statements to members affected by the McCloud remedy. LGPS administering authorities will not need to do this.

- 17.2. TPR acknowledges the need for schemes to send these statements over the next two years may impact on their ability to produce accurate, complete and timely annual benefit statements. The guidance sets out TPR's expectations. TPR accepts meeting the disclosure requirements due to the McCloud remedy may be challenging. As a result, they will take a risk-based, practical approach when assessing ABS breaches during 2023 to 2025.

## **18. Government Actuary appointed**

- 18.1. On 2 August 2023, H M Treasury announced the appointment of Fiona Dunsire as the new Government Actuary. Fiona will join the Government Actuary's Department later in 2023 on a five-year fixed term appointment. For more information, see the [press release](#).

## **19. MaPS publish 2023/24 corporate plan**

- 19.1. On 17 August 2023, the Money and Pensions Service (MaPS) published its 2023/24 corporate plan. The plan outlines five priority themes designed to help MaPs deliver its main services and to help savers get the guidance and advice they need on money, debt and pensions.

## **20. MaPS publish review into pension scams**

- 20.1. On 10 August 2023, the Money and Pensions Service (MaPS) published its evidence review into pension scams in the UK. The key findings are:
- there remain significant challenges to estimate the scale of the problem
  - the types of scams and tactics are very similar to investment scams
  - the financial and emotional cost to individuals is high, going beyond financial loss and impacting on health and relationship
  - scams can happen to anyone
  - once an individual has been targeted, there is a high risk of retargeting
  - government bodies, administrators and other organisations have at their disposal a range of touchpoints to provide strong protection against scams.

The fund is self-certified as meeting the standards of the Pensions Regulator's pledge to combat pension scams. There are certain circumstances (red flags) that funds must decide are not present to proceed with a request to make a statutory transfer. There are other circumstances (amber flags) where there is enough risk to member outcomes to mean the member must prove they have



obtained guidance from MoneyHelper before the transfer can proceed. No red flags have been highlighted but there have been a couple of amber flags which resulted in members being referred for an appointment with MoneyHelper and members have provided proof of these appointments.

## **21. HMRC second set of rectification regulations laid**

21.1. On 17 August 2023, the Government laid The Public Service Pension Schemes (Rectification of Unlawful Discrimination) (Tax) (No.2) Regulations 2023. The regulations come into force on 14 September 2023. The regulations address issues not dealt with by the first set of regulations (The Public Service Pension Schemes (Rectification of Unlawful Discrimination) (Tax) Regulations 2023). As is relevant for the LGPS, the second set of regulations:

- ensure previously paid small pot payments or trivial commutation lump sum death benefit payments, do not become unauthorised due to the McCloud remedy (regulations 8 and 10)
- subject to conditions, they authorise top-ups to previously paid small pot payments due to the McCloud remedy in respect of members who have since died after receiving the original payment (regulation 9)
- subject to conditions, they authorise arrears of survivor pensions due to the McCloud remedy where the survivor has since died or where the survivor was an eligible child and no longer meets the definition (regulation 11)
- ensures reductions to pensions in payment due to the McCloud remedy, do not cause the pension to become unauthorised (regulation 14)
- sets out how to treat lifetime allowance excess lump sums where, due to the McCloud remedy, all or some of the lump sum no longer meets the required conditions (regulation 16)
- sets a deadline of 1 April 2027 for administering authorities to apply to HMRC for repayment of overpaid annual allowance charges, as result of the first set of regulations removing the underpin from annual allowance calculations (regulation 27)
- sets out provisions regarding administration, such as a separate reporting framework instead of Self-Assessment (part 6).
- For more information on the second set of regulations, see guidance from HMRC.

21.2. However, this guidance has not been updated to reflect the final version of the 11 regulations. To complement the guidance and explain any changes due to consultation feedback, on 18

August 2023 HMRC published a public service pensions remedy newsletter. The newsletter covers:

- reporting of annual allowance tax charge for 2022 to 2023
- scheme administrator applications for repayment of overpaid tax
- lifetime allowance excess lump sum that is no longer a lifetime allowance excess lump sum due to the remedy
- changes consequential to the Finance (No.2) Act 2023.

## 22. Auto-enrolment

- 22.1. A Private Member's Bill to extend auto-enrolment (AE) has cleared parliament and been granted Royal Assent, in a move that is expected to ensure that "millions across the country can save more and save earlier". The bill, which is sponsored by MP Jonathan Gullis and Baroness Ros Altmann, seeks two extensions to AE, abolishing the lower earnings limit for contributions and reducing the age for being automatically enrolled.
- 22.2. Analysis from the government has suggested that the AE changes, combined with the Mansion House Reforms announced in July, could see the average earner's pension increase by nearly 50 per cent if saving across their entire career, while a minimum wage earner could see their pension pot increase by over 85 per cent.
- 22.3. Although there had been disappointment that the bill was unable to pass through parliament prior to the summer recess, its journey through the House of Lords had since continued at pace, having completed its third reading on September 18 2023. A consultation on the implementation of the new measures is still expected to follow, with Pensions Minister, Laura Trott, previously committing to consulting on these plans "as soon as humanly possible".

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

Pensions Committee Meeting 15 September 2023 Pensions Administration Report

Pensions Board Meeting 7 July 2023 Administration and Regulatory Updates

**Cabinet Member (Portfolio Holder)**

N/A

**Local Member**

N/A

**Appendices**

Pensions Board; 13 October 2023: Administration and regulatory updates

None