



Committee and date

Pensions Board

30 November 2020

9.30am

Item

Public

Administration and regulatory updates

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1. **Summary**
The report provides Pension Board members with the latest administration and regulatory updates affecting the Local Government Pension Scheme (LGPS).

2. **Recommendations**

- 2.1 Pension Board members are asked to note the contents of this report

REPORT

3. **Risk Assessment and Opportunities Appraisal**

- 3.1 **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.

- 3.2 **Human Rights Act Appraisal**

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

- 3.3 **Environmental Appraisal**

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

- 3.4 **Financial Implications**

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

- 3.5 **Climate change appraisal**

1. Energy and fuel consumption: No effect
2. Renewable energy generation: No effect
3. Carbon offsetting or mitigation: No effect
4. Climate Change adaptation: No effect

4. **Administration topics covered at Pensions Committee since the last Pensions Board meeting**

- 4.1** In addition to this report, the Pensions Board are advised to note the pensions administration reports submitted to the Pension Committee on 24 July 2020 and the 18 September 2020.

5. Administration and regulatory update

- 5.1 Members are asked to note that due to the timing of this Pension Board meeting so close to the next Pensions Committee meeting on the 4th December, similar regulatory updates have been provided in administration reports to both Pensions Committee and Pension Board members.

5.2 MHCLG – Consultation - McCloud – statutory underpin.

On 16 July 2020 MHCLG published its consultation introducing amendments to the statutory underpin for the Local Government Pension Scheme (LGPS) in England and Wales. The proposals, reported to Committee in September 2020, were designed to remedy the unlawful discrimination caused by the protection of older members when the scheme was reformed in April 2014. The consultation closed on 8th October 2020. An Officer response was sent and approved by the Chair on behalf of the Pension Committee and is attached at **Appendix A**. The Fund's employers have had training on what this could mean to them if they have not continued to send the Fund data on hours changes and membership breaks.

6. Revised GAD Guidance

- 6.1 The Government Actuary Department (GAD) have revised their guidance and factors on the following;
- Application of a pension debit for divorced members – Transfer date from 1 April 2014
 - Application of a pension debit for divorced members – Transfer date before 1 April 2014
 - Pension sharing following divorce
 - Individual incoming & outgoing transfers
 - Trivial commutation.
- 6.2 To accompany the revised guidance, MHCLG issued a new version of the factor spreadsheet. The revised guidance and spreadsheet came into force on 1 November 2020. There were transitional arrangements which affected how the Fund communicated the changes to members transferring benefits in or out of the Scheme.

7. Public Sector Exit Payment Cap

- 7.1 The Restriction of Public Sector Exit Payments Regulations 2020 ('the exit cap regulations') were signed on 14 October 2020, a correction slip was published on 27 October 2020 and the regulations came into force on 4 November 2020.

- 7.2 There is a conflict between the exit cap regulations and the LGPS regulations when a scheme member aged 55 or over is made redundant and the total exit payment exceeds £95,000. The LGPS regulations require the member to take payment of an unreduced pension, but the exit cap regulations prevent the employer from paying the full strain cost.
- 7.3 In respect of exits that occur between 4 November 2020 and the date the LGPS regulations are amended:
- only exits from employers in scope of the cap will be affected. You can find a full list of employers in scope of the cap in the Schedule to the Restriction of Public Sector Exit Payment Regulations 2020
 - only exits where the cost exceeds £95,000 will be affected
 - the proposed standard strain cost calculation will not apply. Local methods of calculating strain costs should continue
 - proposals in the MHCLG consultation (point 14 below) to limit discretionary compensation payments and reduce strain cost by the value of statutory redundancy pay will not apply
- 7.4 On 28 October 2020 Luke Hall MP wrote to Chief Executives of Councils and LGPS administering authorities concerning the implementation of the exit payment cap. Attached at **Appendix B**. The Minister's recommended course of action in cases where the cost of an exit including pension strain cost would exceed the £95,000 cap is that: *"LGPS members in that position should be able to elect to receive an immediate but fully reduced pension or, if they do not so elect, a deferred pension plus a lump sum equal to the capped strain cost."*
- 7.5 The SAB obtained legal advice on the conflict between the LGPS regulations and the exit cap regulations. A commentary of that legal advice was published on 30 October 2020 on the Public Sector Exit Payments page of www.lgpsboard.org. The commentary sets out the SAB's opinion on the course of action that presents the lowest risk when the cap is breached in respect of an LGPS member aged 55 or over. In SAB's view, the risks are lowest if:
- the LGPS administering authority offers the member a choice between deferred benefits or a fully reduced pension
 - the LGPS employer delays payment of a cash alternative under regulation 8 of The Restriction of Public Sector Exit Payments Regulations 2020.
- 7.6 This approach would allow the maximum flexibility for the administering authority and employer to minimise the financial risks associated with a legal challenge from the scheme member. The Fund proposes to follow this guidance should any cases arise.
- 8. Consultation on the Reform of exit Payments in local Government**
- 8.1 On 7 September 2020, MHCLG launched a consultation on changes to the LGPS and compensation regulations to introduce the £95k cap and bring the exit compensation terms for local government workers in line

with the framework set out by the Government in September 2016. The consultation closed on 9 November 2020.

- 8.2 On 29 September 2020, MHCLG issued draft strain cost guidance and an impact assessment to provide further clarity about the effects of the proposals. As part of the proposals, certain members aged 55 and over receiving statutory redundancy payments will lose the right to receive unreduced pensions where a pension strain is payable.
- 8.3 An Officer response was sent and approved by the Chair and is attached at **Appendix C**.

9. SF3 Data Published

- 9.1 On 4 November 2020, MHCLG published Local government pension scheme statistics (SF3 statistics) for England and Wales: 2019 to 2020. Highlights include:
- total expenditure of £13.4 billion, an increase of 5.6% on 2018/19
 - total income of £16.0 billion, an increase of 2.6% on 2018/19
 - employer contributions increased by 7.7% on 2018/19 to £7.7 billion
 - employee contributions of £2.3 billion
 - the market value of LGPS funds in England and Wales on 31 March 2020 was £272.4 billion, a decrease of 5.1%
 - there were 6.1 million scheme members on 31 March 2020, 2.0 million active members, 1.8 million pensioners and 2.2 million deferred members
 - there were 88,232 retirements in 2019/20, an increase of 5.7% compared with 2018/19.

10. Public service pensions GMP indexation consultation

- 10.1 On 7 October 2020, HM Treasury (HMT) published Public Service Pensions: Guaranteed Minimum Pension Indexation consultation. The consultation closes on 30th December 2020.
- 10.2 Prior to 6 April 2016, the payment of public service pensions and the earnings-related State Additional Pension (AP) worked together to provide a mechanism that fully indexed most public service pensions.
- 10.3 The introduction of the new State Pension on 6 April 2016 removed the payment of AP. This meant that members who reached State Pension age (SPA) on and after that date would not have their pension payments fully indexed. To compensate for the removal of AP, the Government introduced an interim solution on 1 March 2016, which ends on 5 April 2021. This ensured that public service pensioners who reach SPA after 5 April 2016 continued to receive a fully indexed pension from their public service pension scheme. This introduced an additional cost to the Fund.

- 10.4 The consultation sets out how the Government proposes to ensure it continues to meet its commitments to the full indexation of public service pensions, including any Guaranteed Minimum Pension (GMP) element. This is by transferring the cost permanently to the public service pension scheme in one of the following ways;
- The extension of full indexation to cover those reaching SPA up to and including 5 April 2024
 - The extension of the interim solution to cover those reaching SPA beyond 5 April 2024 (to, for example March 2030)
 - Discount conversion as a long-term policy solution and make full GMP indexation the permanent solution for public service pension schemes
- 10.5 The underlying view is that full indexation would be required at least up to April of 2024 with conversion to be brought in as a longer-term option, though there is concern that that the more this is delayed, the less valuable the benefit becomes.

11. 2019/20 TPR Scheme Return

- 11.1 TPR had hoped to send out their warm up email for the scheme return in the first half of September 2020, informing administering authorities that the Scheme return would be issued in September 2020. TPR has confirmed that there has been a slight delay. All public service pension scheme returns notices have now been issued early November 2020.
- 11.2 The return will be completed by Officers by the deadline of 15th December.

12. September 2020 - CPI rate

- 12.1 On 21 October 2020, the Office for National Statistics announced the Consumer Prices Index (CPI) rate of inflation for September 2020 as 0.5%.
- 12.2 Government policy in recent years has been to base increases under the Pensions (Increase) Act 1971 and revaluation of pension accounts under section 9 of the Public Service Pensions Act 2013 on the rate of CPI in September of the previous year.
- 12.3 Confirmation from Government is awaited but it is expected that the revaluation and pensions increase that will apply to LGPS active pension accounts, deferred pensions and pensions in payment in April 2021 will be 0.5%.

13. Communications with members and employers

- 13.1 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 available to view on 'My Pension Online' unless a member has requested a paper copy. As at October 2020 a total of 45% active

members, 30% of pensioner members and 37% of deferred members were registered to view their records on 'My Pension Online'.

- 13.2 The employers' meeting took place on 21/10/2020, it was held virtually, using Microsoft Teams. 46 employers registered to attend. Presentations on the day covered the McCloud age equality court ruling, the Exit Payment Cap, the Exit Payment reform consultation and an overview of the 2019/20 year-end exercise.
- 13.3 During the last quarter, both scheme members and employers have been kept up to date on the latest news, around the Exit Payment Cap and the consultation on further Exit Payment Reforms in both website news posts and bulletin emails. In total, 12 email bulletins have been issued.
- 13.4 A pensions tax information webinar was held on Friday 9 October 2020 organised with the fund's Actuary Mercer. Feedback provided by scheme members during, and following the webinar, was positive. Attendees reported that since the webinar they are more aware of the issues relating to pensions and tax and reporting requirements to HMRC. 14 scheme members then attended a one to one guidance session with a representative from Mercers.
- 13.5 The biannual newsletter to retired members was issued in November. The Autumn 2020 edition provided an update on the GMP reconciliation project, kept members informed on the fund's working arrangements due to covid-19, responsible investment and the move to electronic P60's from April 2021.
- 13.6 In advance of the potential move to online P60s, in April 2020, the fund asked retired members for feedback on the removal of automatic paper P60s being issued and how this would affect them. Feedback largely suggested that members agreed with the reduction in the fund's environmental footprint by reducing the amount of printing and postage and that members are used to accessing information in this way via My Pension Online. Some members expressed a preference to continue to receive a paper copy of the P60 document. In total only 106 members out of nearly 12,000 asked for a paper copy to continue to be sent. The fund will still issue paper P60s to these members and understands the importance of sending information occasionally by post and the value it has in keeping in touch with our members.
- 13.7 Unfortunately, the annual meeting for 2020 will not be taking place this year. The situation around the Covid-19 pandemic has meant large face-to-face gatherings are against current government guidance. This is the first time in the 27-year history of the annual meeting, that the meeting has had to be cancelled. Information normally provided at the annual meeting will be shared on the Fund's website.

14. Covid-19 and effect on administration service

14.1 Since 23 March 2020, all Fund staff have been working from home. The Fund had already adopted the Council's flexible and mobile working principles with all staff members having access to a laptop and able to access the IT systems they need from home. This was a key requirement in the event of an emergency, as set out in the Fund's Service Recovery Plan. Despite the ongoing issues brought by the pandemic, the Fund is continuing with business as usual with minimal changes to working practices. In April 2020, The Pension Regulator's and the Local Government Association's advice suggested that the focus of service delivery for pension administrators be on the following areas:

- payment of benefits
- collecting employer contributions
- minimising the risk of scams for members
- supporting good decision making
- processing new pensions benefit cases
- dealing with bereavement cases

14.2 The team focused on these areas during the early stages of the initial lockdown but can report that all processes are now being dealt with as part of business as usual.

14.3 The team have not experienced any issues running the monthly payroll to pay pension benefits from home. Changes to processes were quickly put in place to ensure the same level of checks continued. Additional payment runs have also been introduced to facilitate more frequent payments of retirement lump sums, transfers out, refunds etc.

15. Member engagement

15.1 At the start of the pandemic, the Fund reassured members that their pension, whether in payment or still building up, will be unaffected by stock market changes.

15.2 The Pensions Regulator suggested that members might increasingly look to transfer their pension, prompted by (misguided in relation to the LGPS) concerns about the instability in financial markets. This means members could be increasingly targeted by scammers. To protect members from pension scams, the Fund already had robust procedures in place, but additional communication steps were added for specific transfer requests to Defined Contribution schemes.

15.3 The Fund's website has been updated to include FAQ's about Covid-19 and the LGPS and the changes to working practices that the Fund has had to employ. Links to guidance issued by LGA has also been added to the website so that employers and members can easily access up to date information.

15.4 The Fund has continued to run a fully operational helpdesk service with incoming phone calls and emails via the pension email inbox processed as normal. To assist members, the team now accepts returned forms electronically and to minimise the number of original certificates the team are handling, electronic signatures and good quality photocopies of certificates from members are accepted. This change has been approved by the Council’s Audit team and the Information Governance team.

16. Engaging with our employers

16.1 Employer email bulletins kept the Fund’s registered contacts updated. In the first few months of working from home, employers were asked to prioritise retirements, payment of contributions, and only submit urgent requests for benefit quotations, whilst the team were adjusting to working from home. No employers reported any severe issues with undertaking the duties set out in the regulations and there has not been a significant increase in the number of breaches recorded. Employers were reassured that the LGPS is a long-term investor and is securely managed to address any longer-term impacts such as effects of the coronavirus on financial markets.

17. Changes to working practices

17.1 Although staff members have access to all IT applications when working from home there are some functions that cannot be completed from home. The Fund has therefore had to introduce interim measures, as set out in the table below:

Area	Change to Working Practice
Post In	The Fund still receives incoming information by post. Blu Print, Shropshire Council’s team who manage the corporate post room, is now providing scanning services to the Fund. Previously the Team scanned the post. The post still needs checking however as original certificates are still being sent in by some members so these need to be returned. This service is not yet offered by Blu Print.
Post Out	The team are not allowed to print at home, so a skeleton of volunteer staff attend the office twice a week to clear all outgoing printing and check incoming post. An external printing solution is being sourced which can meet the Fund requirements on a permanent basis.

18. Governance

18.1 Regulations have been amended to allow for virtual Committee and Board meetings.

19. Staff support and wellbeing

19.1 An important aspect of the current situation is to ensure that pensions team staff are looked after. We have given staff clear guidance and support throughout. Team meetings continue to take place on a regular basis, albeit virtually, and staff continue to receive one to one's with their line manager. Pension Administration Management catch up calls have continued, initially daily in the first few months of working from home, now back to weekly. Staff members are receiving regular updates from the management team as things progress to keep them up to date with any changes to working practices. Team members are being encouraged to maintain social contact with their colleagues by having virtual coffee breaks where they have a chat with their colleagues and catch up.

20. Future developments

20.1 Working from home, unofficially at present, has become business as usual and Shropshire Council are offering less office space in the Shirehall going forward. This has meant that the pensions team permanent office space is to be used to allow for hot desking for all Council staff in the future.

20.2 The office had to be cleared by the team. This has been an huge task, undertaken during what has been a very busy time. It has helped that the team were already largely paperless. However, a future project will need to be undertaken to digitise and archive the remaining information the Fund still holds in paper format. The pensions team still has access to a small office in the Shirehall which staff can access to deal with the incoming and outgoing post. The Council are hoping to offer hot desks that staff can book by the end of the year.

20.3 Officers are now investigating how information can be securely issued digitally to scheme members via My Pension Online to save money on printing and postage costs. Member one to one's are currently being held virtually with the hope for 'local hubs' for face to face in the future.

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 September 2020 Pensions Administration Report

Cabinet Member (Portfolio Holder)

NA

Local Member

NA

Appendices

Appendix A – Officer response – McCloud Consultation

Appendix B – MP Luke Hall Letter

Appendix C – Officer response – Exit pay reform Consultation