London Borough of Enfield

PENSION POLICY AND INVESTMENT COMMITTEE

Meeting Date: 10 June 2021

Subject:	**LGPS Update**
Cabinet Member:	**Cllr Maguire**
Executive Director:	**Fay Hammond**
Key Decision:	**[ ]**

Purpose of Report

1. This report provides an update on several general developments affecting the Local Government Pensions Scheme, one of the functions of the Committee is to meet the Councils duties in respect of the efficient management of the pension fund.

2. The Committee's consideration of the information in the report contributes towards the achievement of the Council's statutory duties.

Proposal(s)

3. Pension Policy and Investments Committee are recommended to note the contents of this report.

Reason for Proposal(s)

4. For effective and efficient management of the Fund.

5. There is a requirement for the Committee to be kept up to date with current issues and legislative developments to support and effect the effective discharge of their role.

6. **Relevance to the Council's Corporate Plan**

7. Good homes in well-connected neighbourhoods.

8. Build our Economy to create a thriving place.

9. Sustain Strong and healthy Communities.

Background

TPR New Code Consultation

10. TPR’s current expectations, and the new Code aims to address some inconsistencies between the codes which The Pensions Regulator (TPR) issued its consultation on a new Code of Practice which runs for 10 weeks to 26 May 2021.

11. The new code brings together 10 existing codes of practice, including Code of Practice 14 (Governance and Administration of Public Service Pension Schemes), into a single modular (on-line) code which will apply to all UK pension schemes.

12. TPR's reasons given for replacing the existing codes included a need to update the requirements arising from the Occupational Pension Schemes (Governance) (Amendment) Regulations 2018, although those regulations don't apply to public sector schemes. In addition, some codes were outdated and did not reflect TPR's current expectations, and the new Code aims to address some inconsistencies between the codes which had not been helpful to users or to TPR’s enforcement activity.

13. In relation to public service pension schemes, we believe the Regulator now has a better understanding of the public service pension arrangements having had oversight since 2015, and it was felt much of the wording in the Code of Practice No. 14 would be useful for application to private sector arrangements.

14. Not all parts of the new code apply to the LGPS, and some others are recommended best practice and not strictly required by law. Appendix 1 of the consultation document helpfully summarises which parts of the code apply to the LGPS and which are new.

£95K cap update

15. On 25 February Government laid regulations revoking the Public Service Exit Payments Regulations 2020, following HMT's announcement on 12 February.

16. The Revocation regulations came into force on 19 March. Whilst the revocation is not retrospective, the new regulations provide for relevant authorities to pay the difference between the capped exit payment and the uncapped exit payment for exits after 4 November 2020.

17. On 4 March, MHCLG withdrew its 28 October 2020 letter which had advised LGPS administering authorities not to pay unreduced early retirement benefits on redundancy under Regulation 30(7) where this would breach the £95K limit set out in the Public Sector Exit Payments Regulations 2020. This, together with the revocation regulations, paves the way for administering authorities to revisit exits after 4 November 2020 and put into payment benefits under Regulation 30(7) where these had previously been withheld.

18. Employers who paid an alternative compensation payment will need to seek to recover those payments from the member to avoid paying twice.

New mortality projection model (CMI_2020)

19. The CMI ('Continuous Mortality Investigation'), owned by the Institute and Faculty of Actuaries, has recently published its updated standard mortality projections model, 'CMI_2020'.

20. The COVID-19 pandemic has led to significantly increased mortality. Weekly death registrations for England and Wales released by the Office for National Statistics indicate that around 601,000 deaths were registered for the ages represented by the CMI model in 2020. This compares to 523,000 in 2019. This translates into a mortality ‘improvement’ of −10% for 2020 which is a long way outside the range of the last 4 decades.

21. Consequently, the CMI Mortality Projections Committee has decided that no weight should be placed on the 2020 data within the core CMI_2020 model. This is principally intended to ensure that the model reacts in a sensible way to 2020’s experience. The model does however contain flexibility to place non-zero weight on 2020 data.

22. The CMI model typically projects that life expectancy will increase year on year, but life expectancies in 2021 under CMI_2020 are very similar to life expectancies in 2020 under the previous version of the model (CMI_2019). This means that the life expectancy in 2021 is slightly lower than would previously have been projected.

23. Assuming all else being equal, using CMI_2020 instead of CMI_2019 should lead to a small reduction in liabilities (less than 0.5%) for a typical pension scheme. However, Aon advised LGPS Funds adopted CMI_2018 in the 2019 valuations. All else being equal, CMI_2020 is likely to be very similar to the 2018 version of the projection model, with very small impact on liabilities.

GMP indexation

24. On 23 March HMT responded to its consultation on the indexation of Guaranteed Minimum Pensions (GMPs) in Public Service Pension Schemes. In summary, HMT has discounted conversion (of GMP into main scheme benefits) as their long-term policy solution and instead will make full GMP indexation the permanent solution for public service pension schemes.

25. Currently, all members whose State Pension Age is between 5 April 2016 and 6 April 2021 have their GMP pensions fully uprated by their scheme in line with CPI. The new policy will extend this to members whose State Pension Age (SPA) is on or after 6 April 2021.

26. From an administration point of view administering authorities will be relieved there is no longer the prospect of a full GMP conversion exercise being needed over the next couple of years (or indeed, ever).

27. Software suppliers will need to ensure the extension is appropriately allowed for, and transfer terms will also need to be reviewed centrally. Otherwise this can be seen as business as usual for administration teams. However, we are expecting further guidance (to an undefined timetable) on how HMT propose to deal with the sex inequalities which will persist for a minority of members, which will have implications for benefit calculations.

28. It is also worth noting that this consultation does not address the second Lloyds Bank ruling in November 2020 which found that transfers paid in relation to service between 17 May 1990 and 6 April 1997 containing GMP would need to be revisited to address any sex discrimination. Government guidance on this issue is yet to be released.

29. The implications for funding will depend on the approach taken in the 2019 valuations. Funds which provisioned for the interim solution ending 5 April 2021 may see total liabilities increase by approximately 0.1% to 0.2%, however the impact will vary by employer.

Pensions Dashboards Programme (PDP)

30. In the 2016 Budget, the Government tasked the pensions industry with ensuring that by 2019 it had designed, funded and launched a pensions dashboard to enable individuals to view all of their retirement savings in one place.

31. The idea is that this will improve member engagement and make it easier to plan for retirement. In April 2019, following consultation, the government confirmed that multiple industry dashboards should exist alongside a non-commercial dashboard hosted by the Money and Pensions Service (MaPS).

32. In 2019 MaPS set up the Pensions Dashboards Industry Delivery Group (IDG) to lead the delivery of the initial phase of the pensions dashboards programme. The IDG was subsequently renamed the Pensions Dashboards Programme (PDP).

33. In February 2020, the PDP launched a call for evidence from pension providers and schemes. The deadline to this was originally 16 March 2021 but this has been extended to the close of play on 2 April 2021. LGA, who encourage all administering authorities to respond, responded with their views earlier this month.

34. The Pension Schemes Act 2021 (PSA 2021) provides a legal framework for pensions dashboards, including new powers to compel schemes to provide information to dashboard providers. Detailed requirements of what must be provided, when and how will be set out in regulations. Schemes and providers are expected to have their data ‘dashboard’ ready from 2023 but the development and testing phases will be happening throughout 2021 and in 2022.

RPI Reform and LGPS valuations

35. Here within are the Fund actuary (Aon) thoughts on the move to align RPI with CPIH with effect from 2030, if this will affect the assumptions, they have adopted for funding purposes for future pension increases and revaluation of pension accounts, which are linked to CPI. They think it's actually quite simple for the LGPS funds although this can be really complicated for private sector schemes.

36. It's simple because for long-term secure employers our CPI assumption is set based on the long-term best estimate of CPI inflation from our Capital Market Assumptions. These are the product of an extensive data gathering exercise every quarter by Aon's Global Asset Allocation specialists.

37. For inflation, they take the views expressed in a biannual survey of long-term forecasts as well as other more frequent forecasts by economic institutions to derive where they think the true market consensus forecast for CPI inflation is. This approach has generally led to their LGPS Actuaries to recommend a lower CPI assumption than adopted by other LGPS advisers because it isn't distorted by supply and demand factors that impact the alternative approach of comparing the yield on index-linked gilts with the yield on fixed interest gilts (so-called market-implied breakeven RPI inflation).

38. They also stated that their approach is also appropriate because it means their CPI assumption is consistent with the long-term investment returns which underpin the choice of discount rate. Thus, given CPI itself isn't changing, the only change to our CPI assumption for long-term secure employers is to reflect updated views of future best estimate CPI, which isn't influenced by RPI reform.

39. Although there are of course situations when it might not be quite so simple and the valuation may be affected, for example: *if a Fund are holding a substantial proportion of assets in index-linked gilts as a matching asset/to "hedge" CPI inflation.*

40. The Government will not offer compensation to index-linked gilt holders, the Scheme liability is to pay CPI-linked benefits is unchanged but from 2030 payments from Fund/Scheme index-linked gilt holdings will be linked to CPIH not RPI and CPHI is expected to be lower than RPI.

Employer flexibilities

41. On 2 March 2021, MHCLG issued their statutory guidance for administering authorities developing their policies on how to use these new flexibilities introduced by the Local Government Pension Scheme (Amendment) (No.2) Regulations 2020. The Scheme Advisory Board (SAB) have also released more detailed guidance at the same time.

42. The flexibilities allow administering authorities (AAs) to:

a) review employer contribution rates between valuations under more circumstances (before now this has been very limited),

b) spread exit payments over a period rather than require immediate payment from an exiting employer, and

c) enter into Deferred Debt Agreements with an employer who would otherwise be exiting the Fund, which in effect postpones an exit valuation to a later date.

43. AAs are unable to use the new provisions unless their policies are set out in their funding strategy statement. The publication of statutory guidance now allows those policies to be developed and finalised. There is a lot of information AAs will need to include in their policies.

44. It is important that AAs treat employers consistently but inevitably policies cannot (and should not) be too prescriptive nor try to cater for every eventuality.

McCloud

45. The Written Ministerial Statement (WMS) for McCloud was issued on 13 May 2021. The WMS confirms key policy points set out in last year's consultation, although MHCLG is waiting for the Public Service Pensions Bill amendments to be passed before LGPS Regulations implementing McCloud can be made. However, the WMS provides sufficient high level policy direction to give administering authorities and software providers the confidence to plan and start to implement changes to administrative processes and software, along with member communications, in readiness for the effective date of 1 April 2023.

46. Whilst the effective date is welcome in terms of allowing more time to implement the changes, it only adds to the amount of retrospective leaver calculations that need to be reviewed, i.e. all qualifying leavers from 1 April 2014 to 31 March 2023. Administering authorities need to continue to make progress with their data collection and verification programmes and plan resourcing to minimise disruption to business as usual.

47. Although data collection for McCloud is a lengthy and resource intensive process and so the advice is to get this underway as soon as possible, if not already started.

48. Here is a reminder of the key elements of the changes that will be made to the LGPS Regulations:

i) Underpin protection will apply to LGPS members who meet the revised qualifying criteria, principally that they were active in the scheme on 31st March 2012 and subsequently had membership of the career average scheme without a continuous break in service of more than five years.

ii) The period of protection will apply from 1st April 2014 to 31st March 2022 but will cease earlier where a member leaves active membership or reaches their final salary scheme normal retirement age (normally 65) before 31st March 2022.

iii) Where a member stays in active membership beyond 31st March 2022, the comparison of their benefits will be based on their final salary when they leave the LGPS, or when they reach their final salary scheme normal retirement age, if earlier.

iv) Underpin protection will apply to qualifying members who leave active membership of the LGPS with an immediate or deferred entitlement to a pension.

v) A ‘two stage process’ will apply for assessing the underpin so that, where there is a gap between a member’s last day of active membership and the date, they take their pension, members can be assured they are getting the higher benefit.

vi) Scheme regulations giving effect to the above changes will be retrospective to 1st April 2014.

Section 13 update

49. Government Actuarial Department (GAD) are currently engaging with the fund actuaries over the preliminary findings of their section 13 analysis. The following observations are highlighted:

a) there are more amber flags this year partly due to the fact that GAD’s best estimate basis has strengthened, and assets and liabilities have increased relative to core spending

b) the asset shock metric (linked to core spending) is not causing the same issues for the Met funds as at 2016

c) there is still a focus on consistency, but a more holistic and less “name and shame” approach is planned; however, many aspects of the reporting are still being decided.

d) it is expected that approaches taken to allow for the potential costs of McCloud will be compared under the consistency comparison.

e) there will be some follow up to the recommendation in the 2016 report in relation to academies, although this may be less of an issue this time given DfE has other priorities and there is a general view that academisation has materially slowed down

f) GAD will be including some thoughts on what they will expect at the 2022 valuation in respect of climate change.

50. The actuarial firms will be asked for their views on academies too.

Business continuity

51. The Pension Regulator’s draft new Code of Practice includes a module on business continuity which is identified as best practice for public service pension schemes. Integral to this module is the provision that the governing

body (read administering authority for the LGPS) should 'have a resilient business continuity plan (BCP) that sets out key actions in case of a range of events occur that impact the scheme's operations'.

52. Whilst developing a fund-specific plan is an invaluable outcome, business continuity management can no longer be considered as a single business recovery document, rather it is just one component in a fund's overall reaction, response and resilience capability, and should be part of its established governance and risk management framework.

Safeguarding Implications

53. None.

Public Health Implications

54. The Enfield Pension Fund indirectly contributes to the delivery of Public Health priorities in the borough.

Equalities Impact of the Proposal

55. The Council is committed to Fairness for All to apply throughout all work and decisions made. The Council serves the whole borough fairly, tackling inequality through the provision of excellent services for all, targeted to meet the needs of each area. The Council will listen to and understand the needs of all its communities.

Environmental and Climate Change Considerations

56. There are no environmental and climate change considerations arising from this report.

Risks that may arise if the proposed decision and related work is not taken

57. This is a noting report.

Risks that may arise if the proposed decision is taken and actions that will be taken to manage these risks

58. Risks arising from poor administration tend to be reputational but can include additional expenditure through inaccurate benefits, delays in collecting contribution, fines and interest on late payments. This and future reports are designed to provide the Committee with assurance that pension risks are being adequately managed.

Financial Implications

59. There are no direct financial implications arising from the contents of this report.

Legal Implications

60. The PPIC is required to consider pension matters and ensure that the Council meets its statutory duties in respect of the fund. It is appropriate having regard to these matters for the Committee to receive information from the Pensions Administration team about the administration functions of the pension fund. The report also provides the Committee with updates on various other matters relevant to the administration of the Pension Fund. There are no immediate legal implications arising from the report.

61. When carrying out its functions as the administering authority of its pension fund, the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who don't (the public sector duty).

Workforce Implications

62. The employer's contribution is a significant element of the Council's budget and consequently any improvement in investment performance will allow the Council to meet this obligation easily and could also make resources available for other corporate priorities.

Property Implications

63. None

Other Implications

64. None

Options Considered

65. No alternative options considered.

Conclusion

66. The Pension Policy and Investment Committee is recommended to note the updates provided in this report

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Date of report 15th March 2021

Appendices
None

Background Papers
AON - Local Government Newsletter