LOCAL GOVERNMENT PENSION SCHEME

ARE YOU UP TO DATE WITH THE CURRENT ISSUES?

Some of the big issues facing the LGPS are set out below alongside a comment from us. It is important that you and your colleagues are aware of these.

EXIT PAYMENTS CAP AND POTENTIAL CLAW BACK

The Government recently consulted and responded on its intention to introduce an "exit cap" of £95,000 on the total amount a public sector worker could receive on redundancy. This is to include costs related to early access to pension benefits.

This is in addition to the separate provisions that were consulted on by the previous Coalition Government last year where rejoiners within 12 months earning more than £100k p.a. must repay a portion of their exit payment.

The Government recognises that there will be some practical difficulties in applying this both for Funds and employers. Details of how the two proposals will work and interact with each other have yet to emerge although changes to the LGPS benefit structure is possible.

ASSET POOLING

The Government has invited LGPS Administering Authorities to work together and pool assets in order to reduce costs. Common criteria for delivering costs savings will be set out in a forthcoming consultation along with backstop legislation to ensure those Funds not meeting them will be required to pool.
Separately, the Chancellor has announced that work is underway to create 6 British Wealth Funds spread across the country. He has said that this arrangement will save hundreds of millions and they'll invest billions in infrastructure.

The Chancellor's statement provides the clearest sign yet of the scale of ambition that the LGPS has been tasked to come up with on pooling and facilitating investment in the nation's infrastructure, albeit he has backtracked a little since.
However, we should not lose sight of the LGPS's ultimate objective of providing pensions in a cost effective manner. This requires a holistic approach; credible and transparent funding plans, effective cost management, best-in-class governance, return generation and risk management. There is no silver bullet.

NEGATIVE CPI

UK inflation as measured by the Consumer Prices Index (CPI) has fallen to -0.1% in September. The September figure is important as it is used for the LGPS and other UK public service pension schemes for calculating increases in benefits in the following April. For those who have retired/left service, they will receive no increases to benefits.

For those members in service, post 2014 CARE benefits could be reduced if HM Treasury chose to use their powers under the legislation. This is at odds with the "triple lock" on state benefits where at least a 2.5% increase will apply. The very low CPI figure will also have an effect on the 2016/17 Annual Allowance calculations.

PENSIONS TAX CHANGES

The Lifetime Allowance will be reduced to £1 million from April 2016 and the £40k Annual Allowance will get progressively lower for people who have an "adjusted income" over £150k p.a. to a low of £10k if "adjusted income" is £210k p.a. or more. There will be two Pension Input Periods (PIPs) this year, and they will align to tax years from 6 April 2016.

A Green Paper introduced a consultation on whether the pension tax relief system should be reformed or kept as it is. This consultation has now closed.

Many more employees will pay more tax following the cuts to the Annual Allowance unless action is taken. The tax limits on pension savings only used to apply to the very highest earners but these changes mean many more long serving middle earners will be affected. It is important that anyone who thinks they may be affected gets specialist advice quickly.
As regards the consultation, we await the Government's response....

CESSATION OF CONTRACTING-OUT

The State Pension changes and the ending of Contracting-Out will have an impact on pension scheme administrators, members and employers. HMRC will stop tracking Contracted-Out benefits, and members and employers will lose their National Insurance rebates and so increase the cost of pension provision.

Lots of work is needed for administrators to ensure that the record keeping is up-to-date before HMRC stops tracking these benefits in 2016.

Currently, there is no option for members and employers to claw back the lost rebates through the LGPS and for employers this is likely to mean an increase of the order of 2-3% of the payroll of pension fund members. Employers should be notifying members and allowing for this impact when setting next year's budgets.

OMBUDSMAN RULING OVER ACCESS TO EARLY RETIREMENT

The Pensions Ombudsman (PO) has ruled regarding early access to benefits. In 2011, after having met their Rule of 85 at age 55, they requested unreduced early retirement. As before age 60, employer consent was needed and the employer refused. In 2012 the employer put a policy in place such that no one would be granted consent to take benefits before age 60. The member argued that this policy was adopted after their request and that others had been granted consent.

The PO agreed that it was unfair that their request was considered in line with a policy set after the request. The PO in his ruling awarded compensation to the member and referred the original decision back to the employer.

This case serves a useful reminder to all funds and employers to ensure that appropriate up-to-date discretionary polices are in place, particularly those where costs and access to benefits from active and deferred status are involved.

IAS19 TIMESCALES

We are aware of even tighter timescales needed for the reporting of accounting figures for Councils from 2017.

We are looking at options for earlier delivery which will involve detailed discussions with auditors.

The new timescales focussing on earlier delivery, will present its challenges and inevitably there will be more estimation required. We are working with many Funds and employers to do a “dummy run” in 2016, so if not done so already, we encourage you to make the Fund aware of your requirements as soon as you can.

CONTACT

PAUL MIDDLEMAN
Partner
Tel: 0151 242 7402
E: paul.middleman@mercer.com

NIGEL THOMAS
Principal
T: 0151 242 7309
E: nigel.thomas@mercer.com