



**LOCAL PENSION COMMITTEE - 6 SEPTEMBER 2019**

**REPORT OF THE DIRECTOR OF CORPORATE RESOURCES**

**PENSION FUND ADMINISTRATION – CURRENT DEVELOPMENTS**

**Purpose of the Report**

1. The purpose of this report is to inform the Committee of relevant issues relating to administration of the Leicestershire Pension Fund (the Fund).

**Background**

2. The Local Government Pension Scheme is a statutory public-sector pension scheme. Any scheme changes require regulator change that require an act of Parliament. The most current set of regulations and some earlier versions can be located on the website below.

<http://www.lgpsregs.org/>

When regulations change the Leicestershire Fund must implement the changes. Changes can vary from very small amendments to significant scheme changes, for example when the final salary scheme changed to career average in April 2014.

There are various areas the Fund administrator considers when regulations change including; system changes and potential benefit re-calculations, communication to scheme members and changes to the website, annual benefit statement redesign, member self-service modeller result changes, informing Fund employers, informing the Local Pension Board, liaising with the Fund Actuary about potential implications to the Fund liabilities. Changes can be costly to implement and can be very time consuming for the administrator.

To support Fund administrators there are various groups that assist. These include the Pension Officer Groups, Local Government Association, Technical Group, Communications Working Group, Local Pension Board, Scheme Advisory Board, Local Government Pension Committee.

Whilst all these groups have a role the Scheme Advisory Board have significant influence on regulation changes and provide advice in relation to the effective and efficient administration and management of the Scheme.

Appendix A - titled The LGPS Community, briefly explains about these groups and their role and responsibilities.

Externally the Fund must meet The Pension Regulators requirements under its Code of Practise. The Regulator has significant powers to investigate administrators and has recently done so at several LGPS Funds. Governance around pensions administration has increased over recent years and is expected to increase further.

There have been several high profile legal challenges to public and private sector pension schemes over recent years. These have resulted in regulation changes impacting on scheme changes. Mr McCloud is a new case that will inevitably result in scheme changes that is detailed within the report.

### **Current Developments**

#### 3. McCloud

Following Lord Hutton's review in 2011 on the cost effectiveness and fairness of public sector pensions, changes were made in 2014 and 2015 to public sector pension schemes rules that effectively moved all schemes members from final salary pension arrangements to career average revalued earnings (CARE) benefits. In some schemes all members moved at once (e.g. the LGPS on the 1 April 2014) while in other schemes this was via a taper date (e.g. Fire-fighters from 1 April 2015 onwards). Older scheme members, generally those within 10 years of retirement, were afforded additional protection providing them the greater of either final salary benefits or CARE benefits.

The protection afforded to older scheme members was challenged by Mr McCloud as being age discriminatory and after various legal stages in the process, won his appeal. Government then chose to challenge the outcome of the appeal, however in July 2019 Government lost its right of appeal.

The ruling impacts on all public-sector pension schemes, but how this will be resolved and change scheme member's pension benefits, is currently unknown.

The impact of the McCloud case is estimated to be in the region of an increased cost to public service pensions of £4 billion per annum. There is likely to be a significant administration effort from this ruling, to check members are no worse off.

The Leicestershire Fund has been working with the Fund actuary and will consider the financial impact of McCloud on employer rates for the 31 March 2019 valuation.

Once more is known on the impact to scheme members benefits a further report will be presented to the Committee.

#### 4. Good Governance Project (previously known as the separation project)

In 2015, the Scheme Advisory Board (SAB) commissioned KPMG to undertake a project to examine the issues and challenges of separating the pension's functions of LGPS administering authorities from their host authorities. SAB's concern was to ensure there is no conflict of interest between the administering authority and the interest of the pension fund.

Earlier this year the SAB commissioned Hymans Robertson was set up to see how the recommendations that emerged from the exercise undertaken in 2015, could be made to work in practice. This project became known as the Good Governance Project.

On the 31 July 2019 the Good Governance report was published, attached as Appendix B to this report. The report includes comments from a wide variety of interested parties covering, Pension Fund Officers, 151 Officers and Trade Unions.

The report covered four possible models to improve governance in the LGPS. These were;

##### Model 1: Improved practice

Introduce guidance or amendments to LGPS Regulations 2013 to enhance the existing arrangements by increasing the independence of the management of the fund and clarifying the standards expected in key areas.

##### Model 2: Greater ring-fencing of the LGPS within existing structures

Greater separation of pension fund management from the host authority, including budgets, resourcing and pay policies.

##### Model 3: Form a Joint Committee (JC)

Responsibility for all LGPS functions delegated to a JC comprising the administering authority and non-administering authorities in the fund. Inter-authority agreement (IAA) makes JC responsible for recommending budget, resourcing and pay policies.

##### Model 4: New local authority body

An alternative single purpose legal entity that would retain local democratic accountability and be subject to Local Government Act provisions.

Some of the key findings from the report include;

- Model 2 was the favoured option, from the engagement activity. This aligns with previous views from Leicestershire Fund Officers.

- A great deal of good practice takes place already.
- Pension administration stays within the host authority.

The next stages are for the SAB to consider the results of the report and to specifically look at the detailed proposals included in the report to decide if they wish to implement these.

Officers expect these proposals to be considered and possibly consulted on before implementation. However, Officers will start considering areas where the Fund needs to strengthen its governance arrangements in preparation of the proposals.

The Committee will receive an update on the final SAB decision once available.

#### 5. Leicestershire Valuation

The Local Pension Committee received a report on the 5 July 2019 detailing the valuation process. Since July, the Pension Section has been predominately working on checking and loading accurate scheme members data.

The Pension Section has completed the year-end data checks for all the Fund's employers and final data changes are being made.

Leicester City Council is the only Fund employer that has a significant number of data queries unresolved. However, given the size of the City this does not represent a material issue for the Fund valuation but will delay the production of approximately 450 annual benefit statements. The City Council are aware of this and Officers at the City Council are working to resolve the issues as quickly as possible.

The Fund value and initial employer rates will be available in October 2019 with Officers and the Actuary presenting the results and draft Funding Strategy Statement to the Local Pension Committee on the 8 November 2019.

#### 6. Completion and Markets Authority (CMA) – Investment Consultancy

At the end of 2018, the CMA finalised its review of the investment consulting and fiduciary management markets. The CMA set out a draft Order, setting out requirements for the appointment and governance of fiduciary managers, and for pension scheme trustees to set objectives for their investment consultants. When the final Order was released in June the scope unexpectedly extended to the LGPS.

The Order could have resulted in Funds being required to formally tender for services from their pool companies. However, subsequent draft DWP

regulations do not include the LGPS. This has left uncertainty around the implications of the CMA Order, although the expectation is that pool companies will remain out of scope.

One of the provisions of the Order that the Fund is expected to be required to act upon is the setting of objectives for Investment Consultancy providers, to be reviewed every three years. A proposal will be brought to the November Committee on this matter.

### **Recommendation**

7. It is recommended that the Pension Committee note the report.

### **Equality and Human Rights Implications**

None specific

### **Appendices**

Appendix A – The LGPS Community  
Appendix B – Good Governance Report

### **Officers to Contact**

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