



## **LOCAL PENSION BOARD**

**16 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 Board of relevant issues relating to administration of the Leicestershire Pension Fund (the Fund).

##### **Background**

2. The Pensions Section is responsible for the administration of Local Government Pension Scheme benefits of the Leicestershire Pension Fund's 98,000 members.

##### **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 Board.

#### 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 an appendix 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 Board will receive an update on the final SAB decision once available.

5. **Recommendation**

It is recommended that the Pension Board note the report.

**Equality and Human Rights Implications**

None specific

**Appendix**

Appendix – Good Governance Report

**Officers to Contact**

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