



LOCAL PENSION BOARD - 18 OCTOBER 2023

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

PENSION FUND CONTINUOUS IMPROVEMENTS REPORT

Purpose of the Report

1. The purpose of the report is to provide a regular update to the Board regarding progress in respect of areas of identified improvement within the Pensions Section.

Background

2. The Continued Improvements and Systems team has been created to assess and improve existing processes, maximising the use of technology, whilst exploring other areas including tenders, new legislation, governance, and data quality. Appendix B has been provided to cover the areas of improvement to be addressed, but the key developments since last quarter are provided in more detail below.

McCloud Update

3. On 8th September 2023, The Department for Levelling Up, Housing and Communities (DLUHC) laid The Local Government Pension Scheme (Amendment) (No.3) Regulations 2023. The regulations implement the McCloud remedy and change the existing 'underpin' to ensure it works effectively and consistently for qualifying scheme members. The regulations take effect from 1st October 2023 but will be backdated to 1st April 2014. A report containing full details of the McCloud Judgment was presented to the Board at the meeting held on 8th February 2023.

LGA

4. The Local Government Association (LGA) is currently reviewing the regulations and plan to issue guidance in the coming weeks. It is also developing documents for members including a member factsheet, frequently asked questions, a video, and an interactive tool for members to establish if they are affected by the changes.

- The LGA also has plans to host McCloud ‘surgeries’ for administering authorities at the end of October, to assist with any initial issues that may arise.

System Developments

- The fund system supplier Heywood has confirmed that individual calculations for leavers, deferred and pensioner members have been updated to include the calculation of the McCloud underpin and are available for use.
- There are some areas though where development is still outstanding. Following DLUHC’s confirmation that members with previous unaggregated LGPS service, or membership of any public service pension scheme that has not been transferred into the Fund on or before 31st March 2012 will qualify for underpin protection on LGPS membership during the remedy period, work still needs to be done to amend the system so that members with ‘unaggregated’ service will be identified as eligible service for this exercise.
- Flexible Retirement cases will need to be calculated manually.
- Outwards ‘Club’ transfers, such as transfers to other public service pension schemes, may also require further development, and Heywood is awaiting further information from the Government Actuary Department (GAD) before deciding how to proceed.
- Legislation relating to ‘Excess Teacher’s Service’ is still outstanding and further consultation on this issue is expected.
- Heywood will also be offering training and weekly ‘drop-in’ sessions will be available from 11th October.
- The Pensions Manager will monitor the time taken for in-scope retirements to see what impact McCloud is having on resource. This will be expanded to other areas as McCloud implementation continues.

Records Update

- Officers continue to update member records with details of changes to contractual hours, either manually or via system automation, and the latest position regarding updated records is below.

	Position as at 11/07/2023	Position as at 14/09/2023
Number of employers that have provided all required data and records have been updated:	32	89

Number of employers that have provided all required data and are currently being worked on:	40	7
Number of employers that provided all required data and are ready to be worked on:	22	76
Number of employers that provided all required data but has been returned to the employer:	68	2
Number of employers that have provided some of the data, or have not provided any data:	35	25
Employers with miscellaneous issues:	2	0

14. The number of data lines identified that are unsuitable for automatic loading are below. This data only relates to employers where all data has been provided and have either been completed or are work in progress. These figures are not the final amount and will increase as work progresses. However, the amount that these figures will increase cannot be quantified at this stage.

Employer	Lines identified at 14/9/2023	Lines dealt with at 14/9/2023 (that will be automatically loaded)	Lines remaining at 14/9/2023 (that will require manual input)
Leics. County Council	5,193	0	5,193
Leicester City Council	18,455	15,958	2,497
Other Employers	15,498	15,498	0
Total	39,146	31,456	7,690

Internal Processes

15. Initially, officers will be focussing on incorporating changes to processes for active scheme members who leave, and their cases are processed from 1st October 2023 with an entitlement to deferred or immediate benefits.
16. Processes have been created for these cases and Officers will need to establish whether a member is in-scope for a possible underpin. Cases that are not in-scope can continue to be processed using established procedures.
17. Scheme members will be in-scope if:
 - They were contributing to the LGPS or another public service pension scheme before 1st April 2012
 - They were also paying into the LGPS between 1st April 2014 and 31st March 2022 and;
 - They do not have a break of five years or more, when the member was not contributing into any public service pension scheme (applies to breaks after 1st April 2012).
18. Where a member is deemed in-scope then officers will need to ensure that the service history (i.e., full details of changes to contractual hours) is up to date. The case can then be processed and if an underpin is payable then this will be included in the calculation.
19. Revised retirement letters have been drafted, advising scheme members that their benefits have been assessed for an entitlement to an underpin.
20. Further adjustments will be made to other business as usual processes over the next few months.
21. When the process of updating member records with contractual hours changes is completed, then a process will be drafted to address the cases where retrospective increases to pension benefits are payable, including the calculation of arrears, namely post April 2014 leavers whose benefits were processed prior to 1st October 2023.
22. Whilst the retrospective recalculation of benefits back to April 2014 will be a significant exercise, the expected number of cases requiring recalculation is likely to be low, given that benefits in the Career Average Revalued Earnings (CARE) scheme are based on a 1/49th accrual rates and also the rate of inflation.

AVC Framework Update

23. Further to the report presented at the last Board meeting, officers have continued to work with National LGPS Frameworks (administered by Norfolk County Council) to establish an AVC tender framework for use by LGPS funds.
24. An 'Invitation to Tender' (ITT) document has been drafted and continues to be developed. All interested parties will be required to complete this document and it will form the basis of their submission.
25. In September 2023, a letter was submitted to the interested parties, formally advising of National LGPS Frameworks' intention to begin the procurement.
26. Officers continue to meet regularly with National LGPS Frameworks, and the launch is still scheduled for March 2024. An update will be included in this report at the next meeting.

Pension Dashboard Project

27. The last major update regarding the Pension Dashboard Project (PDP) was presented to the Board at the meeting on 26th October 2022. A brief update was included in the Continuous Improvements report dated 26th April 2023 to advise that national deadlines have been put on hold to allow additional time to deliver a solution.
28. On 8th June 2023, a further ministerial statement was issued advising that rather than setting out a revised staging deadline in legislation, that this will be set out in guidance, which will give PDP the flexibility it needs to ensure this complex project is completed effectively.
29. Subsequently, The Pension Dashboards (Amendment) Regulations came into force on 9th August 2023 and confirmed that a single deadline of 31st October 2026 had been introduced. A revised staging timetable will be set out in guidance, and this will indicate when individual schemes are set to connect, based on their size and type. The staging timetable has not yet been developed and will be included in a future update.

Review of Employer Discretions

30. Scheme employers are required to publish and keep under review a statement of policy to explain how it will apply certain discretions that exist within the LGPS regulations. This allows employers flexibility in managing some issues relating to LGPS benefits for their scheme members, although exercising these discretions can have immediate costs that would need to be funded.
31. There are four main areas where mandatory discretions exist and several other discretionary areas of the regulations where employers can choose to have a policy, though many of these are unlikely to be required. However,

there are some areas where Officers recommend to employers that it would be good practice to have a policy:

32. The table below describes the mandatory and non-mandatory discretions that currently exist.

<u>Mandatory Discretions</u>	
Additional pension	<p>Employers can decide to award a scheme member additional pension of up to £7,579 per year (2022-23 rate) within six months of leaving to a member whose employment was terminated on the grounds of redundancy or business efficiency.</p> <p>Where an active member in the main section of the scheme elects to enter into arrangements to pay additional pension contributions (APCs) by regular contributions or a lump sum, such costs may be funded in whole or part by the member's scheme employer. Employers will need to determine a policy on whether it will make a contribution towards the purchase of extra pension.</p>
Waiving actuarial reductions	<p>Employers can decide, under several retirement scenarios, to waive actuarial reductions on compassionate grounds (though compassionate grounds is not defined within the regulations).</p>
Switch on the 'rule of 85' before age 60	<p>The 'rule of 85' is a protection for members who were in the LGPS prior to 1st October 2006 and is the point when their age plus length of membership in the scheme totals 85. Generally, this protects pension benefits that accrued prior to 1st April 2008 and where a member retires aged 60 or over.</p> <p>Where a member is aged between 55 and 60, employers can decide to 'switch on' the rule of 85 and allow a member to have a smaller reduction applied to their benefits.</p>
Flexible retirement	<p>An active member who has attained the age of 55 or over who reduces working hours or grade of an employment may, with the employer's consent, elect to take 'flexible retirement' and receive immediate payment of pension benefits.</p> <p>Employers need to determine the conditions under which a flexible retirement would be allowed.</p>

<u>Non-Mandatory Discretions</u>	
Election to transfer within 12 months	Employers may decide to extend the 12 month limit a member has in which to elect to transfer other pension rights into the LGPS. This has to be with the agreement of the Administering Authority.
Election to aggregate within 12 months of commencement	Employers may decide to extend the 12 month limit a member has within which they must elect not to have deferred benefits aggregated with their new LGPS employment.
<u>Allocation of contribution band</u>	Employers may determine which contribution band is allocated on joining the scheme and at each April. They can also determine the circumstances when an employee's band may be reviewed.

33. As part of good governance, Officers are currently conducting a review of this area. Although 85% of employers with active members have a published policy, approximately 70% are over five years old and it is good practice for these documents to be reviewed more regularly.

Next steps

34. The existing policy document issued to employers will be refreshed and a completion guide created to allow employers to make informed decisions when deciding whether to update their existing policies. The new documents will then be circulated to employers via an employer bulletin and returns will be monitored.

35. Pension Officers will monitor the return of the latest employer discretions and provide a future summary to the Board.

Recommendation

36. It is recommended that the Board notes all areas of the report.

Equality and Human Rights Implications

37. Nonspecific.

Background Papers

Local Pension Board – 8 February 2023 – McCloud Remedy Progress Report:

<https://politics.leics.gov.uk/ieListDocuments.aspx?CId=1122&MId=7234&Ver=4>

Appendices

38. Appendix A: MSS Registration Figures
Appendix B: Areas of improvement

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