

West Sussex County Council Pension Fund

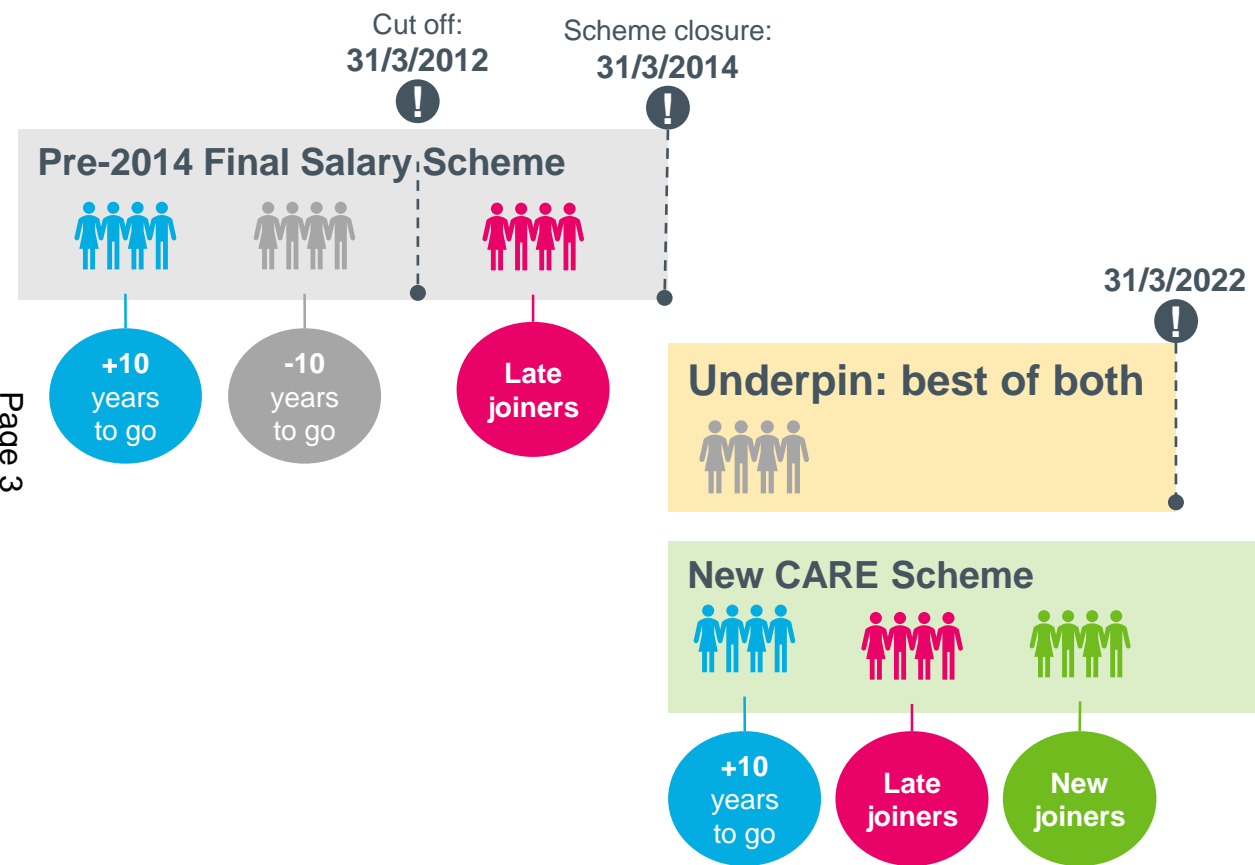
LGPS Update

Steven Law FFA
23 October 2020



McCloud

LGPS after the 2014 reform



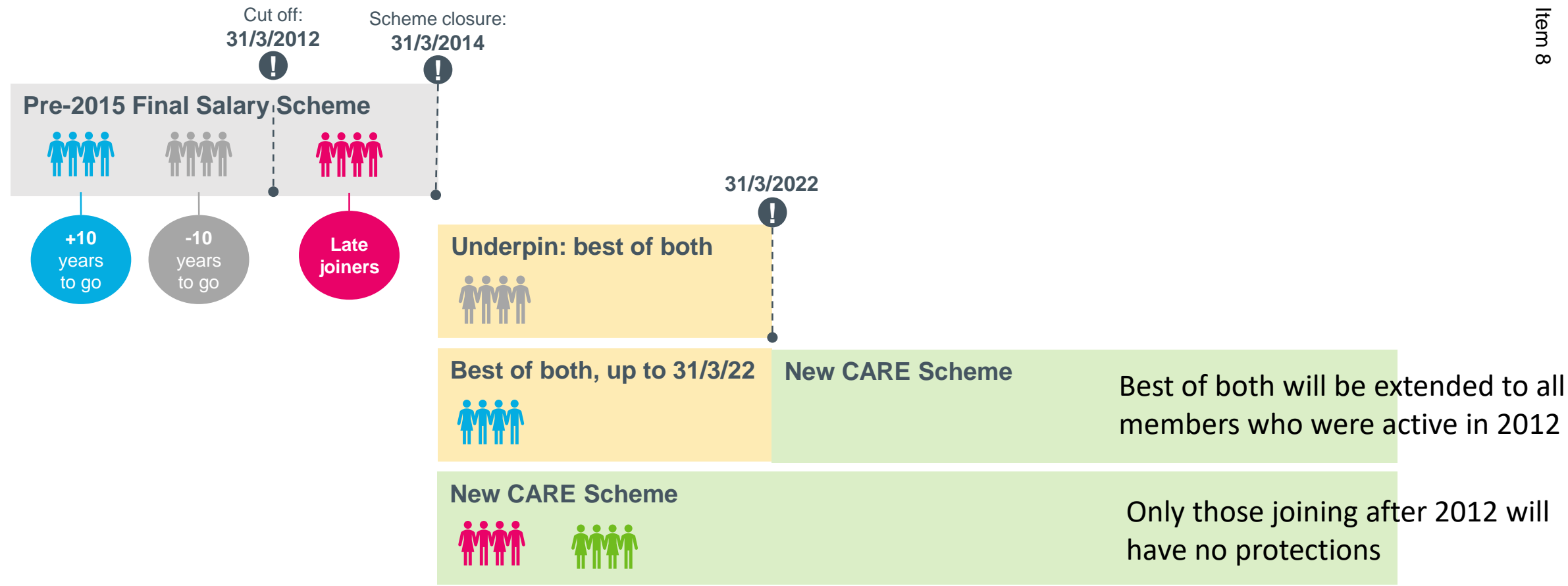
Service from 2008 to 2014, all members received 1/60ths of final salary for each year of service

From 2014, members who were age 55 or older got the better of the 1/60ths scheme and the CARE scheme

All other members moved to the CARE 1/49ths scheme

Final salary underpin protection for those within 10 years of retirement at 31 March 2012

LGPS after McCloud?

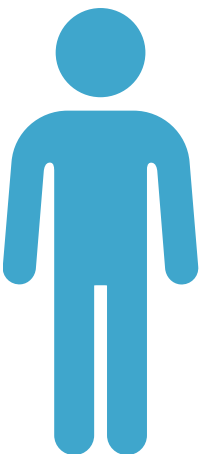


Consultation response awaited, so could change

McCloud - example 1



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Pay: £30,000
Retiring at age: 65
SPA: 66
Salary increases: 1% p.a.

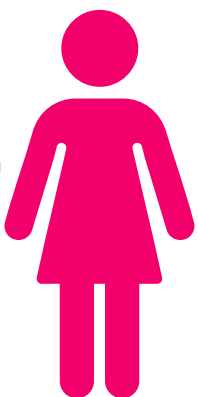
Age	Scheme Year	Salary (£)	Final Salary Benefit (£)	CARE Benefit (£)	Actuarial Reduction on CARE
60	2014/15	30,000	500	612	
61	2015/16	30,660	1,022	1,245	
62	2016/17	30,936	1,547	1,877	
63	2017/18	31,555	2,104	2,539	
64	2018/19	32,817	2,735	3,285	
65 (retirement)	2019/20	33,933	3,393	4,057	3,850

CARE benefit is larger so underpin does not apply

Agenda Item 8

McCloud - example 1

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Pay: £30,000
 Retiring at age: 65
 SPA: 66
 Salary increases: 1% p.a.
 with a promotion

Age	Scheme Year	Salary (£)	Final Salary Benefit (£)	CARE Benefit (£)	Actuarial Reduction on CARE
60	2014/15	30,000	500	612	
61	2015/16	30,660	1,022	1,245	
62	2016/17	30,936	1,547	1,877	
63	2017/18	31,555	2,104	2,539	
64	2018/19	32,817	2,735	3,285	
65 (retirement)	2019/20	40,496	4,050	4,191	3,977

Final Salary benefit is larger so underpin applies

The impact of McCloud



Members

Some may see an increase in benefits, some will see no difference
Possible tax implications – annual allowance and lifetime allowance
Understanding what the changes mean now and in the future



Fund

Administering an underpin is a challenge
Additional data may be required from employers (both historical and in future)
Helping members understand their benefits
Liabilities will increase



Employers

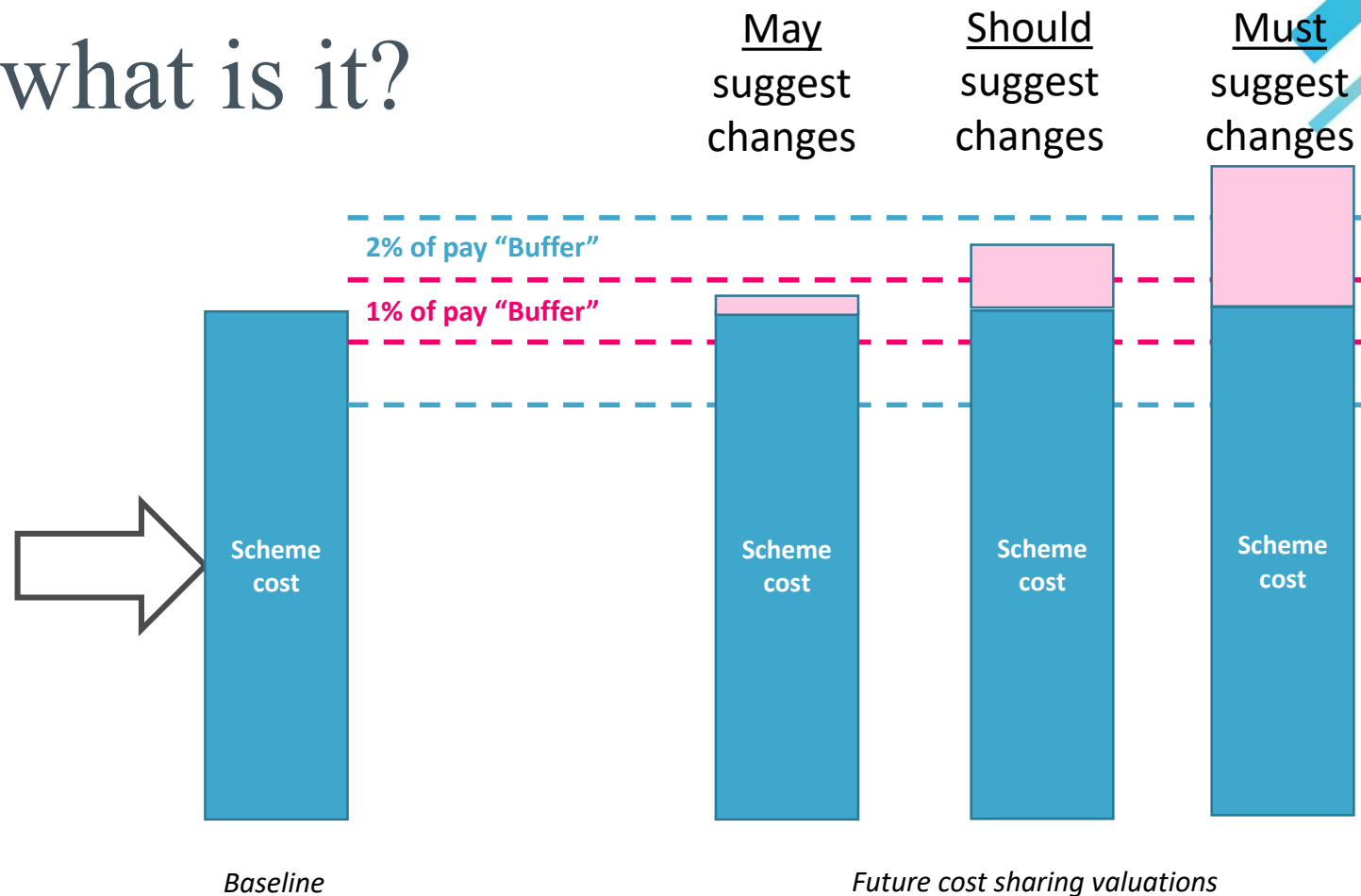
May need to submit historical membership and payroll data
Possible increase in liabilities and rates (the Fund built in a buffer to allow for the impact in 2019)
Ensuring members understand the changes to their benefits

Further communications and news will be issued when further details are known



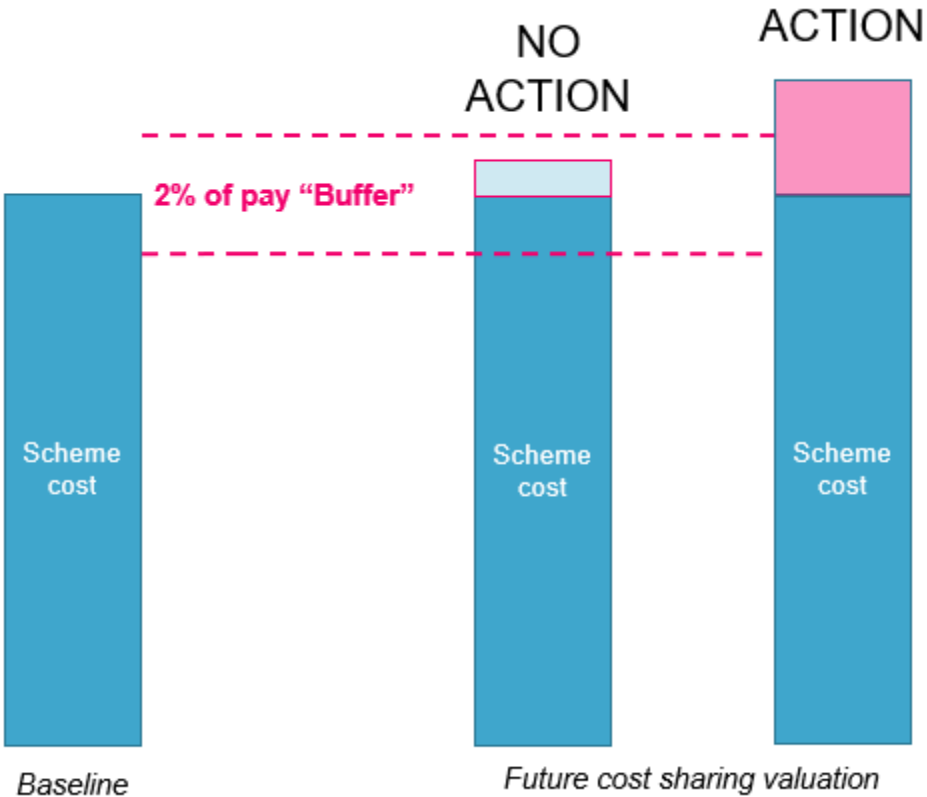
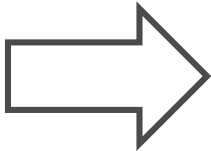
Cost Sharing

SAB Cost Sharing: what is it?



SAB has no power to change benefits, only to make recommendations to MHCLG

HMT Cost Sharing: what is it?



Recommendation 12: The Government, on behalf of the taxpayer, should set out a **fixed cost ceiling**: the proportion of pensionable pay that they will contribute, on average, to employees' pensions over the long term. If this is exceeded then there should be a consultation process to bring costs back within the ceiling, with an **automatic default** change if agreement cannot be reached.

HMT Cost Sharing takes account of SAB Cost Sharing when calculating Scheme cost
McCloud to be included as an 'employee cost'

The impact of Cost Sharing



Members

Benefits from 1 April 2019 may be improved
Possible tax implications – annual allowance and lifetime allowance
Understanding what the changes mean now and in the future



Fund

Administering backdated benefits may increase pressure on resources
Helping members understand their benefits



Employers

Increasing pension costs – better benefits for members come at a price
Ensuring members understand the changes to their benefits

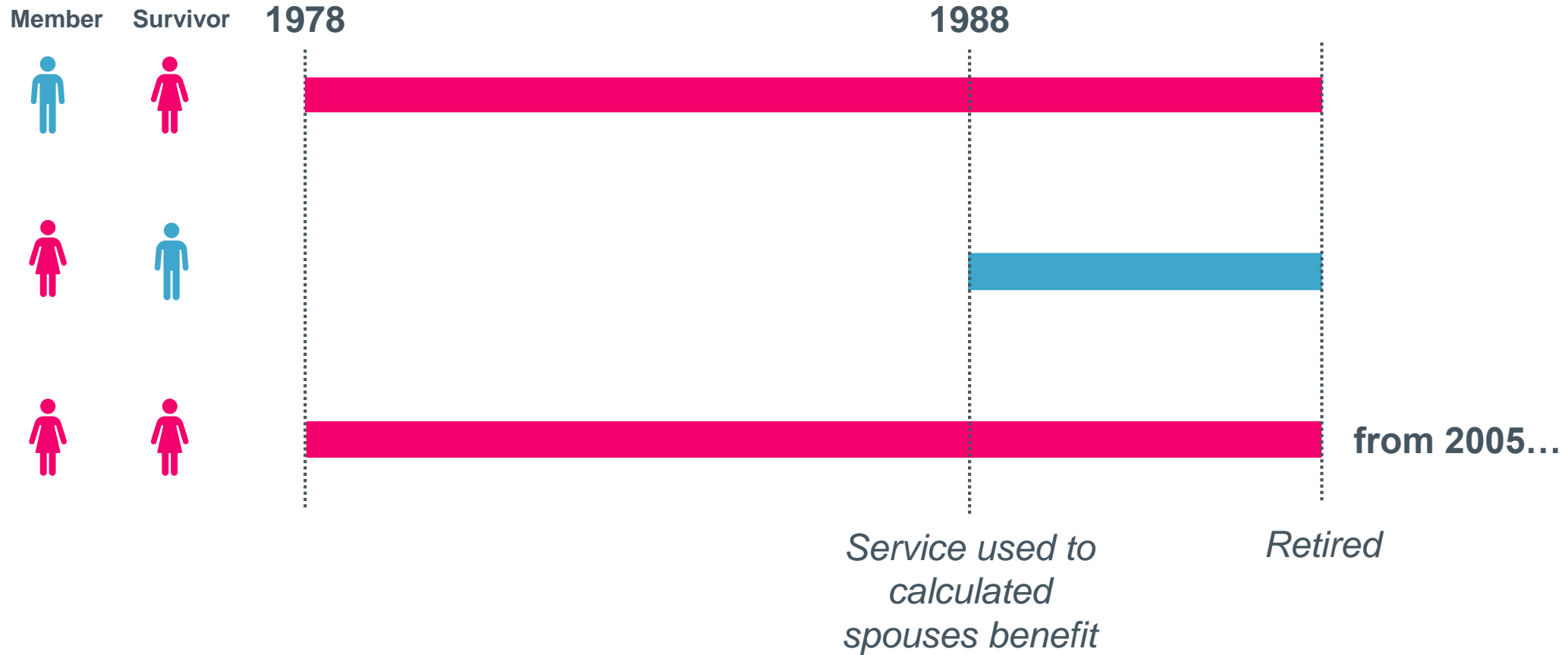
GAD are awaiting HMT directions to carry out the 2016 valuations



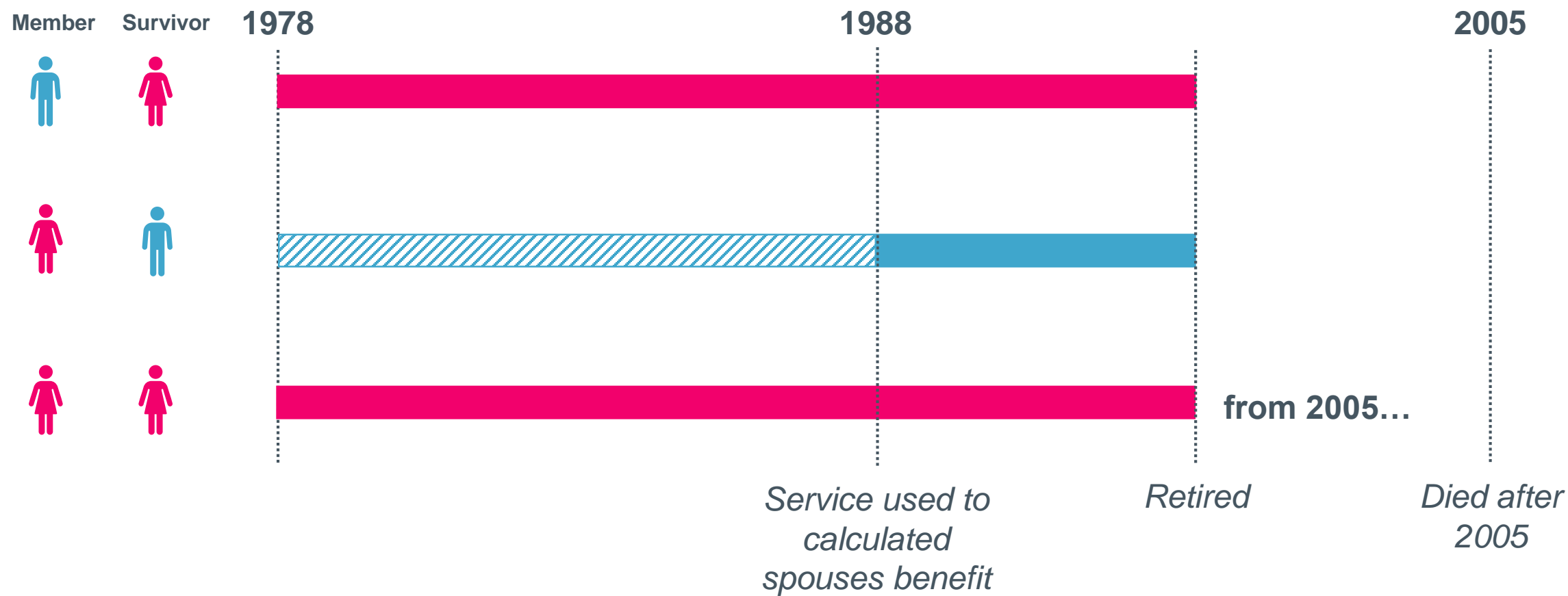
Goodwin

What is Goodwin?

What service is counted when calculating a dependent's pension?



What is the remedy?



The impact of Goodwin



Members

Male survivors of female members may see greater benefits



Fund

Administration must review all spouses pensions for female members that have died since 2005
Track and trace may be required as the Fund may not have survivors data
Increased liabilities (the Fund built in a buffer for this in the 2019 valuation)



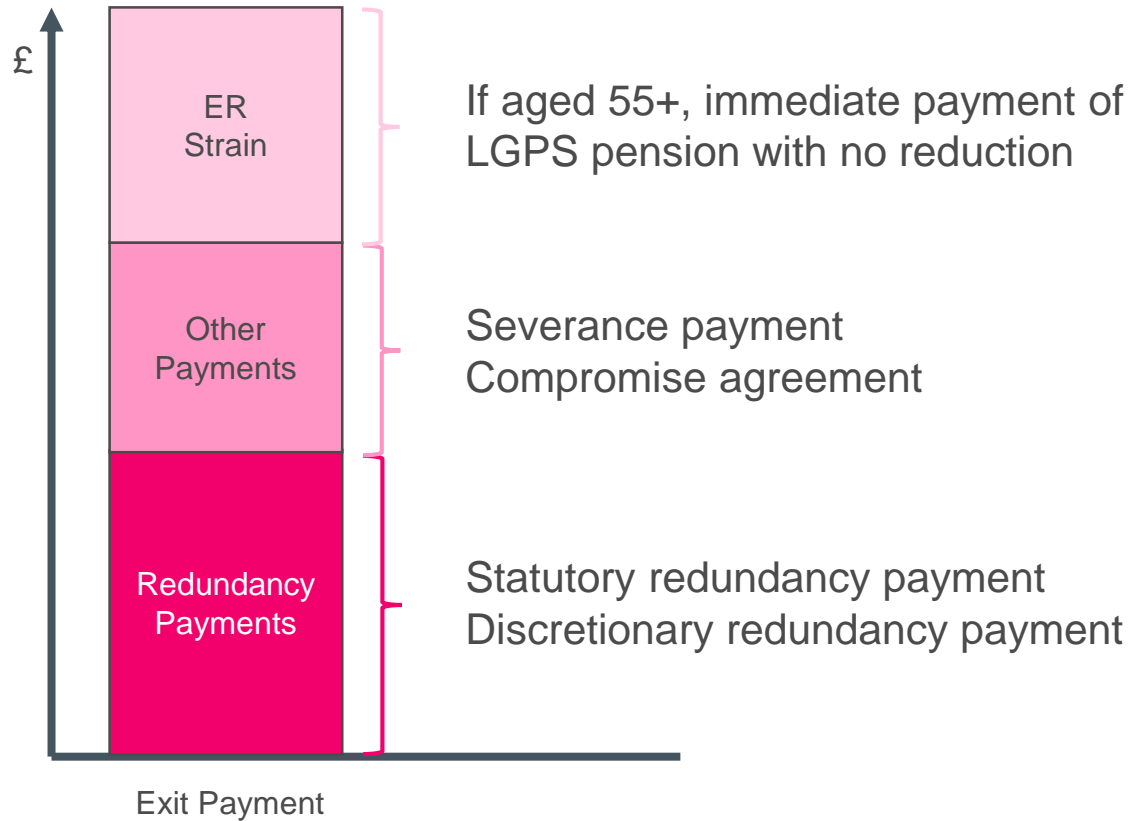
Employers

Increasing pension costs (the Fund built in a buffer for this in the 2019 valuation)

Guidance from LGA and/or SAB is expected in the near future

£95k exit cap & compensation reform

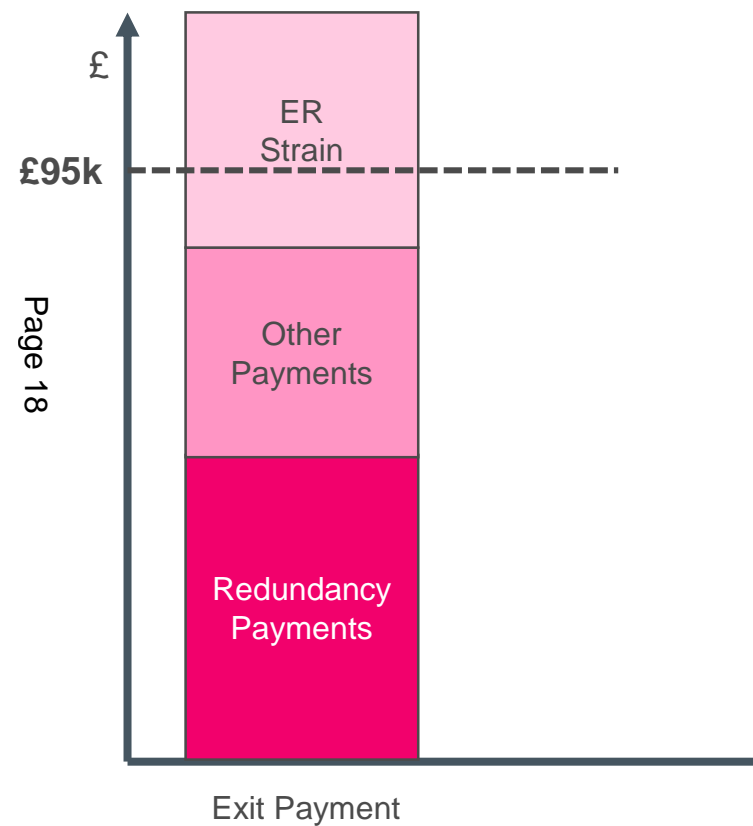
What happens at the moment?



- Under current LGPS regulations, a member aged 55 or over must take immediate payment of pension without reduction
- Early payment of pension results in an “early retirement funding strain”
- Employer must make a payment to the Fund in respect of the ER strain

Construction and size of redundancy package at the discretion of the employer

What is changing?



- Changes to exit payments being implemented by HMT and MHCLG
- New HMT regulations will come into force that apply to
 - Council workers, Police & Fire civilian staff, Academy staff
 - Other public sector workers (set out in the regulations)
- Discretionary redundancy payments limited to:
 - Maximum of 3 weeks' pay per year of service
 - Maximum of 15 months pay
 - Maximum salary of £80k to be used in calculation
- £95k cap on total cost of redundancy compensation, including ER strain

Restriction of Public Sector Exit Payment Cap Regulations 2020 passed in Parliament
Expected to come into force on 4 November and apply to all public sector workers

How ER strain is calculated

- How ER strain works, an example*
 - Member with accrued pension of £10,000 p.a.
 - Normal pension age is 66
 - Expected to live until age 90



Elect to retire: pension reduced to £7.5k p.a. $(£240k / [90 - 58])$

Redundancy: Fund needs to hold £320k to pay unreduced pension $([90 - 58] \times £10k)$
ER strain of £80k $(£320k - £240k)$

Early retirement strain occurs due to unexpected additional benefit payments

£95k exit cap & compensation reform – example 1

Member receives/**pays**

	Current	Option A	Option B	Option C	Option D**
		Unreduced	Part Red	Fully Red	Def Benefit
Pension	£15,923pa	£15,923pa	£15,579pa	£10,291pa	£15,923pa
Lump Sum	£2,375	£2,375	£2,371	£1,959	£2,375
Stat Red Pay	£10,000	£10,000	£10,000	£10,000	£10,000
Disc Sev Pay	£25,000	-	-	£25,000	£25,000
Payment to Fund	-	£17,569	£10,000*	-	-

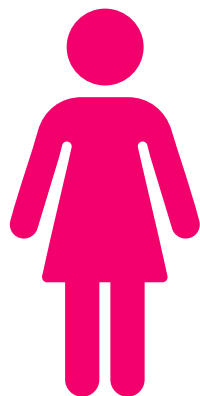
*member can elect to pay more than Stat Red Pay to reduce impact on their pension

**subject to revaluation, payable from NPA

Employer pays

	Current	Option A	Option B	Option C	Option D
ER Strain	£102,569	£85,000	£85,000	-	-
Stat Red Pay	£10,000	£10,000	£10,000	£10,000	£10,000
Disc Sev Pay	£25,000	-	-	£25,000	£25,000

Age: 57
Service: 13 years
Pay: £69,000
Stat Red Pay: £10,000
Disc Sev Pay: £25,000



£95k exit cap & compensation reform – example 2



Member receives/**pays**

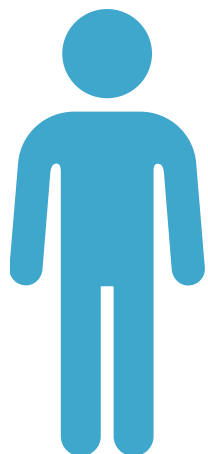
	Current	Option A	Option B	Option C	Option D*
		Unreduced	Part Red	Fully Red	Def Benefit
Pension	£13,154pa	£13,154pa	£12,700pa	£8,501pa	£13,154pa
Lump Sum	£1,962	£1,962	£1,957	£1,618	£1,957
Stat Red Pay	£10,000	£10,000	£10,000	£10,000	£10,000
Disc Sev Pay	£20,000	-		£20,000	£20,000
Payment to Fund	-	£10,000	-	-	-

*subject to revaluation, pension payable at NPA

Employer pays

	Current	Option A	Option B	Option C	Option D
ER Strain	£84,735	£74,735	£74,735	-	-
Stat Red Pay	£10,000	£10,000	£10,000	£10,000	£10,000
Disc Sev Pay	£20,000	-	-	£20,000	£20,000

Age: 57
Service: 13 years
Pay: £57,000
Stat Red Pay: £10,000
Disc Sev Pay: £20,000



£95k exit cap & compensation reform – example 3

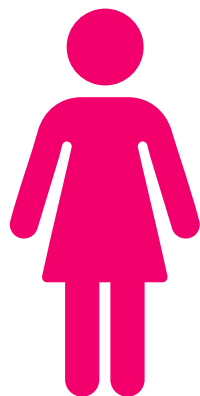
Member receives/**pays**

	Current	Option A	Option B	Option C	Option D*
		Unreduced	Part Red	Fully Red	Def Benefit
Pension	£8,081pa	£8,081pa	£7,560pa	£7,465pa	£8,081pa
Lump Sum	£1,204	£1,204	£1,201	£1,177	£1,204
Stat Red Pay	£9,684	£9,684	£9,684	£9,684	£9,684
Disc Sev Pay	£8,489	£8,240	£8,240	£8,489	£8,489
Payment to Fund	-	£9,684	-	-	-

*subject to revaluation, pension payable at NPA

Employer pays

	Current	Option A	Option B	Option C	Option D
ER Strain	£9,933	£249	£249	-	-
Stat Red Pay	£9,684	£9,684	£9,684	£9,684	£9,684
Disc Sev Pay	£8,489	£8,240	£8,240	£8,489	£8,489



Age: 64
Service: 13 years
Pay: £35,000
Stat Red Pay: £9,684
Disc Sev Pay: £8,489

The impact of £95k exit cap & compensation reform



Members

Significantly lower benefits on redundancy if over age 55
Difficult financial decisions



Fund

Administration burden increased



Employers

Changes to cost of redundancy may impact decision making
GAD factors will be adopted which are likely inconsistent with WSCCPF funding assumptions which may impact future valuation results

Further GAD and MHCLG guidance needed



Employer management



Recent changes to the Regulations

- Employer contributions can now be reviewed between formal valuations where:
 - There has been a significant change to the liabilities
 - There has been a significant change to their covenant
 - At the request (and expense) of the employer
- Cessation deficits can now be repaid over a number of years
- Employers can request “deferred employer” status
 - After their last active leaves the employer stays in the Fund
 - The employer will have to pay deficit contributions
 - The arrangement can be ended at which point a full exit valuation will be carried out

Changes to the Funding Strategy Statement will be required

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