

## **Pension Advisory Board**

**22 May 2019**

### **Administration Procedures and Performance**

#### **Report by Director of Finance and Support Services**

##### **Summary**

This report provides a high level view of the administration process and performance in support of the Pension Fund and its members, active, deferred and retired.

##### **Recommendation**

That the Pension Advisory Board receives the report and proposes any further information that they require.

#### **1. Background and Context**

- 1.1 As the Board are aware Hampshire County Council now provide the Pension Administration Service for the West Sussex Local Government Pension Scheme. The administration team are based in Winchester and the County Council will work closely with Hampshire County Council as our Pension Administration Partner.

#### **2. Compliance with Scheme Regulations**

- 2.1. The Terms of Reference for the Pension Advisory Board includes assisting the Scheme Manager to secure compliance with the scheme regulations and other legislation relating to the governance and administration of the scheme and any statutory pension scheme that is connected with it. The following projects are therefore considered relevant to note work being undertaken to comply with changes.

##### Amendment Regulations

- 2.2. As reported in the March report the LGPS (Miscellaneous Amendment) 2018 Regulations came into force on 10 January 2019.
- 2.3. Officers are liaising with Hampshire Pension Services to identify those individuals who are affected by these changes, to ensure that the appropriate benefits are calculated and backdated accordingly.

- 2.4. To ensure that members are alerted to the change, a notice about the “Important Scheme regulation changes from 10 January 2019” has been published on the Hampshire website<sup>1</sup> and has been included in Appendix A. A further communication will be sent out directly to members to satisfy our statutory requirements under the Disclosure Regulations, that members are notified of amendments to the Regulations within three months of the change.

#### Revised Scheme Factors

- 2.5. Following the change to the SCAPE discount rate (used to convert a future stream of pension benefits into a single figure, in today’s terms) the Government Actuary’s Department (GAD) has provided replacement factor tables and these have been applied by Hampshire Pension Services.
- 2.6. The pension administration software (UPM) has been updated for each factor change. In respect of the Lifetime Allowance (LTA) calculations, where a member has exceeded LTA and have LTA protection, a manual calculation has been completed.

Effective from 8 January 2019

<b>Factor</b>	<b>Reference</b>
Early retirement	If a member chooses to voluntarily retire before their Normal Pension Age their benefits will normally be reduced to take account of being paid for longer. The reduction is based on the length of time (years and days) that the member retires early and determined by GAD.
Trivial commutations	The Regulations permit the Administering Authority to pay a lump sum representing the capital value of a small pension to a member, or surviving dependent of a deceased member, if it qualifies as a trivial commutation lump sum or trivial commutation lump sum death benefit. The payment amount is based on factors according to age as determined by GAD.
Cash Equivalent Transfer Value (Non-Club in and out)	<p>A Cash Equivalent Transfer Value (CETV) is the cash value placed on a member’s pension benefits.</p> <p>A CETV is used in a number of circumstances either to establish what is available to transfer to another pension provider known as a non-club transfer or in establishing the value of member’s benefits in a Pension Sharing arrangement.</p> <p>A CETV is calculated using a number of elements including a members accrued pension benefit and factors according to age, sex and normal pension age as determined by GAD</p>

<sup>1</sup> <https://www.hants.gov.uk/hampshire-services/pensions/local-government/members/summary>

<b>Factor</b>	<b>Reference</b>
Pension credits	<p>Following a divorce a member's pension can be shared with their former spouse.</p> <p>A pension credit is added to the member's benefits and a pension debit is deducted from the member's benefits.</p> <p>Both amounts are based on the CETV of the member's benefits, the percentage awarded under a pension sharing order and factors according to age at relevant date and normal pension age as determined by GAD.</p> <p>Pension Debits are adjusted at retirement age, and have additional factors that are applied as determined by GAD.</p>
Pension debits	<p>The Regulations permit that following a divorce a member's pension can be shared with their former spouse.</p> <p>The amount deducted from the member's benefits is called a pension debit. This is based on the benefits accrued at the relevant date (as set out in the pension sharing order) and factors according to age and sex as determined by GAD.</p> <p>Pension Debits are adjusted at retirement age, and have additional factors that are applied as determined by GAD.</p>

Effective from 1 April 2019

<b>Factor</b>	<b>Reference</b>
Club Transfer (In and Out)	<p>Transfers within the Public Sector e.g. LGPS to NHS, are known as Club Transfers and are covered by the 'Club Memorandum' published by the Cabinet Office.</p> <p>The value of a Club Transfer is based upon a number of elements including a member's accrued pension benefit, and factors according to age, sex and normal pension age.</p>
Purchase of Additional Pension	<p>A member can purchase additional pension by making additional contributions to the LGPS.</p> <p>If a member ceases contributions before the end of the payment period for a reason other than on ill health or death, the amount purchased must be determined in accordance with guidance issued by GAD.</p> <p>The factors are calculated based on age, sex and normal pension age.</p>

Factor	Reference
Lifetime Allowance	<p data-bbox="555 264 1396 409">Lifetime Allowance is a limit on the amount of pension that can be drawn from a pension scheme and can be paid without triggering an extra tax charge – whether a lump sum or retirement income.</p> <p data-bbox="555 443 1396 517">Benefits in excess of a member’s lifetime allowance can only be paid in accordance with guidance by GAD.</p> <p data-bbox="555 551 1396 687">A “Scheme pays debit” is calculated to apply against a member’s pension benefits by using the tax charge payable and applying factors based upon age and sex at retirement as determined by GAD.</p>

### Fair Deal Consultation

- 2.7. Fair Deal relates to protections in place for local authority and other protected staff that compulsorily transfer to the employment of a service provider. In most cases transferred staff are given a continued right to access membership of the LGPS but some service providers opt for a Broadly Comparable Scheme arrangement.
- 2.8. In May 2016, the Ministry for Housing Communities and Local Government (MHCLG) consulted on a set of proposals intended to give effect to the principles of HM Treasury’s New Fair Deal guidance within the Local Government context. Those principles would have required all transferred staff to be offered continued access to the LGPS, with the option for contractors to provide broadly comparable arrangements being removed.
- 2.9. In April 2018, the Government issued its response to the consultation confirming its commitment to introduce the strengthened New Fair Deal principles into the LGPS, but given the number of concerns raised by respondents regarding details of the original proposals, undertook to issue a further consultation.
- 2.10. MHCLG commenced this further consultation on in January 2019. This consultation closed on 4th April 2019.
- 2.11. The proposals within the consultation afford more protection to staff who are compulsorily transferred to private sector companies following an outstanding (the LGPS being assumed to provide better security to members than private sector pension schemes) with protections applying even if the service is sub-contracted or transferred out again, so long as the employees remain employed on the delivery of the service or function transferred.

2.12. The consultation also proposed an option whereby private sector contractors need not become admission bodies in the LGPS and instead could decide to take on 'deemed employer' status. For transferring staff, their 'scheme employer' for pension purposes would remain as the outsourcing authority, who would retain the main scheme employer responsibilities such as making pension contributions and taking on funding risk. Arrangements for sharing and allocating pension risk would be agreed within the contract.

2.13. Officers responded to this consultation (Appendix B).

#### Changes to the Local Valuation Cycle and Management of Employer Risk

2.14. MHCLG commenced a consultation on 8 May 2019 titled "The Local Government Pension Scheme: Changes to the Local Valuation Cycle and Management of Employer Risk". This consultation closes on 31<sup>st</sup> July 2019.

2.15. A copy of the consultation is at Appendix C.

### **3. Performance**

3.1. The principal functions of the Board's include "seeking assurance that administration performance is in compliance with the Administration Strategy". The following items are considered relevant in respect of compliance of the Fund and its employers in line with the Strategy and Regulations.

#### Administration Performance

3.2. The Administration Report considered by the Pension Panel at their meeting on 29 April is appended (Appendix D).

#### Breach Reporting

3.3. There are a number of statutory requirements within the Local Government Pension Scheme (LGPS) for which there is a statutory duty to report to the Pensions Regulator if a material breach occurs.

3.4. No breaches have been reported.

### **Katharine Eberhart**

Director of Finance and Support Services

**Contact:** Rachel Wood, Pension Fund Strategist, 033 022 23387

## **Appendices**

- Appendix A Important Scheme regulation changes communication
- Appendix B Fair deal – strengthening pension protection consultation response
- Appendix C Local government pension scheme: changes to the local valuation cycle and management of employer risk consultation document
- Appendix D Pensions Panel Administration Report

## **Background Papers**

- SCAPE <https://commonslibrary.parliament.uk/economy-business/work-incomes/public-service-pensions-less-for-more/>
- Discount rate <https://commonslibrary.parliament.uk/economy-business/work-incomes/public-service-pensions-less-for-more/>
- Fair deal <https://www.gov.uk/government/consultations/local-government-pension-scheme-fair-deal-strengthening-pension-protection>