

HAMPSHIRE COUNTY COUNCIL

Information Report

Panel:	Pension Fund
Date:	28 February 2014
Title:	LGPS 2014 update
Reference:	5683
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1. Summary

1.1. The purpose of this paper is to:

- update the Panel on progress with the implementation of LGPS 2014 and future LGPS reform
- inform the Panel of a change to a discretionary policy on abatement and a practical way of addressing an anomaly within the new regulations.

2. LGPS 2014

- 2.1. It was reported to Panel in November 2013 that the transitional regulations for the new LGPS were still outstanding. These regulations are key as they cover the conditions for existing members, including protections for final pay and the underpin protection for members close to retirement age.
- 2.2. The transitional regulations have still not been laid and DCLG have not confirmed when they will now be published. It is understood that the key reason for their delay is because no decision has yet been taken on continued access to the LGPS for councillors. It is likely therefore that the transitional regulations will be held back until 31 March 2014.
- 2.3. Draft versions of the transitional regulations have been shared with pension funds and software suppliers so that systems and processes for the new scheme can be set up. Pensions Services are making good progress with implementing the new requirements, though the continued absence of final regulations and actuarial information is limiting this work.
- 2.4. High level employer workshops were held during November and December, with the aim of getting employers to start understanding their responsibilities under the new regulations. Thematic workshops (covering subjects such as pensionable pay and discretionary policies) are now being rolled out, targeting the relevant employer personnel for each topic area.

- 2.5. Member presentations have been booked at locations across the county for March, April and May. These sessions are being run in partnership with Prudential, one of the Fund's AVC providers, who are providing the booking arrangements and main presentation, with Pensions Services being on hand to take queries. This approach has allowed Pensions Services to offer more sessions than if they were running the whole event in-house.
- 2.6. Several staff have attended the Local Government Employers practitioner training sessions on the new scheme. The 2014 software release which will allow calculations to be run using the new regulations is due to be implemented on 3 March.

3. Further LGPS reform

- 3.1. There has been no further update on future LGPS reform following the government's call for evidence in Autumn 2013.
- 3.2. The Shadow Pensions Board collated the responses to the call for evidence and have received a presentation from Hymans who were commissioned to produce an options appraisal on:
 - A common investment vehicle at England and Wales level, with asset allocation strategies still determined by the local pension funds;
 - 5-10 common investment vehicles across England and Wales, for example based on aggregate fund size or geographical areas, again with asset allocation strategies decided by local governance structures;
 - 5-10 merged funds across England and Wales, grouped on the same basis as the common investment vehicles above, but with decision making taken by new governance arrangements at the merged fund level.
- 3.3. However no feedback has been given to pension funds on the outcomes. It is expected that a consultation on future reform will be announced in the spring.

4. Abatement of pension on re-employment

- 4.1. The administering authority is granted certain discretions under the LGPS regulations. Many of these are exercised by Pensions Services under the delegated authority from the Panel and are codified in the Administration Strategy, Employer Guide and service level agreements. Further discretions are expressed within the Funding Strategy Statement and other governance documents.
- 4.2. The administering authority is required to have a written policy which describes the extent to which it will reduce a pension in payment when a member enters into a new employment with an employer covered by the LGPS. This is known as abatement.
- 4.3. The purpose of abatement is to protect public money by ensuring that members are not seen to gain from entitlement to both pay and pension from the public sector. Abatement does not apply if the new employment is with an employer not covered by the LGPS.

In determining an abatement policy, the regulations specify that an administering authority must have regard to:

- the level of potential financial gain at which it wishes abatement to apply;
- the administrative costs which are likely to be incurred as a result of abatement in the different circumstances in which it may occur; and
- the extent to which a policy not to apply abatement could lead to a serious loss of confidence in the public service.

- 4.4. The current abatement policy is for a pension to be reduced by the same amount as the amount by which the total of the new salary and pension in payment exceed the final pay on which the pension was based. For example, if someone left on final pay of £25,000 and receives a pension of £5,000 then the most they could earn in a new job without it affecting their pension would be £20,000. If they earned £20,500 then their pension would be reduced by £500 for the duration of the re-employment.
- 4.5. The abatement policy needs to be reviewed because:
 - there is no provision to abate pensions in the new LGPS 2014
 - many of the reasons for the current policy have fallen away over time
- 4.6. There is no abatement provision in the new LGPS 2014 regulations but the draft transitional regulations state that existing abatement policies will continue to apply to pre 2014 benefits. This means that if the policy is not changed, additional administration will be required to identify the amount of pension which relates to pre 2014 service to be used in the assessment.
- 4.7. The current policy pre-dates the Fund's requirement for employers to pay additional contributions to cover the costs of early retirement. When the abatement policy was introduced, it was possible for an employee to retire early, at the cost of the Fund, and then receive further employment in the public sector. This could easily lead to loss of public confidence.
- 4.8. Since 1998, employers have been required to pay the Fund an upfront contribution covering the cost of early retirements. The Fund therefore is no longer subsidising employer decisions to allow someone to retire, so should not benefit from subsequent employer decisions to hire someone by abating the pension. As the requirement to pay for early retirements demands that employers make their decisions for sound business reasons, it is much less likely that removing abatement will lead to a loss of public confidence.
- 4.9. The abatement policy also pre-dates the introduction of flexible retirement into the LGPS. Flexible retirement allows employees to draw their pension and continue working on reduced pay or hours, which is part of the Government's longer term aim of keeping older people in employment. A policy of abatement does not sit easily alongside this arrangement, as it could deter people from working in the public sector in their older age. Many authorities changed their abatement policy when flexible retirement was introduced, and Hampshire, along with the Isle of Wight and Dorset, is just one of three authorities in the South who still abate.

- 4.10. The abatement policy will therefore be revised such that no pension will be abated following a re-employment starting after 1 April 2014, regardless of when the pension first came into payment. Existing abatements will continue to apply until the new employment ceases.

5. Membership to count in survivor benefits

- 5.1. Due to the way in which the 2014 regulations have been written, an inconsistency had been introduced which could put the survivor of a civil partnership that was entered in to after the member leaves active service, in a worse position than under the 2008 regulations.
- 5.2. Under the 2008 scheme, a survivor of a 'post retirement' civil partnership would receive a dependant's pension based on all the member's service in the scheme. In the 2014 draft transitional regulations this has been limited to service after 6 April 1988.
- 5.3. The regulations allow for an affected member to elect for all their service to be included in the calculation of a pension for their surviving civil partner, provided the written election is given to the administering authority before 1 April 2015.
- 5.4. Although it is possible to let all members know about this requirement to elect, it is not possible to target communications to those affected (because they may not currently be in a civil partnership). To avoid future appeals, Pensions Services will calculate survivor benefits due in this scenario as if an election had been received from the member, within the required timescale.

6. Recommendations

- 6.1. It is recommended that:
- the Panel note the progress towards implementation of the new LGPS 2014
 - approve the change in discretionary policies.

CORPORATE OR LEGAL INFORMATION:

Links to the Corporate Strategy

Hampshire safer and more secure for all:	yes/no
Corporate Improvement plan link number (if appropriate):	
Maximising well-being:	yes/no
Corporate Improvement plan link number (if appropriate):	
Enhancing our quality of place:	yes/no
Corporate Improvement plan link number (if appropriate):	

Section 100 D - Local Government Act 1972 - background documents

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

DocumentLocation

None

IMPACT ASSESSMENTS:

1. Equalities Impact Assessment:

- 1.1. Equality objectives are not considered to be adversely affected by the proposals in this report.

2. Impact on Crime and Disorder:

- 2.1. The proposals in this report are not considered to have any direct impact on the prevention of crime.

3. Climate Change:

- a) How does what is being proposed impact on our carbon footprint / energy consumption?

No specific impact

- b) How does what is being proposed consider the need to adapt to climate change, and be resilient to its longer term impacts?

No specific impact