



# Hampshire Pension Fund

## Changes and consultations impacting on the LGPS

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Presentation to Hampshire County Council

**QAS** Institute <sup>®</sup>  
and Faculty  
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# Topical issues



**GMP**  
Equalisation and  
indexation



**Cost cap**  
Changes expected to be  
effective 1 April 2019



**Fair deal**  
Deemed employer  
status



**McCloud/Sargeant**  
Transitional protections



**TPR**  
Single code proposed  
Data scoring



**SAB initiatives**  
Tier 3 employers/  
academies



**RPI announcement**  
Move to CPIH



**Good governance**  
Knowledge and skills  
Conflicts of interest



**Cap on exit  
payments**



**Valuation cycle  
consultation**  
Deferred employer

# LGPS cost management processes

## HMT Cost Management Process

Employer cost cap – 14.6% of pay\*

HMT specified assumptions

- No allowance for 50/50 option
- Reduced commutation assumption

No action unless changes (+/-) > 2% of pay

Consultation with SAB

Default process if no agreement

Calculations carried out by GAD

## SAB Cost Management Process

Total cost cap – 19.5% of pay, 1/3<sup>rd</sup> employee; 2/3<sup>rds</sup> employer

CLG specified assumptions

- Allowance for 50/50 option
- Unchanged commutation assumption

*may* recommend changes if cost above/below 19.5%

*should* recommend changes if cost changes by 1%-2% of pay

*must* recommend changes if cost is 2% of pay above/below 19.5%

Calculations carried out by GAD

\* Regulation 115(1) of the LGPS Regulations 2013

**2016 process: SAB agreed package costing 0.9% of pay**

# Previously agreed SAB cost cap package

Minimum lump sum death in service benefit of £75,000 per member

1

Removal of Tier 3 ill-health benefits

2

1 to 3 estimated to cost 0.5% of pay

3

Amended member contribution bands (cost – c 0.8% of pay)

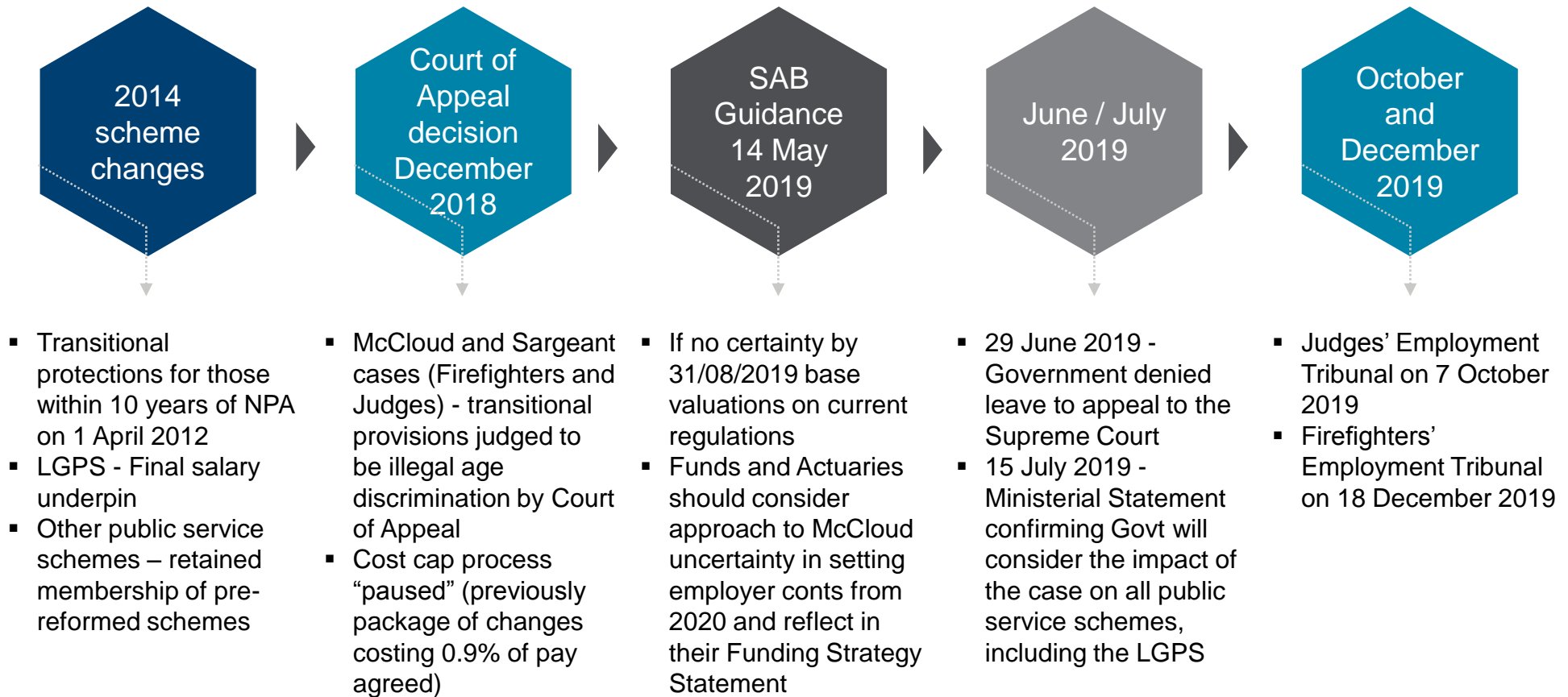
Enhanced early retirement factors for all members active on 1st April 2019

4

Revaluation changed (back) to pension accrued at start of year (saves 0.4% of pay)

## Process “paused” due to McCloud

# McCloud/Sargeant judgement

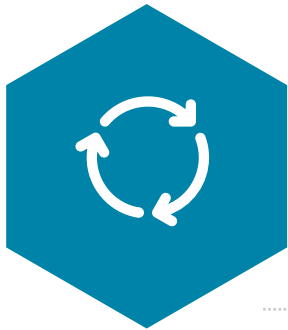


## Administration and communication issues as well as financial implications

# Consultation on valuation cycle

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Policy consultation ended 31 July 2019



- Original proposal - move to 4 year cycle from 2024 + out-of-cycle valuation in 2022
- Recent update from MHCLG - 2022 valuation definitely going ahead
- Still minded to move to a 4-year cycle (just not yet)

- Power to undertake interim valuation (in full or in part)
- Widen Administering Authority power to amend employer contribution rates between valuations
- Update – broad support for this (but no Regulations soon)



- Greater flexibility on employer exit – “deferred” employer status
- Restriction of employer exit credits where risk sharing in place – Regulations before Christmas?
- FE/HE not required to admit employees into LGPS in the future – not taken forward – passed back to Tier 3 review

## SAB employer initiatives - academies and Tier 3

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### Academies

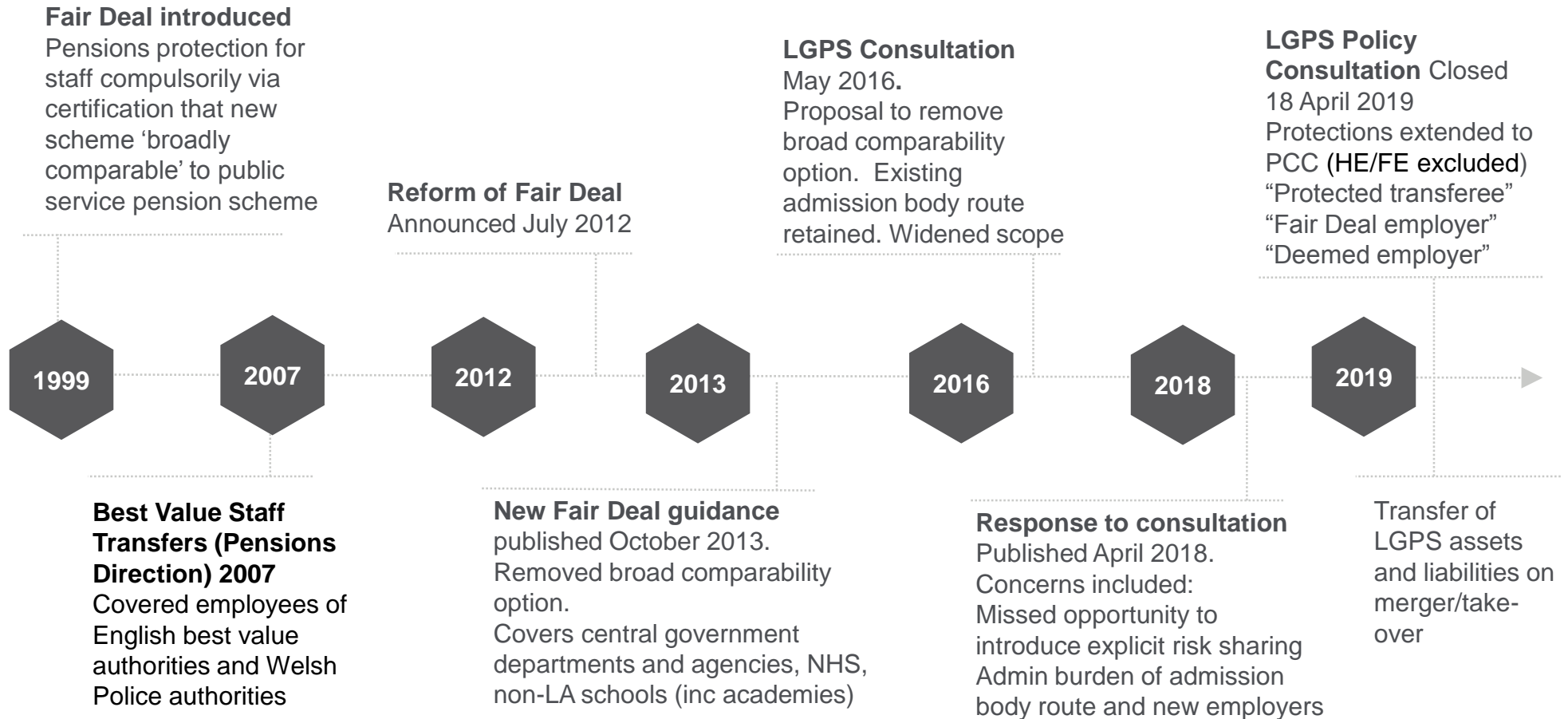
- SAB commissioned PwC – reported published May 2017
- GAD follow-up report
- 2 SAB workstreams established
  - Funding (disbanded)
  - Administration (ongoing)

### Tier 3

- Tier 3 - LGPS employers with no taxpayer-backed guarantee (charities, universities, colleges, housing associations)
- Aon commissioned to investigate issues across all stakeholders
- Aon report published July 2018 with “options for change”
- SAB working group established to narrow down the options

**Not clear if/when formal changes will be brought forward**

# Fair Deal – protections on staff transfers



**Not clear when draft Regulations will be brought forward**



# Exit cap

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## Small Business, Enterprise and Employment Act 2015

Powers to cap public sector exit payments at £95,000  
Duty to implement the cap through secondary legislation



## 10 April 2019 HMT consultation. £95K cap covers:

- All public sector employers (limited exceptions)
- Redundancy payments (including statutory redundancy payments), severance payments and pension strain costs

Consultation closed 3 July 2019

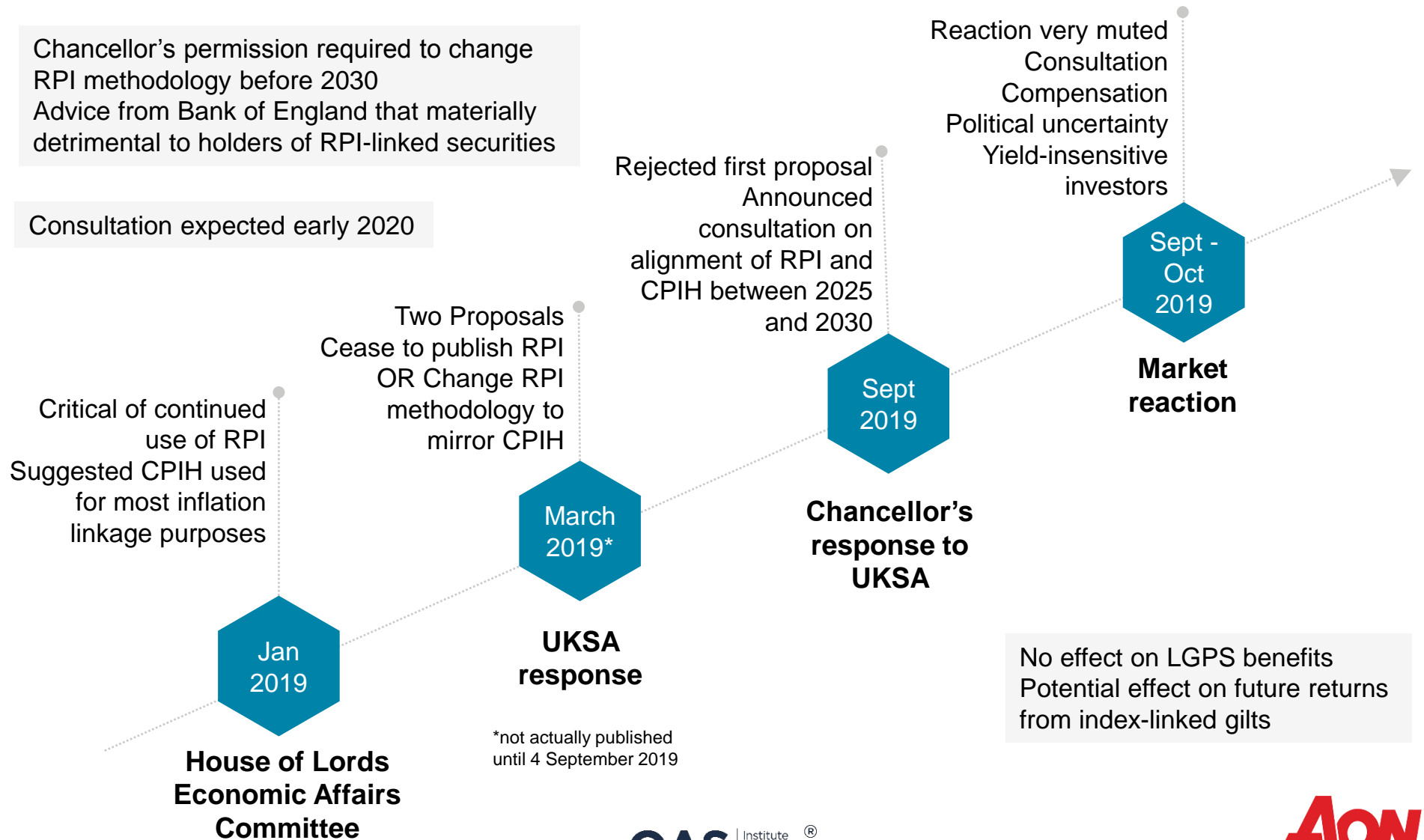


## Proposals incompatible with LGPS Regulations

- Redundancies for over 55s – automatic right to immediate benefits – expected to require reduced pension
- Strain costs set locally – move to central GAD factors

# HMT Regulations expected April 2020

# RPI announcement



# GMP indexation and equalisation

Guaranteed Minimum Pensions (“GMPs”) originally intended to (broadly) replace SERPS benefits for members of contracted-out occupational pension schemes.



## Contracting Out

Employers and employees pay lower National Insurance contributions – in exchange for lower state pension LGPS (all public service schemes) contracted-out until April 2016



## Guaranteed Minimum Pensions

In return pension scheme needed to provide a “Guaranteed Minimum Pension” – broadly equal to SERPS State benefits unequal so GMP unequal between men and women (Lloyds case in 2018)



## Indexation

GMPs not fully “indexed” (i.e. increased in line with inflation)  
State topped up increases to CPI via Additional State Pension (abolished when contracting-out ended)



## Interim solution

Full pension increases payable from schemes for members reaching SPA between 6 April 2016 and 5 April 2021

## Consultation on two options: full indexation; conversion

## Governance-related

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### TPR

- Engagement with 10 LGPS funds October 2018 – July 2019
- Report on governance and administration risks in public service pension schemes published 19 September 2019
- Proposal for single modular code (no separate public sector code) - consultation expected later this year. Aon involved in pre-consultation input

### SAB

- Good governance project (previously separation)
- Report published 31 July 2019 following surveys and feedback meetings
- Working groups established (Aon represented)
- Key areas – knowledge and skills, conflicts of interest, resourcing, independent review of governance

## Aon supporting CIPFA in updating Knowledge and Skills Framework



# Any questions?

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