

# Current issues in the LGPS

March 2021



## To cap at all?

Another chapter in the exit payment reform saga in the English LGPS\* - 12 February saw a sudden revocation of the 4 November 2020 introduction of the £95k cap. However, when it comes to revisiting early retirement cases, it might not be as simple as pretending the cap never existed: in our [webinar](#) on 18 February we discussed the legal ins and outs. The SAB [dedicated page](#) is an excellent and frequently updated resource, and the formal [revocation regulations](#) that were laid on 25 February (and come into force on 19 March) make it clear that Funds should be retrospectively awarding full pensions (and charging employers the strain costs) regardless of any alternative cash payments made at the time.

\*In broad terms, LGPS early retirement strain costs are not counted against the £95k cap for Welsh and Scottish cases.

## Good Governance webinar

On 25 February, Catherine McFadyen spoke to Cllr Roger Phillips, Chair of the Scheme Advisory Board for England and Wales, as part of our [Keeping the LGPS Connected](#) series. The topic was Good Governance and Cllr Phillips was able to share the SAB's perspective on this important piece of work. Cllr Phillips emphasised the need for the LGPS to be able to collectively demonstrate high standards of governance and ensure that funds are appropriately resourced to deliver a complex scheme.

## Managing employer risk more flexibly

The anticipated [statutory guidance](#) from MHCLG on the employer [flexibility regulations](#) (that were introduced in England and Wales in September 2020) and an accompanying [SAB guide](#) are now available. A principles-based approach would allow you to accommodate the new powers whilst retaining discretion on individual employer cases and can be captured via updates to your funding strategy statement and administration strategy. Please speak to your fund actuary to take this forward.

## The clouds are breaking

No, not a weather update as Spring is in the air, but instead this month saw some progress in how the Government will resolve McCloud in the unfunded schemes. HMT published its [response to their consultation](#) on 4 February and confirmed that they will look to proceed with the 'Deferred Choice' option where members can choose their benefits for 2015-2022 at the point of retirement (instead of having to make a pre-emptive choice in 2022). The update does not affect the LGPS; we are still awaiting MHCLG to publish its response to their McCloud consultation.

## McCloud survey

And whilst on our favourite subject... our [McCloud survey](#) was answered by 27 LGPS funds and provided an interesting snapshot of where respondents are up to in terms of delivering McCloud. Responses showed that there is a wide divergence on progress; for example, while 7 funds have issued data requests to all their employers, 15 had not yet issued any requests. If you would like more information on how to tackle McCloud why not take a look at our McCloud [roadmap](#), or speak to your usual Hymans' consultant.

### Finger off the pause button

With more clarity around the McCloud remedy, HMT also confirmed on 4 February that they will now 'un-pause' the 2016/17 cost cap valuations (which will include the cost for resolving McCloud). Highlights from the [statement](#) include HMT confirming that any cost cap ceiling breaches will not result in benefit reductions (however any cost cap floor breaches will still be honoured) and any changes in contribution rate from the unfunded scheme's 2020 valuation will be delayed until 2024 to give GAD time to complete the 2016/17 cost cap valuations. Given the Treasury's statement mentioned that directions will need to be prepared for instructing GAD on how to allow for McCloud, and the need for possible revisions to existing actuarial assumptions, it may be a while before results emerge.

### Time to get our Act together

The Pension Schemes Bill has eventually received royal assent and is now the [Pension Schemes Act 2021](#). The parts of the Act which will affect the LGPS include the introduction of the Pension Regulator's new powers, climate change risk and pensions dashboards. For example, the Act gives the Regulator new powers relating to inspection of premises and those relating to providing false or misleading information to the Regulator. The Act also contains powers to make regulations in relation to climate change risk. The DWP has already published a [consultation](#) on climate risk reporting and governance regulations. The scope of these regulations does not include the LGPS. However, the SAB expects regulations from the MHCLG that will substantially mirror the requirements set out in this consultation. Lastly, Funds will be required to supply data to pensions dashboard providers, with the threat of sanction from the Regulator for failing to do so.

### Early retirement is getting later

The good old days of retiring at age 50 are a distant memory. As life expectancies continue to increase, the Treasury has [confirmed](#) its intention to increase the normal minimum pension age (the earliest age within the pensions tax legislation at which members in good health can access their benefits) from 55 to 57 years on 6 April 2028. The details of the implementation of the policy have been put out for consultation and include transitional protection for those with rights to draw benefits before attaining the age of 57. HMT's consultation period runs until 22 April.

### What to do in an emergency

Climate risk concerns continue to hit the headlines, and February saw the publication of a report by [Friends of the Earth](#) highlighting that £10bn of LGPS assets were invested in fossil fuel companies. The report states that over three quarters of local councils have declared a climate emergency and considers how that has been reflected in stated investment approaches taken by LGPS pension funds. The continued scrutiny emphasises the importance of understanding the risk exposures within your Fund and developing clear objectives and plans to manage these risks.

### Better Futures 100 event – Building a sustainable future for generations to come

We'd like to invite you to our [Better Futures 100](#) event on 25 March, which is part of our 100th birthday activities. This first event will focus on climate change, why we must all take action, highlighting what can be done and the differences our actions can make to help shape our futures.

## Appendix

### To cap at all?

[Keeping the LGPS connected on Vimeo](#)

[LGPS Scheme Advisory Board - Public Sector exit payments \(lgpsboard.org\)](#)

[The Restriction of Public Sector Exit Payments \(Revocation\) Regulations 2021 \(legislation.gov.uk\)](#)

### Good Governance webinar

[Keeping the LGPS connected on Vimeo](#)

### Managing employer risk more flexibly

[Guidance on preparing and maintaining policies on review of employer contributions, employer exit payments and deferred debt agreements - GOV.UK \(www.gov.uk\)](#)

[Management of employer risk regulations - Hymans Robertson](#)

[LGPS Scheme Advisory Board - Guide to Employer Flexibilities \(lgpsboard.org\)](#)

### The clouds are breaking

[Public Sector Pensions Consultation Response.pdf \(publishing.service.gov.uk\)](#)

### McCloud survey

[McCloud survey – administration reality bites with target date - Hymans Robertson](#)

### Finger off the pause button

[Update on the 2016 and 2020 Valuations - GOV.UK \(www.gov.uk\)](#)

### Time to get our Act together

[Pension Schemes Act 2021 \(legislation.gov.uk\)](#)

[Taking action on climate risk: improving governance and reporting by occupational pension schemes \(publishing.service.gov.uk\)](#)

### Early retirement is getting later

[NMPA consultation 2021.02.10.pdf \(publishing.service.gov.uk\)](#)

### What to do in an emergency

[Dirty pensions: £10 billion still invested in fossil fuels by local government pension funds | Friends of the Earth](#)

### Better Futures 100 event – Building a sustainable future for generations to come

[Better Futures 100 - Building a sustainable future for generations to come | Hopin](#)