City of BRADFORD
METROPOLITAN DISTRICT COUNCIL

Report of the Director, West Yorkshire Pension Fund, to the meeting of West Yorkshire Pension Fund Pension Board to be held on 8 November 2017.

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Subject: Local Government Pension Scheme

Summary statement:

This report updates the Local Pension Board on the current issues affecting the Local Government Pension Scheme (LGPS)

Recommendation

The Pension Board note this report.

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Portfolio:

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Overview & Scrutiny Area:

1 Background

1.1 The Local Government Pension Scheme (LGPS) continues to develop and undergo change and is also affected by changes in overriding legislation.

1.2 There have been a number of consultations and updates over the last year.

2.0 LGPS Update

2.1 Publication of new transfer factor suite:
Following the updates made to the Public Sector Transfer Club memorandum in February 2017 (effective 1 March 2017), Department for Communities and Local Government (DCLG) issued an updated transfer factors suite for the LGPS in England & Wales on 23 March 2017.

2.2 Letter from DCLG on Brewster cases
On 17th August 2017, a letter from DCLG was circulated to LGPS funds regarding the implications of the Brewster judgment.

In the Brewster judgment the Supreme Court found that the requirement of the LGPS in Northern Ireland for members to have completed a nomination form for a cohabiting partner to be entitled to payment of survivor's pension constituted unlawful discrimination and was a breach of the European Convention on Human Rights (ECHR).

DCLG's view, is that it would be 'reasonable' for funds to rely on the judgment as well as section 3 of the Human Rights Act 1998 to not require that a survivor partner must have been nominated to have been eligible for an LGPS survivor's pensions

2.3 Tax on interest for late payment of pension benefits:
Local Government association (LGA) have advised that although such payments are subject to income tax, administering authorities must not deduct this tax (because section 371 Income Tax (Trading and Other Income) Act 2005 places liability for income tax charged on interest on the person receiving or entitled to the interest). Instead, administering authorities must advise the member that they are responsible for accounting for the tax on the interest payment themselves and, accordingly, they should declare the payment to HMRC.

2.4 Exit Payment Reforms update
A further consultation on the introduction of the Government's policy on exit payment recovery is expected in the near future, this will require high earners (earning £80,000 or more) who leave employment in the public sector with an exit payment to repay the exit payment, or a proportion of it, if they return to public sector employment within 12 months,

The Government has also stated that it still intends to implement the public sector £95,000 exit payments cap legislation and a further consultation is expected in the autumn. This would potentially mean that the legislation is likely to be implemented in the first half of 2018.

Proposals looking at the overall severance packages payable from public sector bodies were consulted on in February 2016, and the Government issued a formal

response in September 2016. The response to the consultation sets out broad criteria within which the Government expects responsible departments to reform the exit packages of their workforces. Subject to the Government proceeding with its plans in this area, we expect DCLG to publish a consultation on the proposed package for local government.

2.5 Overseas Transfer charge:

In the Spring Budget 2017, the Government announced the introduction of an overseas transfer charge. This charge is intended to support the government's objective of promoting fairness in the tax system. It continues to allow overseas transfers from registered pension schemes that have had UK tax relief, that are made when people leave the UK and take their pension savings with them to their new country of residence.

The new measure ensures that transfers to Qualifying Recognised Overseas Pension Scheme (QROPS) requested on or after 9 March 2017 will be subject to a 25% overseas transfers charge unless, from the point of transfer, both the individual and the pension savings are in the same country, both are within the European Economic Area (EEA) or the QROPS is provided by the individual's employer. If this is not the case and/or the individual does not provide the necessary information, the overseas transfers charge will apply.

It also widens the scope of UK taxing provisions so that, following a relevant transfer to a QROPS on or after 9 March 2017, the overseas transfer charge may apply to an onward transfer payment out of those funds (on or after 6 April 2017) in the five full tax years after the date of the original transfer, regardless of where the individual is resident.

2.6 The LGPS Scheme Advisory Board – Scheme Annual Report 2016

The 2016 annual report for the English and Welsh scheme has been published.

The report is foremost a compilation of each of the 91 funds' individual reports. However, the report also includes analysis of scheme trends at a national level and, this year, a summary of the 2016 fund valuations.
Some of the key highlights of the report are listed below:

- The total membership of the LGPS grew by 134,000 (2.5%) to 5.3m members in 2016 from 5.2m in 2015 and number of LGPS employers increased by 2,635 (22%) to 14,435.
- The total assets of the LGPS held were £217bn. These assets were invested in pooled investment vehicles (43.6%), public equities (34.6%), fixed interest/index linked (7.5%), property (7.8%), as well as other asset classes (6.5%).
- The net return on investment over 2015/2016 was +0.1% compared with +12.1% in 2015. The 2016 figure reflecting less favourable market conditions than in 2015.
- The scheme remained in a cash-flow positive position in 2016, including investment income.
- As at 31 March 2016, the LGPS liabilities were estimated at £254bn indicating an overall funding level of 85%, increased from 79% at 31 March

2013. The increase in the funding level means there was an overall reduction in the cash deficit from £47bn in 2013 to £37bn in 2016.

The full report is available at www.lgpsboard.org under Scheme Annual Report 2016.

2.7 Publication of PwC academies report:

The Scheme Advisory has published a report by PwC, "Options for Academies in the LGPS", on their website. The report was commissioned by the Scheme Advisory Board in 2016 to look into the issues associated with the participation of academies in the LGPS. In producing the report PWC engaged with key stakeholders including pension funds, actuarial firms and academy trusts.

The Scheme Advisory Board issued a consultation on this topic which closed on 29 September 2017. The proposed draft objectives that the Scheme Advisory Board were seeking views on were:

- Protect the benefits of scheme members through continued access to the LGPS.
- Ring fence local taxpayers and other scheme employers from the liabilities of the academy trust sector
- Improve the efficiency and effectiveness of administrative practices
- Increase the accuracy and reliability of data

However, in achieving the objectives, the Scheme Advisory Board do not believe the changes should:

- Significantly alter cashflow at the fund level
- Significantly alter assets at the pool level

2.8 Consultation on new financial guidance body:

Department for Work and pensions (DWP) and HM Treasury have jointly consulted on plans to create a single body providing debt advice, money guidance and pensions information and guidance. In it response to the consultation the Government said it is committed to making sure that good quality, impartial financial guidance and debt advice is available to everyone. The key proposal from the consultation was the establishment of a new single financial guidance body to replace Money Advice Service, the Pensions Advisory Service and the Department of Work and Pensions' Pension Wise guidance.

2.9 Review of automatic enrolment:

DWP has commenced a new review into automatic enrolment. The review will consider the success of automatic enrolment to date, and explore ways that the policy can be further developed.

The government is keen that as many people as possible can benefit from their own long-term saving and, in particular, the review will:

- gather evidence on groups such as people with multiple jobs who do not qualify for automatic enrolment in any single job, and

- consider how the growing numbers of self-employed people can be helped to save for their retirement.