CITY OF WOLVERHAMPTON COUNCIL

# Pensions Board

3 July 2018

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| **Report title** | Regulatory Update 2018 | |
| **Originating service** | Pension Services - Governance and Corporate Services | |
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**Recommendation for noting:**

The Board is asked to note:

1. The regulatory updates from the Scheme Advisory Board and the Pensions Regulator and the work of the Fund to ensure it has effective arrangements in place to ensure compliance.

## 1.0 Purpose

1.1 To provide the Board with regulatory updates and guidance from national bodies and to outline the steps taken by the Fund to ensure its compliance.

## 2.0 Background

2.1 The Scheme Advisory Board (SAB) was created under the Public Service Pensions Act 2013. The purpose of the Board is to be both reactive and proactive, seeking to encourage best practice, increase transparency and coordinate technical and standards issues. Each year the SAB set an annual workplan highlighting areas to be the key focus of their work in making recommendations on the governance and administration of the Local Government Pension Scheme (LGPS).

2.2 The Pensions Regulator took over responsibility for public service pensions schemes under the same Act and has responsibility for regulatory oversight of LGPS Funds ensuring their compliance with legislation and statutory guidance. Each year the TPR publishes their Corporate Plan noting their own Key Performance Indicators and areas they intend to engage to improve the management of LGPS Funds.

## 3.0 Scheme Advisory Board

3.1 Investment Pooling

The Scheme Advisory Board continues to focus its attention on investment pooling and the progress made by Funds in creating their investment pools. A cross pool group has been established with LGPS Funds with representatives from their pooling companies, LGPS Central's Chief Operating Officer attends with the Fund's Assistant Director Finance and Investments.

The Cross-Pool Group focuses on progress in establishing the asset pools and shares best practice on governance and organisational structures.

In its most recent statement, the SAB reiterated the point that investment strategy remains with the individual pension funds and welcomed engagement from member representatives as part of the oversight of investment pooling. Board are aware that the Fund appoints trade union representatives to both the Pension Committee and the Local Pension Board. Decisions as shareholders and customers of LGPS Central as a company, remain with the individual fund's pensions committees.

3.2 Cost Transparency

Work continues to develop investment cost transparency across the LGPS. SAB recently reported that over 60 Fund Managers have now signed up to the cost transparency mark.

Investment Pools are also being encouraged to sign up to the Transparency Code to show their commitment as started by the Funds in disclosing to enable monitoring and management of investment management costs. This year in its annual report and accounts, the Fund is reporting a reduction in investment management costs of £11million.

3.3 Review of Academies

As previously reported to the Board, work is underway by the SAB to investigate the issues around Academisation of local authority schools and what it means for the LGPS and their host authorities. As part of this work, SAB appointed PWC to produce a report on the options for academies.

That report continues to be reviewed by SAB who have since established 2 working groups, one for administration and one for funding. The groups meet every 4/5 weeks to discuss data collection, valuing of assets, training, pooling and contribution rates. It is expected that a recommendation to SAB will be made in November 2018 with recommendations to Ministers early 2019.

## 4.0 The Pension Regulator – Clearer, Quicker Tougher

4.1 At the recent Pensions and Lifetime Savings Association conference, the Pensions Regulator set out their Corporate Plan to be a clearer, quicker and tougher force across the pensions industry, including within the LGPS with the aim of improving their effectiveness through acting in a broader more visible way with the aim of improving outcomes for retirement savers.

4.2 Following the outcomes of its recent survey the Regulator noted that on average across the LGPS, only 45% of LGPS members received an annual benefit statement for the 2017 year. This has focussed their attention quite heavily on data quality in the LGPS and the ability of Funds to inform members about their future retirement income.

4.3 Also in focus was the impact poor data could have on valuation and funding assessments, with the Government Actuary Department noting the policy decisions which could emerge from both the Public Sector / LGPS Cost cap review and the “section 13” review of 2016 actuarial valuations. In seeking to improve this area across the LGPS, the Regulator has noted its intention to undertake a range of engagement activities, touching all LGPS funds during 2018/19, including review of practices within 10 LGPS Funds as part of a ‘deep dive’ to understand the risks and challenges faced by Funds.

4.4 Risk Landscape

As part of its Corporate Plan, the Regulator highlights its risk landscape for the forthcoming year which have determined its focus in work;

- The impact of changes in the economic and political environment
- A general shift towards an ageing population
- Opportunities and threats from the increased use of technology
- As a result of automatic enrolment, there has been an increase in the number of people saving for a pension

All of these have been identified and addressed by the Fund in its 2018 – 2023 Service Plan.

4.5 As outlined in the Annual Governance Report, the Fund engages with the Regulator on a consistent basis to share best practice and learning.

**5.0 Legal and Regulatory changes**

5.1 On 27 May 2016, the Ministry for Housing, Communities and Local Government (MHCLG) opened a consultation on proposed changes to the LGPS in England and Wales. On 19 April 2018, the LGPS (Amendment) Regulations 2019 were laid before parliament with the new regulations coming into force on 14 May 2018 with the provisions having effect from 1 April 2014.

In line with disclosure requirements the West Midlands Pension Fund are required to inform members of the changes to the Regulations which include changes to deferred benefits at age 55 for leavers before 1 April 1998. The Fund will shortly be issuing disclosure letters to all of the Fund's membership informing them of all the changes.

In addition to changes for members, the regulations also provide for an "exit credit" to be paid to employers on exiting the Fund. The new Regulations came into force on 14 May 2018, and will apply to all cessations from that date, regardless of when the employer joined a fund. It is not clear if exit credits will apply to cessation valuations with calculation dates before 14 May that are processed on or after 14 May, however the general consensus amongst funds and actuarial firms at this stage is that such cases would be exempt.

5.2 The new Regulations also set out a three-month period during which exit credits should be paid. Further guidance is being sought on the practical application of this payment period, as in many cases this may not be sufficient to allow any outstanding data cleansing and administrative issues to be completed before the final funding position is reviewed.

5.3 There are potential taxation issues to be considered, for example, whether exit credits will be subject to an authorised surplus payment (ASP) charge of 35%, or be treated as a public service scheme payment (PSSP) and be exempt from tax.

The Fund understands that this matter is being discussed between MHCLG and HMRC, with further clarity to be provided.

5.4 As a result of the new amendment Regulations, the Fund will be considering its associated policies and procedures, primarily the Funding Strategy Statement (FSS) and associated Termination Policy, both of which will require revision to reflect the new legislation.

5.5 In addition, the Fund will review the funding position and profile of its employer base, to include those employers in a surplus position at the 2016 valuation, those that have entered surplus since then, and those employers with a contract-end date prior to the 2019 actuarial valuation. The Fund are expecting further guidance to be issued.

## 6.0 Financial implications

6.1 Failure by the Fund to adhere to regulatory requirements could result in fines being imposed on the Fund by either the Pensions Regulator or the Information Commissioner.

## 7.0 Legal implications

7.1 The Fund is required to adhere to all statutory guidance and legislation. Failure to do so could result in significant fines from the regulator as well as Judicial Review of our working practices.

## 8.0 Equalities implications

8.1 There are no implications

## 9.0 Environmental implications

9.1 There are no implications

## 10.0 Human resources implications

10.1 There are no implications

## 11.0 Corporate landlord implications

11.1 There are no implications

## 12.0 Schedule of background papers

12.1 The Pension Regulator Corporate Plan 2018 – 2021
http://www.thepensionsregulator.gov.uk/docs/corporate-plan-2018-2021.pdf