APPENDIX B

Current Technical Issues

Local government exit pay reform and £95k cap

The £95,000 cap on exit payments to public sector workers is due to be implemented from 4 November. Changes to the LGPS regulations are required and MHCLG have released a consultation on potential changes that closes on 9 November. As part of this consultation it is proposed the calculation of strain costs be based on a standardised approach and factors across the LGPS for employers subject to the cap. GAD have now released draft guidance and factors, and MHCLG have released draft regulations.

The proposed changes are extensive but the draft regulations apply only to employers subject to the public sector exit payment cap, which means that the new flexibilities will not apply to members employed by a LGPS employer not subject to the cap. However, the proposed changes will affect certain members (for affected employers) who do not actually trigger the cap, due to the reduction in redundancy payments allowed when there is a strain cost. This situation may create confusion, particularly for members who move between employers subject to the cap and those that are not, so clear communication will be vital.

MHCLG have sent a letter to all administering authorities on 28 October in respect of the implementation of the regulations as drafted. This explains that the Government's view is that affected LGPS members should be able to elect to receive an immediate but fully reduced pension. If they do not make that election a deferred pension plus a lump sum equal to the capped strain cost will apply.

LGA / SAB are considering this letter alongside ongoing legal advice on the matter and will publish the legal advice together with a commentary for administering authorities and scheme employers around the end of October.

Implications for calculations

Currently, the strain cost for an early payment of pension is calculated by each LGPS fund. This currently does not affect member benefits as a full pension is paid regardless of any differential in cost calculated by different funds. Under the new proposals, strain costs that are capped will result in reduced pension, however the changes to the LGPS regulations and standard strain cost calculations are not yet in force, and are not expected to be till late 2020/early 2021. Until that time we assume that existing strain cost calculations will continue to be used when calculating whether strain costs should be capped (with effect from 4 November 2020 when the public sector exit payment regulations come into effect). As mentioned above, we understand LGA are taking legal advice on how the exit cap should work in the interim.

We understand that the LGPS regulations are due to be in place by the end of this year (if parliamentary time can be found) and it is possible that there will be an

additional period of time to implement the necessary changes to the administration systems. This could mean that manual calculations may be required in the interim both for quotes in advance of retirements and actual exercises once the new approach and factors apply.

There will obviously be a change in strain costs when the move to the standard GAD factors is implemented. This change could lead to a funding strain (or gain) at actuarial valuations due to early retirements on redundancy. As there is flexibility under the proposed GAD guidance to charge employers not subject to the exit cap different strain costs, funds should consider whether this is something they want to implement. It is currently not clear whether the software providers are planning to allow more than one set of factors (or differential uplifts to standard factors) to be set up within the administration systems for different types of employer. WYPF proposals:

Scenario	**Changes to how we process cases**
Employees not covered by exit cap	No change needed, cases will be processed in the usual way.
Employees covered by exit cap but total exit payments including strain cost are **under** £95K cap	Detail on-going issue in correspondence to employer. Process estimates and retirement cases. Ask employers to confirm total exit payments on the retirement notification. The fund would only pay an unreduced pension if total exit payments to member were under £95K.
Employees covered by exit cap but total exit payments including strain cost are **over** £95K cap	Don't follow current LGPS regulations in awarding member an unreduced pension and instead follow guidance from MHCLG and LGPS Advisory Board. Give member option to take a reduced pension or deferred benefits.

SAB meeting on Employer Flexibilities

On 19 October the SAB Working Group met to discuss the recent regulation changes in relation to employer flexibilities and deferred debt arrangements. MHCLG has drafted proposed statutory guidance for employer flexibilities which is now with the working group to consider. It is hoped that there will be a short consultation with the working group and the actuarial firms on the guidance, so that guidance is available publicly as soon as possible. It is expected that this will be late this year / early next year, alongside the SAB guidance which will be more detailed.

HMT GMP Indexation Consultation - Proposal to Extend Full Indexation

The HMT's consultation on GMP indexation was launched on 7 October 2020 and will continue until 30 December 2020. The key concern of this consultation is the

treatment of members who retire after 1 April 2021 and how the government plans to meet its obligations in terms of full indexation of past benefits going forward.
The following options are explored:

- The extension of full indexation to cover those reaching SPA up to and including 5 April 2024

- The extension of the interim solution to cover those reaching SPA beyond 5 April 2024 (to, for example March 2030)

- Discount conversion as a long-term policy solution and make full GMP indexation the permanent solution for public service pension schemes

The underlying view is that full indexation would be required at least up to April of 2024 with conversion to be brought in as a longer term option, though there is concern that that the more this is delayed, the less valuable the benefit becomes.

McCloud update

The closing dates for the two McCloud consultations (one LGPS specific and the other on wider public sector schemes) have now passed. McCloud will remain one of the most significant tasks facing LGPS funds and it is important that the process of planning and resourcing receives appropriate priority.

GAD update factors

With effect from 1 November 2020 new GAD factors have been issued for divorce cases, incoming and outgoing transfers and trivial commutation.

SF3 data published

On 4 November 2020, MHCLG published Local government pension scheme statistics (SF3 statistics) for England and Wales: 2019 to 2020. Highlights include:

- total expenditure of £13.4 billion, an increase of 5.6% on 2018/19
- total income of £16.0 billion, an increase of 2.6% on 2018/19
- employer contributions increased by 7.7% on 2018/19 to £7.7 billion
- employee contributions of £2.3 billion • the market value of LGPS funds in England and Wales on 31 March 2020 was £272.4 billion, a decrease of 5.1%
- there were 6.1 million scheme members on 31 March 2020, 2.0 million active members, 1.8 million pensioners and 2.2 million deferred members
- there were 88,232 retirements in 2019/20, an increase of 5.7% compared with 2018/19. Discretionary policies list

Brexit and overseas payments

Administering authorities should be preparing for the potential impact of Brexit (particularly a possible “no-deal” scenario) on those in receipt of a pension who have overseas accounts, or even just those who live overseas but have a UK bank account. We are aware that some UK banks are closing the accounts of those who don’t live in the UK, for example. Those who may be affected should be contacted as soon as possible to ensure that the pensions can continue to be paid.

This is not a trivial exercise as a different approach may be needed depending on where the pensioner actually lives. The DWP has published brief online guidance on how rights to pensions and benefits for those living overseas will be affected. WYPF are gathering information from the main banks regarding their plans.