

Cost Management, Benefit Design and Administration Committee

DATE:	05 February 2019
VENUE:	St John's Room, 18 Smith Square, London SW1P 3HZ
TIME:	11.00AM – 1.00PM

AGENDA

Item		Page(s)	Timings
1	Welcome, introductions, apologies and declaration of interests	-	11:00
2	Matters arising	Paper A	11:05
3	Scheme Advisory Board Cost Management Process – Update		11:15
4	Academies/3 rd Tier employer projects - Update		11.45
5	Good Governance project – Update		12.00
6	Late Retirement Factors - Update		12.10
7	Local Pension Board Survey II – Update		12.30
8	GAD factor review - Update		12.40
9	TPR scheme return - Conditional Data - Update		12:50
10	AOB and date of next meeting		12.55

Cost Management, Benefit Design and Administration Committee

Item 2 Paper A

ACTIONS AND AGREEMENTS

MEETING HELD ON 30th August 2018 – 11.00am

**AT LOCAL GOVERNMENT ASSOCIATION, 18 SMITH SQUARE,
WESTMINSTER, LONDON, SW1P 3HZ**

PRESENT

George Georgiou	Members (GMB)	Chair
Simon Taylor	CIPFA	
Geoff Reader	Practitioners	
Alan South	Practitioners	
Sean Collins	Practitioners	
Glyn Jenkins	Members (UNISON)	
John Neal	Members (Unite)	
Graeme Muir	Actuaries: Barnett-Waddingham	
John Livesey	Actuaries: Mercer	
Alison Murray	Actuaries: Aon Hewitt	
Peter Summers	Actuaries: Hymans Robertson	
Robert Holloway	LGA - Board Secretariat	
Liam Robson	LGA - Board Secretariat	
Brian Allan	GAD	
Chris Daniels	GAD	
Jeremy Hughes	MHCLG	

APOLOGIES

There were apologies from Kevin Gerrard

1. Welcome, introductions and apologies

The Chair welcomed all in attendance to the meeting.

2. Matters arising

The Committee agreed the minutes for the previous meeting. Not covered during the meeting, but as background, the Committee noted that the August LGPC bulletin will contain an update on the recent 'Elms case' (nomination forms).

3. Scheme Advisory Board Cost Management Process – Update

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There was no significant update since the previous meeting. The HM Treasury Direction was expected to be published before recess on 13th September 2018.

Subject to this deadline being met, the Chair and Vice chair had scheduled a meeting for the 20th September, prior to the SAB meeting during week commencing 8th October 2018. The Committee would be alerted to the Direction, and comments directed to the Chair and Vice Chair via the secretariat.

4. 50/50 awareness project

Bob Holloway (BH) provided an update on 50/50 progress. A paper proposing a further survey aiming to gain more detail on the awareness and communication of the 50/50 option was presented to the Board at its last meeting. Feedback received was that the questions should be more open ended. The questionnaire was being redrafted for review at a future meeting.

5. Late retirement factors – Update

An overall review of factors by GAD was to be conducted with scope for a working group and/or consultation before implementation.

6. Pensions Regulator Scheme Return

The Regulator had already made headway with scoring schemes' common data and 2018 was the first year of assessing conditional data. Progress with work on a universal data extract had been made, however, the first year would be run as a test bed. Discussions with service providers would resume later in 2018 for the scheme year 2019.

7. Academies/Tier 3

A brief update on progress of the administration and funding groups was given. The administration group had drafted a single data extract that aimed to improve consistency across the scheme, and the funding group were in discussions with DfE regarding proposals for common contribution rates.

The Tier 3 report completed by Aon Hewitt was due to be published in due course together with the formation of a working group to develop options outlined in the report.

8. GAD factor review

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The suite of factors were being reviewed and an update was planned to address demographic changes and bring the factors into line following other market changes since the last evaluation.

9. Senior Pensions Adviser post

The position of senior pensions adviser had been filled from the pension team, therefore this had created a new vacancy for a full time pension adviser in addition to the part-time post that was currently at the advertisement stage.

10. AOB

Employer exit payments – the issue of admitted employers’ remaining in the LGPS, but would otherwise have left due to large exit payments was discussed. Many of these issues and options would be explored as part of the Tier 3 project. A paper on methodology had been provided by Mike Scanlon.

The committee noted that the separations project had been resumed, having been moved down the Board’s priority list due to work on investment pooling. An invitation to bid had been posted on the Board website. The successful bidder would use the KPMG report as a starting point to further develop a range of options. The deadline was 21st September and a decision to appoint was expected at the next Board meeting in October.

The committee noted the Minister’s MHCLG and SAB Infrastructure event for chairs of pension committees planned for 15th November.

The ill health sub-committee would likely be reformed following the output of the CM process.

Also raised for discussion was the use of KPIs and cost transparency for AVCs following DWP’s consultation.

11. Date of next meeting

The next meeting dates were to be confirmed.

* * *

To: Bob Holloway, LGA

From: Jeremy Hughes
Pensions Policy
LGF Reform and
Pensions
Location: 2 Marsham Street
London
Tel: 0303 444 3131
Date: 29 January 2019
Copies: Teresa Clay

Late Retirement Factors : Update for Cost Management Committee

1. I said I would provide you with an update on the progress we have made on the development of a new approach to Late Retirement Factors (LRFs), following the Minister's request that the SAB provide recommendations for improvements.
2. I intend to provide the Committee with a draft revised guidance note in the next few weeks as part of a short, technical consultation on the content. I can also provide the committee with this indication of the recommendations that we will be making to our Minister about how the new process is intended to work. I can also undertake that the views of the committee, and consultees, will be shared with the Minister in making his final decision after the consultation period.

Key features of the new approach

3. As you are aware, the key and shared objective was to remove the "cliff edge" when factors change. When the factors changed last, in January 2017, there was a significant and immediate reduction in the uplift that became payable to those who had worked past pension age. This seemed to be unfair and so we agreed to move to an approach more consistent with the scheme's current CARE design.
4. Under the new approach the period worked past normal retirement age is divided into the periods prior and post the introduction of the new factors. The increase for the former is calculated on the current factors and method, and that for the latter on the new factors. This results in a smoother transition between one set of factors and the next for individual members.
5. This methodology will be set out in the revised guidance note that will be sent for circulation. That note will also include some worked examples to help administrators follow the new approach. GAD will also provide some illustrations to show how the cliff edge is removed and we will include these with the consultation.

Other policy choices

6. During the course of our discussions, representations were made from member representatives that the use of long term pay assumptions in calculation of LRFs was not appropriate. This was both on the basis that the longer term assumption was more positive, as it assumed an end to the ongoing policy of pay restraint, and also because it was asserted that periods of service after pension age tended to be short and it was unlikely that those staying on would

receive further significant increases in pay (which are part of the longer term assumption for the workforce as a whole).

7. On the data point, we were not able to obtain relevant data from the valuation that would confirm the assumptions made by the unions. We also note that there is no official short-term salary growth assumption that could easily be plugged into the GAD factor review. Such an assumption would, by its nature, have a short shelf life meaning that it, and the factors derived from it, would need frequent re-calculating. That would run counter to our main policy intent, which is to provide greater certainty to members.
8. More fundamentally, change in the LRF is driven by the difference between the salary growth assumption and the SCAPE rate (which is itself based on the long term forecast of GDP growth). It is likely that these two indicators will move largely in tandem, and so we do not believe that there will be much to be gained by members through moving to short-term forecasts for both of these indices, other than creating more uncertainty and greater administrative costs.

Implementing the new approach and factors

9. The new approach will apply to all retirements from the date at which the new factors and guidance is issued. We do not intend to recommend that this methodology be backdated to an earlier date. Although affected members' benefits would be increased if the approach were backdated to include service before the change in January 2017, there is no obvious date to choose and no value for money case for funds to offer what would be a gratuitous benefit for members who had already retired.

Conclusion

10. I am also including with the covering email a note from GAD which illustrates the proposed approach and I would be very happy to discuss this and take questions from Committee members at their meeting on 5 February.

Jeremy Hughes

3 Examples for proposed method (values illustrative only)

Member retiring from active service after age 65

Consider a male member, whose 65th birthday falls on 30 May 2016.

The member decides to remain as an active member and retire on 30 September 2019, with his last day of service being 29 September 2019. His period worked after NPA includes the date at which new factors came into force on 1 April 2019.

The period from (and including) his 65th birthday to retirement is 3 years 123 days. The period from (and including) his 65th birthday to 31 March 2019 is 2 years and 306 days. *The period from (and including) 1 April 2019 to 29 September 2019 is 182 days.*

Member's benefits at 30 September 2019 before late retirement additions:

Pension	£18,000.00 pa
Retirement Grant	£50,000.00

	<u>Pension</u>	<u>Retirement grant</u>
<i>Factors in force prior to 1 April 2019</i>		
Late retirement factor per day	0.010%	0.001%
<i>Factors in force from 1 April 2019</i>		
Late retirement factor for 2 years	7.2%	0.6%
Late retirement factor for 3 years	11.3%	0.9%
Late retirement factor for 4 years	15.7%	1.2%

The late retirement increases should be calculated as:

Pension:

Up to 31 March 2019

$$(365 + 365 + 306) \times 0.010\% = 10.36\%$$

From 1 April 2019

(a) Interpolate for the period between their 65th birthday and retirement i.e. 3 years 123 days:
 $100\% + 123 / 365 \times 15.7\% + 242 / 365 \times 11.3\% = 112.78\%$

(b) Interpolate for the period between their 65th birthday and 1 April 2019 i.e. 2 years and 306 days:
 $100\% + 306 / 365 \times 11.3\% + 59 / 365 \times 7.2\% = 110.64\%$

Total Pension increase:

$$(100\% + 10.36\%) \times 112.78\% \div 110.64\% = 112.5\%$$

Retirement grant:

Up to 31 March 2019

$$(365 + 365 + 306) \times 0.001\% = 1.04\%$$

From 1 April 2019

(a) Interpolate for the period between their 65th birthday and retirement i.e. 3 years 123 days:
 $100\% + 123 / 365 \times 1.2\% + 242 / 365 \times 0.9\% = 101.00\%$

(b) Interpolate for the period between their 65th birthday and 1 April 2019 i.e. 2 years and 306 days:
 $100\% + 306 / 365 \times 0.9\% + 59 / 365 \times 0.6\% = 100.85\%$

Total Retirement grant increase:

$$(100\% + 1.04\%) \times 101.00\% \div 100.85\% = 101.2\%$$

The benefits payable from 30 September 2019 are:

Member's pension:	18,000.00 x 1.125	= £20,249.00 pa
Retirement grant:	50,000.00 x 1.012	= £50,600.00

The member could decide to commute part of his pension into an additional lump sum.

Appendix A: Factors (values illustrative only)

Years late	Pension Increase (%)	Retirement Grant Increase (%)
0	0.0%	0.0%
1	3.5%	0.3%
2	7.2%	0.6%
3	11.3%	0.9%
4	15.7%	1.2%
5	20.5%	1.5%
6	25.7%	1.8%
7	31.3%	2.1%
8	37.4%	2.4%
9	44.1%	2.7%
10	51.2%	3.0%

Notes:

- (1) Where the member's 'Age at Retirement' is not an integer number, the factors from the table should be interpolated for part years.
- (2) Subject to paragraph 2.3, the above factors should be applied separately for pre-1 April 2015 benefits (by reference to age 65, regardless of whether the member has a right to retire with an unreduced pension before the age of 65), and to post-1 April 2015 benefits (by reference to Normal Pension Age).

Appendix B: Limitations

- B.1 This note should not be used for any calculation of member benefits as it is an illustration of GAD proposals for implementing changes to late retirement factors

DRAFT