Cost Management, Benefit Design and Administration Committee

DATE:	29th January 2018
VENUE:	Eaton-Cockell Room, 7th Floor, 18 Smith Square, London SW1P 3HZ
TIME:	10.30AM – 12.30PM

AGENDA

Item		Page(s)	Timings
1	Welcome, introductions and apologies	**-**	10:30
2	Matters arising	**Paper A**	10:35
3	Changes at DCLG/MHCLG		10:45
4	Scheme Advisory Board Cost Management Process – SAB assumptions	**Paper B**	10.50
5	50/50 awareness project	**Paper C**	11.20
6	IDRP improvement	**Paper D**	11..40
7	Late retirement factors - Update		12.00
8	Ill-health retirement group - Update		12:05
9	Academies/3rd tier employer projects - Update		12:10
10	AOB		12.20
11	Date of next meeting		12.25

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Cost Management, Benefit Design and Administration Committee

Item 2 Paper A

ACTIONS AND AGREEMENTS
MEETING HELD ON 7th NOVEMBER 2017 – 1.00pm
AT LOCAL GOVERNMENT ASSOCIATION, 18 SMITH SQUARE, WESTMINSTER, LONDON, SW1P 3HZ

PRESENT

Naomi Cooke	Chair
Kevin Gerard	Technical Group
Rachel Brothwood	CIPFA
Geoff Reader	Practitioners
Emma Mayall	Practitioners (sub)
Glyn Jenkins	Members (UNISON)
Alison Hamilton	Actuaries: Barnett-Waddingham
John Livesey	Actuaries: Mercer
Alison Hamilton	Actuaries: Aon Hewitt
Barry McKay	Actuaries: Hymans Robertson
Robert Holloway	LGA - Board Secretariat
Liam Robson	LGA - Board Secretariat
Mike Scanlon	GAD
John Bayliss	GAD
Sheila Owen	DCLG

APOLOGIES

Bryan Freake	Members (Unite)
George Georgiou	Members (GMB)
Sean Collins	Treasurers

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.

3. Scheme Advisory Board Cost Management Process – GAD update

The Committee received a GAD paper on the cost control mechanism summarising the decisions to be made on assumptions.

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The Committee was divided on option regarding holding the SCAPE rate at 3.0%, compared with changing it to 2.8%, in line with the HM Treasury rate used for other public sector schemes.

ACTION –The committee agreed that the Board's actuarial advisor should be asked to set out the advantages/disadvantages of each view and present to the Scheme Advisory Board at the next meeting.

AGREED –There was agreement not to propose a change to the Post retirement mortality assumptions.

AGREED –There was agreement to propose to maintain an assumption of 65%, (equivalent to 23.2% of pension commuted).

The results of the 50/50 survey, summarised in the separate meeting paper, were considered at the same time as the take up rate assumption.

In assuming that some work may be done on communicating the 50/50 option, or a further survey on options and choices, it was proposed that the take up assumption should be somewhere between the HM Treasury figure of 10% and the anecdotal evidence that the figure is close to 0%.

AGREED – In considering the cost associated with club membership for transfers, it was agreed that the cost assumption should stand, and then the impact of its inclusion be considered following the results.

AGREED – Similarly, for revaluation, it was agreed that the revaluation cost assumption should stand, and then the impact of its inclusion be considered following the results.

An update was provided on timing. On the basis that the assumptions would be agreed at the Board meeting on 16th November 2017, it was considered unlikely the cost assessment would be available before March 2018. With this in mind the committee noted the need to allow for consultation time between then and 1st April 2019 for any proposed changes to regulations.

5. Ill health retirement group

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The Committee noted the paper and progress that had been made since the last meeting.

6. Late Retirement factors

The committee noted the draft letter setting out options for improving the way in which additional pension earned after a member's normal retirement age is calculated.

AGREED – that committee member should forward any comments on the letter to BH by 15th November, in time to take to the next Scheme Advisory Board meeting.

7. 2016/2017 SF3 statistical return

The committee noted the SF3 return provided for information.

8. Single Stage IDRP

The committee noted the paper. Following discussion it was agreed that rather than a complete revision of IDRP, there was scope to improve the process.

9. Academies/3rd Tier employer projects - update

The Committee noted that the next stage for the academies work was the formation of two working groups for administration and funding. The membership of both would include a wide range of stakeholders.

Part of the Tier 3 project included an online survey, in addition to interviews and session held at the pension manager conference (Torquay).

10. AOB

Brief updates were provided on recent meetings with the Pensions Regulation on data quality, valuations and judicial reviews on equality issues.

11. Date of next meeting

AGREED - that the next meeting of the Committee should be held in March 2018. Potential dates and times to be circulated via email.

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COST MANAGEMENT, BENEFIT DESIGN AND ADMINISTRATION COMMITTEE
29th January 2018

Item 4 Paper B

Scheme Advisory Board Cost Management Process - Assumptions

Background

1.1. At its meeting on the 7th November, the committee received a paper from GAD on the Board's cost control mechanism summarising the decisions that had to be made on certain assumptions. The recommendations for the Board to consider included :-

- Advice from the Board's actuarial adviser on whether the SCAPE discount rate should be in line with the most recent change to 2.8% or retained at the pre-change rate of 3.0%;
- No change to the post retirement mortality assumptions;
- That a commutation rate of 65% (equivalent to 23.2% of pension being commuted) should be agreed;
- That the cost assumptions associated with club membership for transfers and for revaluation should remain within the cost management process but identified separately, and
- That the assumption for the take up rate of the scheme's 50/50 section should lie somewhere between 1% and 10%.

1.2. On the 16th November 2017, the Board agreed with most of the committee's recommendations but decided that the committee's Chair should have delegated authority to make final decisions based on advice from the Board's actuarial adviser on the following assumptions :-

- Discount rate
- Pay increase assumption
- Assumption for take up of 50/50 section.

1.3 . A copy of the advice from the Board's actuarial adviser, Colin Wilson (GAD) dated 14 December 2017 is attached at Annex A.

Consideration

Discount rate

2.1 The question considered by the Board was whether to retain the former SCAPE rate of 3% above inflation on which the original cost envelope of 19.5% was assessed or follow the change adopted in the Treasury's process of 2.8%, and any similar future changes in the rate. The change in the rate reflects a revision to the government's long term estimate of economic growth. Consensus amongst the Board was that a rate of 2.8% should be adopted.

2.2. We are advised that a change from 3% to the Treasury's current rate of 2.8% would be broadly in keeping with the 0.2% average decrease in the SCAPE rate in local valuations between 2013 and 2016.

2.3 Any decision to move to 2.8% would necessitate a restatement of the original cost envelope (estimated to be an additional 0.7%) and disturb the scheme's employer/employee ratio of 2:1 required by regulation. It is important to note however, that the change would not of itself lead to any change in member benefits or contributions.

2.4. Although retaining a rate of 3.0% would appear to be the easier, less problematical option, the downside is that it would be out of step with the less optimistic view on future economic growth and investment returns adopted by fund actuaries at the 2016 triennial valuation and with the Government's own forecast.

2.5. Failing to implement any change at this stage would run the risk of only making matters worse at the 2019 and subsequent scheme valuations if further reductions beyond 2.8% in the rate are announced. The pressure to maintain the current rate of 3.0% would continue to exacerbate the inconsistency between the SAB and Treasury processes.

2.6. One argument for the SAB retaining the 3.0% rate is that the official rate may return to 3.0% if there is more optimism in the long term economic forecast. It is suggested, however, that basing any decision on nothing but speculation without any firm evidence would be inappropriate and could not be justified.

2.6. **Conclusion -** that the SAB arrangement will adopt the lower SCAPE rate of 2.8% above inflation and follow any other future changes in the official rate.

Pay increase assumption

3.1. The question considered by the Board was whether to retain the Board's current assumption of 1.5% above CPI or adopt the Treasury's rate of 2.75% above CPI for the unfunded schemes. It is worth noting that Treasury's long term assumption for pay increases is closely linked to long term economic forecasts, that is, the SCAPE discount rate.

3.2. In local valuations, salary increases net of CPI amounted to 1% with a nominal rate (which includes CPI) of 3.1%. Equivalent assumptions used by GAD based on cautious market conditions are 2.1% and 3.9%.

3.3. The real and nominal salary increases according to local valuation assumptions and GAD's own research are closer to the earlier assumption of 1.5% above CPI adopted by the Board than the 2.75% above CPI adopted by Treasury under their cost management process.

3.4. **Conclusion -** that the general pay increase assumption of 1.5% above inflation will be adopted.

50/50 adoption

4.4. Very few members have adopted the 50/50 option, perhaps less than 1%, and local fund actuaries adopt an assumption of either zero or close to zero.

4.5. For the purpose of the SAB cost management mechanism the 19.5% cost envelope was passed partially on the assumption that 10% of scheme members earning less than £21k would join the 50/50 section. The significant shortfall in take up rate therefore represents a significant cost pressure because the assumed savings are not being achieved. The options for the committee to consider are therefore :-

- Retain the existing assumption of 10%;
- Follow actual experience of zero or close to zero, or
- Adopt an assumption somewhere between 0% and 10%.

4.6. At this point it is worth noting that based on GAD research there is clear evidence that a significant number of those who have opted to join the 50/50 section are higher earners outside of the £21k threshold on which the current assumption of 10% is based. In general terms, we are advised that a take up rate of 4-5% across the scheme as a whole would, in terms of scheme savings, be equivalent to the rate of 10% for members earning less than £21k.

4.7. Under a separate paper, the committee is to consider proposals for introducing a communication programme to ensure that all members are aware of the 50/50 section and the flexibility it affords on contribution levels. The assumption to be adopted by SAB will therefore depend to a large extent on whether a decision is taken, as part of that programme, to restrict access to the 50/50 section to those members earning £21k or less in which case a take up rate of 10% would need to be achieved to relieve any cost pressure within the SAB cost management mechanism. If the 50/50 option remains available to all scheme members, an increase in the take up rate to 4%-5% would have the same effect.

4.8. Provided that the proposed awareness and communication exercise proceeds and is successful, it is reasonable to assume that take up of 50/50 would increase. It is difficult at this stage to put a figure on the likely increase but assuming that no change is made to restrict access to those earning £21k or less, the increase needed to remove any cost pressure from the cost management mechanism would be from around the current 1% to 4%-5%. This would not appear to be an unreasonable target.

4.9. **Conclusion –** to adopt the assumption that 10% of those members earning less than £21k will opt into the 50/50 section given that in real terms, this would be equivalent to an increase from 1% to 4%-5% across the scheme as a whole including members earning over £21k.

Annex 1

Government Actuary's Department

Local Government Pension Scheme (LGPS)

Actuarial valuation as at 31 March 2016

Advice on assumptions for the SAB cost Management Process

Date: 14 December 2017

Author: Colin Wilson

Background

1. The Public Service Pensions Act 2013 and associated HM Treasury Directions introduced a cost control mechanism for public service pension schemes, referred to here as the Employer Cost Cap (ECC).

2. Unlike other public sector schemes, the LGPS Scheme Advisory Board (LGPS SAB) has established a second cost control mechanism, implemented through scheme regulations, referred to here as the Future Service Cost (FSC).

3. This report advises on assumptions in which SAB has opted to depart from those adopted under the ECC process, but at time of writing has not made a final decision on those assumptions.

4. This report covers three specific areas:

   > Discount rate
   > Pay increase assumption
   > Assumption for take up of 50/50 option

5. We note there are other assumptions where the SAB cost management process will use different assumptions to the ECC process. This was confirmed at the SAB meeting on 16 November based on a recommendation from the Cost Management Benefit Design and Administration Committee (CMBDA) meeting on 7 November 2017. These include:

   > Commutation (CMBDA recommended an assumption of 23.3% of pension commuted)

> Post retirement mortality improvements (CMBDA recommended using ONS data in measuring future improvements in mortality). We assume this means to include the latest ONS projections, consistent with the HMT process.

6. We also note there are further assumptions required to perform the SAB cost management process. SAB have already decided to follow the assumptions used for the ECC process for all remaining assumptions.

Discount Rate

Options

7. The options are:

> to retain the former SCAPE rate of 3.0% above inflation under which the original cost envelope was assessed, or

> to follow the change adopted in the ECC process to 2.8% above inflation (and any future changes in the rate).

Discussion

8. GAD have indicated to the CMBDA that the local discount rates, net of CPI, fell by an average of just under 0.2% on average between 2013 and 2016 in local valuations. This is broadly in keeping with the change in SCAPE rate in the ECC process.

9. It is noted that the SAB cost management process includes a provision to maintain a 2:1 employer: member contribution ratio. The decision to move to 2.8% would lead to a restatement of the original cost envelope (estimated to be an additional 0.7%). It would disturb the scheme's employer/employee 2:1 ratio, but would not of itself lead to any change in member benefits or contributions.

10. Adopting the lower SCAPE rate at this stage does not necessarily imply where any changes in cost may be borne. This is because the cost mechanism may separately lead to a recommendation to change benefits and/or member contributions, and the balance between member and employer contributions could be reassessed at that time.

11. The SCAPE rate reduction in 2016 reflects a revision to the government's long term estimate of economic growth.

Recommendation

12. Leaving the discount rate for the SAB cost management process at 3% leads to an inconsistency between the SAB and ECC processes. I understand it is SAB's aim to minimise such inconsistencies.

13. Local actuaries have similarly reduced their discount rate.

14. We therefore recommend that SAB adopt the lower SCAPE rate of 2.8% above inflation.

Pay Increase Assumption

Options

15. SAB could stick with its assumption, detailed below, or revert to the ECC assumption.

Discussion

16. The pay increase assumption has a relatively small impact on the cost of providing ongoing benefits, since these are provided on a Career Average Revalued Earnings basis, and are revalued in line with CPI. However, the cost control mechanism takes into account variations between assumptions and experience on the cost cap fund, a notional pool of assets equal to the value of liabilities as at 31 March 2014, which means this assumption does have an effect through past service liabilities.

17. This assumption is for general pay increases; promotional pay increases are dealt with separately.

18. The February 2015 meeting papers of the Cost Management and Contributions Committee discussed the assumption, and the relevant document is stored here: http://lgpsboard.org/images/PDF/CMCFeb2015/Item6-CCAssumptions.pdf

19. Those papers confirm the following assumption:

Earnings increases – general	*1.5% pa above CPI. This differs from unfunded schemes, for which GAD used 2.75%pa above CPI in respect of period from 2019 and lower rates before that, reflecting short term pay restraint.*

20. As mentioned in the text above, the assumption differs from the ECC assumption. HMT's long term assumption links to the SCAPE rate discussed above, which is an estimate of long term economic growth. The logic around the long term salary assumption being 0.25% below the SCAPE rate is that economic growth is driven by productivity increases, which are supported by wage growth.

21. HMT Directions include a short term assumption, relating to current policy expectations of lower earnings in the public service over the next few years.

22. SAB's assumption is for a single long term rate of 1.5% above inflation, leading to a nominal rate of 3.5% per year.

23. GAD have reviewed the assumptions used for local valuations for nominal salary increase rates and real salary increases net of CPI. This review showed the following results:

31 March 2016	Average local rate
Nominal salary increase rate	3.1%
Real salary increase rate	1.0%

24. GAD also separately monitor markets to produce a set of best estimate neutral assumptions that are not deliberately either optimistic or pessimistic and do not incorporate adjustments to reflect the desired outcome. We believe there is around a 50% chance of outcomes being better, or worse, than these.

25. The equivalent assumptions under this approach are:

31 March 2016	GAD Best Estimate
Nominal salary increase rate	3.9%
Real salary increase rate	2.1%

Recommendation

26. The indications are that although the assumption previously adopted is not consistent with the ECC assumption, the ranges for both the nominal salary increase assumption, and for the real salary increase rate above CPI are not out of line with the available data points, being between the average of prudent local valuation assumptions and GAD's best estimate assumption. We therefore recommend continuing to use the approach previously adopted rather than introducing changes.

50/50 adoption

Options

27. The options for 50/50 take up are
    > to retain the existing assumption of 10% of total members, all with salary below £21,000 (FTE) opting to join the 50/50 section (equivalent to around 5% of total salaries)
    > to follow actual experience, which indicates that almost no members have opted for the option, so set the assumption to 0%
  > to adopt an assumption between 10% and 0%.

Discussion

28. Very few members have taken up the option. HMT have explicitly stated the option should be ignored as part of the ECC process assumptions.

29. Local actuaries have adopted assumptions broadly in line with observed experience, ie close to zero.

30. Following a recent survey, SAB has resolved to increase awareness and education around the 50/50 option, which was introduced to provide younger and/or lower paid members an alternative option to opting out of the Scheme on affordability grounds.

31. At its 7 November 2017 meeting, CMBDA resolved to adopt an assumption between 10% and 0%, but were not in a position to decide what the actual assumption should be.

32. Evidence on which to base a recommendation is limited. However, there are a number of pointers which can be considered and are discussed below. An important point is that opt out rates, and therefore the potential scope for influencing 50/50 take-up, appear to differ between longstanding members and new entrants. Equally it is clear that the campaign to increase awareness and take up is planned because it is believed to be worthwhile and can make a significant difference.

Analysis

33. I understand that a broad rule of thumb used by some associated with the scheme is that around 80% of eligible employees join the LGPS (ie 20% opt out). This is broadly supported by looking at the following figures:

    > ONS public sector employment data[1] shows total local government employees of 2.12m in 2017.

    > Of these, perhaps 300,000 are teachers (National survey data[23] suggests around 450,000 teachers overall, and I understand that around 1/3 of these will now be employed by academies).

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1 https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/publicsectorpersonnel/bulletins/publicsectoremployment/june2017

2 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/570147/NQT
3 _National_Survey_FINAL.pdf

> Hence eligible local authority employees are approximately 1.82m.

> SF3 data shows 1.391m active local authority members of the LGPS (out of a total active membership of 1.964m).

> Hence take-up approx. 1.391/1.82 ie 76% so roughly 24% opt-outs.

34. Opt-outs of around 20-25% of total employees means they constitute around 25-30% of opted-in members.

35. We have separately looked at recent scheme movements to try to estimate the number of opt-outs amongst new members. This is dependent on some very uncertain assumptions but suggests that opt-outs may be only around 8% from new members. [This is based on the number of people who both joined the scheme for the first time and left with a refund between 2013 and 2016, and an assumption that 60% of these will have been auto-enrolled and then opted out. Figures are:

> 950,000 joiners, of which 195,000 (30% of leavers) are assumed to be re-joiners so 755,000 new joiners.

> 103,000 joiners who subsequently left and took a refund (or are undecided)

> Hence assumed opt-outs 60% * 103/755 ie 8%.]

36. Finally we looked at evidence gathered by GAD based on data from 58 of the 91 funds in 2015:

All members

	Number of members	Pensionable pay (£m) (actual)	50/50 Members	Pensionable pay of 50/50 members (£m) (actual)	50/50 Members %	50/50 payroll %
Total	**1,218,589**	**20,131**	**2,360**	**55**	**0.2%**	**0.3%**

New entrants (post 31 March 2014)

	Number of members	Pensionable pay (£m) (actual)	50/50 Members	Pensionable pay of 50/50 members (£m) (actual)	50/50 Members %	50/50 payroll %
Total	**181,919**	**1,151**	**895**	**13**	**0.5%**	**1.1%**

37. The tables show that although overall take-up is low (0.2%-0.3%), the rate is higher for new members (0.5%-1.1%). This is consistent with more engagement with pensions amongst newer members.

38. In terms of impact on the cost cap process, the proportion of payroll may be a more relevant measure. The fact that this percentage is higher than that of the number of members taking up the option suggests that the 50/50 option is taken up disproportionately by higher paid members. This aligns with anecdotal evidence that higher paid people are using the 50/50 option as a way of mitigating tax impacts such as annual and lifetime allowances.

39. Data from the SAB survey[4] showed a slightly higher number of 50/50 members than full opt-outs (2.8% of respondents rather than 2.5%), but by definition respondents would have been more interested in pensions than employees in general. Nevertheless, 2/3 of the opt-outs said they were not aware of the 50/50 option, so this suggests significant scope for increasing take-up.

Recommendation

40. We believe it is reasonable to assume a relatively successful campaign amongst new joiners as SAB have indicated (perhaps up to 50% of the 8% assumed opt-outs amongst this group), but realistically a significantly lower proportion of the opt-outs amongst the wider membership (perhaps in the roughly 3:1 ratio observed amongst the GAD survey data). This might imply something like 4% of new joiners and 4-5% of existing members (=1/3 * 50% * 25-30% of existing membership). This would lead to a recommended assumption for the cost management process of 4-5% for the overall take-up.

41. Note that this would be applied across the total membership not just the lower paid. Hence this would be broadly equivalent in cost terms to the previous assumption.

42. Obviously in practice possible take-up is very uncertain, so there seems little point in seeking any more detailed analysis. The assumption should be subject to review over time, as the impact of the proposed educational campaign becomes known.

Appendix A: Limitations

A.1 This report has been prepared for LGPS SAB with the understanding that the recommendations will be used in discussion with DCLG and HMT, and must not be reproduced, distributed or communicated in whole or in part to any other person without GAD's prior written permission.

A.2 Other than LGPS SAB, DCLG and HMT, no person or third party is entitled to place any reliance on the contents of this report, and GAD has no liability to any person or third party for any act or omission taken, either in whole or part, on the basis of this report.

A.3 In preparing this report, GAD has relied on data and other information supplied by LGPS as described in the report. Any checks that GAD has made on this information are limited to those described in the report, including any checks on the overall reasonableness and consistency of the data. These checks do not represent a full independent audit of the data supplied. In particular, GAD has relied on the general completeness and accuracy of the information supplied without independent verification.

[4] 8,716 respondents of whom 242 had taken the 50/50 option, 72 had opted out and had heard of the 50/50 option and 150 had opted out but had not heard of 50/50.

A.4 This report complies with TAS 100: Principles for Technical Actuarial Work issued by the Financial Reporting Standards.

COST MANAGEMENT, BENEFIT DESIGN AND ADMINISTRATION COMMITTEE
29th January 2018

Item 5 Paper C : 50/50 Awareness Programme

Background

1.0. As part of the internal cost management process, the Scheme Advisory Board tasked the LGPC Secretariat to produce an online survey to ascertain the reason for the low take up of the scheme's 50/50 section. Administering authorities in England and Wales were asked to make their members aware of the survey and encourage them to complete it, where applicable.

1.1. The survey was live on the homepage of www.lgpsmember.org between 6th April and 29th July 2017 during which 8,716 responses were submitted.

1.3. Amongst other things, the survey confirmed the anecdotal evidence that the number of scheme members choosing to opt into the 50/50 section is far less than the Treasury's assumption when the new scheme was designed that 10% of scheme members earning less than £21k would opt into the 50/50 section. The cost of future service of 19.5% was partially based on that assumption. The low take up rate was further evidenced by the choice made by some fund actuaries at the 2016 valuation to assume a zero level of optants into the 50/50 section.

1.4 The survey indicated that the low take up rate could be attributed to poor communication of the 50/50 option. Improving the level of awareness amongst the scheme's membership, in particular, optants out and those considering opting out of the scheme should result in an increase in the take up rate and in turn, the prospect of the scheme savings assumed from the Treasury's assumption on take up being realised.

1.5. It is important to note that the current assumption on take up rate of 10% relates only to those members earning less than £21k whereas the data on actual take up rates covers the scheme as a whole. The Board's actuarial adviser has suggested that the same cost savings would accrue from either a take up rate of just 4%-5% across the scheme or a 10% take up rate amongst those members earning less than £21k

1.6 At its meeting on the 16th November 2017, the Board agreed that the Secretariat should prepare a paper setting out options for improving the level of awareness of the 50/50 section through better communication.

Consideration

2.0. Although it can be inferred from the Board's survey that poor communication and awareness are the main factors responsible for the lower than assumed take up rate, there is no reliable evidence that would allow the Board to assess either the extent of the problem at local level or how individual administering authorities both communicate the 50/50 option to participating employers and their scheme members and process applications.

2.1. The committee is therefore invited to consider whether the Board should be recommended to undertake a follow-up survey of administering authorities practices and procedures. The survey could ask administering authorities for details of the way in which they currently communicate the 50/50 section and whether this is included as part of their new joiners pack. The survey could also ask how often in the past communications on 50/50 have been circulated to members and also for details of how scheme members can apply to join the 50/50 section. It would also be useful to ask for data on the number of deferred members who have opted out of the scheme given that this is the main target audience for the 50/50 section. The results of the survey would enable the Board to consider a more focussed and targeted approach to resolving the communication and awareness issues.

2.2. It is unlikely that all 88 administering authorities employ the same communication package or application process. On that basis, the committee may also wish to recommend to the Board that a standard template for both communication and for members wishing to apply for 50/50 should be prepared by the Secretariat for further consideration. To avoid any inference that we are encouraging members or optants out to join an inferior scheme, any standard communication package issued to administering authorities should go under the banner of “contribution flexibility” rather than “saving money”.

2.3. To increase the awareness of 50/50 in the main target audience, steps could be taken, either by way of guidance or by regulation, to ensure that a reference to the arrangement is included in deferred members' annual benefit statement if they have opted out of the scheme. An alternative would be to ensure that administering authorities undertake an annual mailing for those who have opted out of the scheme to remind them that they can opt back into the scheme and only pay 50% of contributions if they wish.

2.4.The committee may also wish to consider whether any such provision ought to be extended to include active scheme members, but bearing in mind that a balance needs to be struck between raising awareness and not actively encouraging active members to leave the100/100 section of the scheme. One option might be to include in new joiners packs wording to the effect that scheme members should contact their administering authority if they are thinking of opting out of the scheme.

2.5 Steps could also be taken to ensure that all administering authorities include information about 50/50 and an application form as part of their new joiners pack.

2.6. A secondary issue for the committee to consider is whether access to the 50/50 section should be restricted to scheme members earning less £21k to ensure that cost savings accruing from the take up rate is commensurate with the assumption adopted under the SAB cost management mechanism.

Conclusion

3.0. The options set out in section 2 of this paper represents a fair and proportionate approach to resolving the communication and awareness issues identified in last year's survey. However, the main issue for the committee is whether tangible results can be achieved through guidance alone or whether this would need to be supplemented by changes in the scheme's regulations to ensure compliance and consistency across all 88 administering authorities.

Recommendation – That the committee considers the options summarised in section 2 above and agrees a proposal to present to the Board meeting on the 26th February 2018.

COST MANAGEMENT, BENEFIT DESIGN AND ADMINISTRATION COMMITTEE
29th January 2018

Item 7 Paper D

Improvements to the Internal Disputes Resolution Procedure

Introduction

1.0. Prior to the Pensions Act 1995, appeals against decisions made by scheme employers and administering authorities were determined by the Secretary of State. The Pensions Act 1995 required the trustees and managers of occupational pension schemes to introduce a two stage internal dispute resolution procedure and this was later amended by the Pensions Act 2004 to allow schemes to adopt a single stage arrangement with trustees or managers responsible for determining complaints. Despite the change made by the Pensions Act 2004, the LGPS in England and Wales continues to operate a two stage arrangement.

Background

1.1 At its meeting on the 7th November, the committee considered a proposal to prepare a paper setting out options for the scheme to move to a single stage IDRP arrangement permitted by the Pensions Act 2004. The proposal, first considered by the former Administration sub-committee, also reflects the view expressed by the Pension Ombudsman's office at a recent Technical Group meeting that all public service pension schemes, including the LGPS, should adopt a single stage IDRP arrangement.

1.2 However, the committee decided that a viable or practicable case had not been made to justify moving from a two stage to a single stage arrangement but that there was sufficient anecdotal evidence to suggest that improvements to the current arrangements could be achieved. That recommendation was endorsed by the Board when it met on the 16th November 2017.

1.3. The Board asked the Secretariat to prepare a short paper on options for improving the current two stage arrangement for consideration at the meeting on the 26th February 2018.

Consideration

2.0. There is clear evidence to show that ill-health retirement decisions comprise the majority of cases being referred to IDRP. A working group has been established to review and come forward with recommendations to simplify and improve the way in which ill-health retirement decisions are processed. It is proposed therefore that the committee should consider all aspects of the current IDRP arrangements save for those issues currently being considered by the ill-health retirement group. This includes simplification of both the current three tier ill-health retirement regulations and rationalisation of the way in which the current Independent Registered Medical Practitioner process operates including greater centralisation.

2.1. There are various ways in which the IRDP process can be made both more efficient and more consistent :-

- Improve first instance decisions made by administering and employing authorities;
- "Without prejudice" informal explanations given on request prior to formal IDRP appeal;
- Increase the public awareness and availability of decided cases at both local and national level;
- Greater consistency in approach and IDRP correspondence
- Model decision letters at both stages;
- Agreed deadlines for deciding cases, and
- National publication of local IDRP statistics

2.2. This list is by no means exhaustive and the committee is therefore asked to also consider other ways, based on their practical experience, in which the process can be improved without detrimentally impacting on those making appeals under IDRP.

2.3. It would be remiss to exclude the idea that greater consistency and national benchmarking could also be achieved if the IDRP process was centralised away from administering and employing authorities. Given the current political climate, it is perhaps unrealistic to expect MHCLG to take back on board the appeals process that was transferred to local government in the 1990s, but the committee may decide to explore other external options. That said, the Pensions Act 2004 still requires IDRP decisions to be taken by either the trustees or managers of occupational pension schemes. "Managers" are defined in the Act as "the persons responsible for the management of the scheme", which would appear to include both scheme managers and the responsible authority, in this case, MHCLG. If that is the case, there may be scope for outsourcing some of the work associated with processing IDPR cases but the 2004 Act would seem to still require decisions to be taken within the scheme.

2.4 The committee may also wish to consider the merit of opening discussions with the Pension Ombudsman's office to better understand their position on single stage IDRP arrangements and whether there is any read across, in terms of improvements, to the agreed two stage arrangement for the LGPS.

Conclusion

3.0. It is reasonable to assume that the current IDRP arrangement could be made to work better without adversely affecting the rights of those seeking redress under it. There are various options for change that could both improve the quality and consistency of IDRP decisions at local level and at the same time, ensuring as far as possible that decisions taken about scheme members' rights and entitlements under a national scheme are consistent across all locations.

RECOMMENDATION – that the committee considers the options set out in section 2 of the paper and agrees the basis of a more detailed paper to be considered when the committee next meets.