

# Shadow Advisory Board

## **Agenda item 6 - Transfers in the LGPS - Impacts of Freedom and Choice & participation in the public service transfer club**

### **Summary**

The Board are asked to note the below summary and following report relating to:-

- a) how transfers from the LGPS to DC schemes will operate from April 2015 following the implementation of the pension reforms announced in the Budget earlier this year, and
- b) the LGPS' participation in the public service pensions transfer Club.

With regard to b), the Board are asked to consider if it wishes to write to the Chief Secretary to the Treasury to confirm that the LGPS wishes to continue to provide club arrangements only in respect of final salary benefits transferred from other public service schemes.

### **Impacts of Freedom and Choice on transfers to DC schemes**

- Freedom and Choice as announced by the Chancellor in the Budget provides for greater flexibility in how members take defined contribution (DC) pensions
- The Government have decided not to extend the ban on transfers to DC schemes from unfunded public service schemes to the LGPS (all UK schemes)
- Members may therefore take a transfer to DC schemes in order to 'unlock' their pension pots from age 55
- HM Treasury are proposing a number of protections for the LGPS in order to minimise the impact of transfers on cashflows
- The Secretariat have discussed the terms of these protections with DCLG and HM Treasury officials with a view to protecting fund cashflows while providing an appropriate level of choice for members and avoiding any possibility of another pensions mis-selling situation.

### **Participation in the public service transfer club**

- A revised transfer Club is being proposed to cover voluntary transfers between Public Service Pension Schemes
- The Club proposals do not apply to bulk transfers or movements of staff due to changes in government service delivery
- Club arrangements are proposed not only in respect of final salary service but also for protected members and for CARE service
- The agreement between unions and employers for LGPS 2014 did not include any additional costs for club transfers
- The LGPS (all UK schemes) will face additional costs in meeting these new arrangements
- Discussions have taken place with DCLG and HMT over the possibility of the terms of the club being adjusted to be more cost neutral and less administratively burdensome.

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- A potential solution is for the LGPS to remain as part of a new outer club covering final salary service but not multiple revaluation of CARE benefits
- Alternatively the LGPS could seek to withdraw from the Club and instead write club type arrangements into scheme regulations for final salary transfers.
- The Board are asked to consider if it wishes to write to the Chief Secretary to the Treasury to confirm that the LGPS wishes to continue to provide club arrangements only in respect of final salary benefits transferred from other public service schemes.

## **Impacts of Freedom and Choice - Transfers to Defined Contribution (DC) schemes from April 2015**

1. Freedom and Choice as announced by the Chancellor in the Budget provides for greater flexibility in how members take defined contribution (DC) pensions. It removes the requirement to take a maximum lump sum of 25% of the accrued pension pot and to convert the remainder into an annuity.
2. Members of DC schemes will from April 2015 be able from age 55 to take all their pot as a lump sum (with 25% tax free and the rest at their marginal rate of tax) and do with it what they want or to draw it down in 'slices' over a period of time with 25% of each 'slice' tax free.
3. In order to prevent a mass movement of pensions from the unfunded public service schemes the Government are bringing forward legislation to ban transfers from those schemes to DC pension schemes. The justification for this ban being the significant impact on public finances in order to meet the anticipated transfer payments.
4. The Government has, however decided not to extend the ban on transfers to DC from unfunded public service schemes to the LGPS (all UK schemes) as these schemes have funds and are therefore able to meet the transfer payments. Members of the LGPS will therefore be able take a transfer to a DC scheme at age 55 in order to 'unlock' their pension pot.
5. The impact of such transfers (and the subsequent loss of contributions income) is unknown. However the secretariat did provide some modelling to HMT which indicated that 5% of members taking advantage of a transfer to DC would present most funds with a problem remaining cashflow positive (excluding investment income).
6. HM Treasury are proposing a number of protections for the LGPS in order to minimise the impact of transfers on cashflows into the future. These protections include:
  - a) A requirement for all members considering a transfer to take financial advice (at their own expense) with a requirement on LGPS funds to ensure such advice has been taken before paying the transfer

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- b) The ability for LGPS funds to delay transfers for up to 12 months while they determine the potential impact
  - c) The ability for LGPS funds to apply for 'insufficiency reports' and the potential for a reduction in transfer amounts if the impact of such transfers posed a risk to local tax payers.
7. HM Treasury will make regulations in due course on the level of any reduction in transfer value made under c).

## **Participation in the public service pensions transfer club**

1. The Transfer Club is an arrangement by which the participating schemes agree to provide preferential terms for transfers between them in order to assist movement of staff. In a final salary scheme such terms are important in fully protecting the value of both future and past pensionable service.
2. Club arrangements do not apply to bulk transfers or movements of staff due to changes in government service delivery. They only apply for individual voluntary transfers where the member has chosen both to move jobs and to transfer their benefits.
3. The agreement between employers and unions for LGPS 2014 made no provision for the continuation of club arrangements in its costing of 19.5%. Furthermore Cabinet Office (who administer the club rules) guidance stated that Club arrangements were not appropriate for Career Average (CARE) schemes.
4. A revised transfer Club is being proposed by HM Treasury to cover voluntary transfers between Public Service Pension Schemes. These proposals include extending these arrangements to protected members (those who retain a right to membership of the 'old scheme') and those with service in the new CARE schemes.
5. The LGPS (all UK schemes) will face additional costs in meeting these new arrangements in the following ways.
  - a) As the LGPS does not have an open final salary scheme it would have to offer 'underpin arrangements' to non LGPS qualifying members at extra cost.
  - b) CARE members would have their transferred pension amount continually revalued at the rate applicable to the scheme they left. For example teachers who transfer to LGPS would continue to have the transferred pension revalued at CPI plus 1.6% rather than the CPI rate applying to the LGPS. As the LGPS has the lowest revaluation rate of all the public service schemes (apart from Civil Service) this arrangement is always a cost to the LGPS.

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- c) Administration systems and processes will have to be adapted to cope with calculating underpins for members without qualifying LGPS service and multiple pension accounts each with its own revaluation rate.
6. Discussions have taken place with DCLG and HMT over the possibility of the terms of the club being adjusted so that a larger transfer from a sending scheme would buy extra pension in the LGPS which would then be revalued at the standard LGPS rate. However to date these discussions have not been successful.
7. A potential solution is for the LGPS to remain as part of a new outer club which will include all current club members apart from the unfunded Public Service Schemes. The outer club would continue to provide arrangements for final salary benefits only. If this proved to be detrimental to recruitment from the other schemes there are provisions for employers to provide extra benefits within the terms of LGPS 2014. Alternatively for transfer from the NHS individual direction orders can enable members to remain in that scheme even after transferring to another employer.
8. Another potential solution is to seek to withdraw from the club altogether and instead write cost neutral terms into the scheme for transfers from other public service schemes which seek to protect the membership accrued for final salary purposes and provide for some form of adjusted benefits in respect of CARE service where that will aid recruitment.
9. The Board are asked to consider if it wishes to write to the Chief Secretary to the Treasury to confirm that the LGPS wishes to continue to provide club arrangements only in respect of final salary benefits transferred from other public service schemes.