

# Warwickshire Pension Fund – Annual meeting

Hot topics

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30 November 2020

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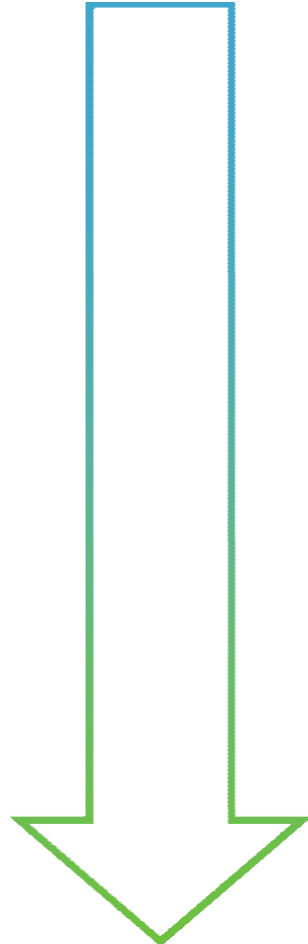
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The information contained in this presentation is based on our understanding of the current proposals as at 30 November 2020. The reform of exit payments in Local Government is currently at a consultative stage. The structure and detail of the final reform may be fundamentally different to that discussed today. The presentation is not intended to be an exhaustive discussion of all legal obligations faced by employers as a result of the proposed reform to exit payments. Employers should seek their own advice regarding interpretation of the proposals and how they may apply to their own unique circumstances. Hymans Robertson accepts no liability for errors or omissions or reliance upon any statement or opinion contained herein.

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# What are we going to cover?



June 2020: Goodwin Ruling

July 2020: McCloud consultation released

July 2020: Cost Management restarted

August 2020: Managing Employer Risk Regulations

September 2020: Public Sector Exit Payments

(and the £95k cap)

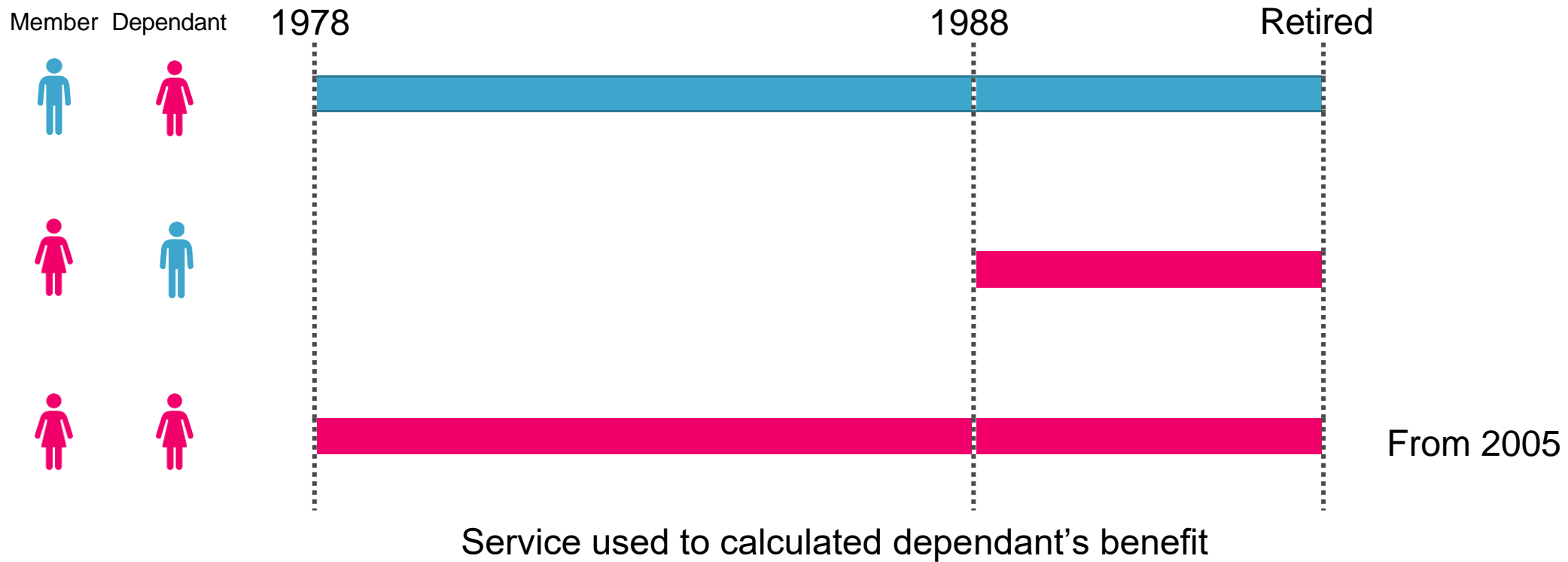


Goodwin



# What is Goodwin?

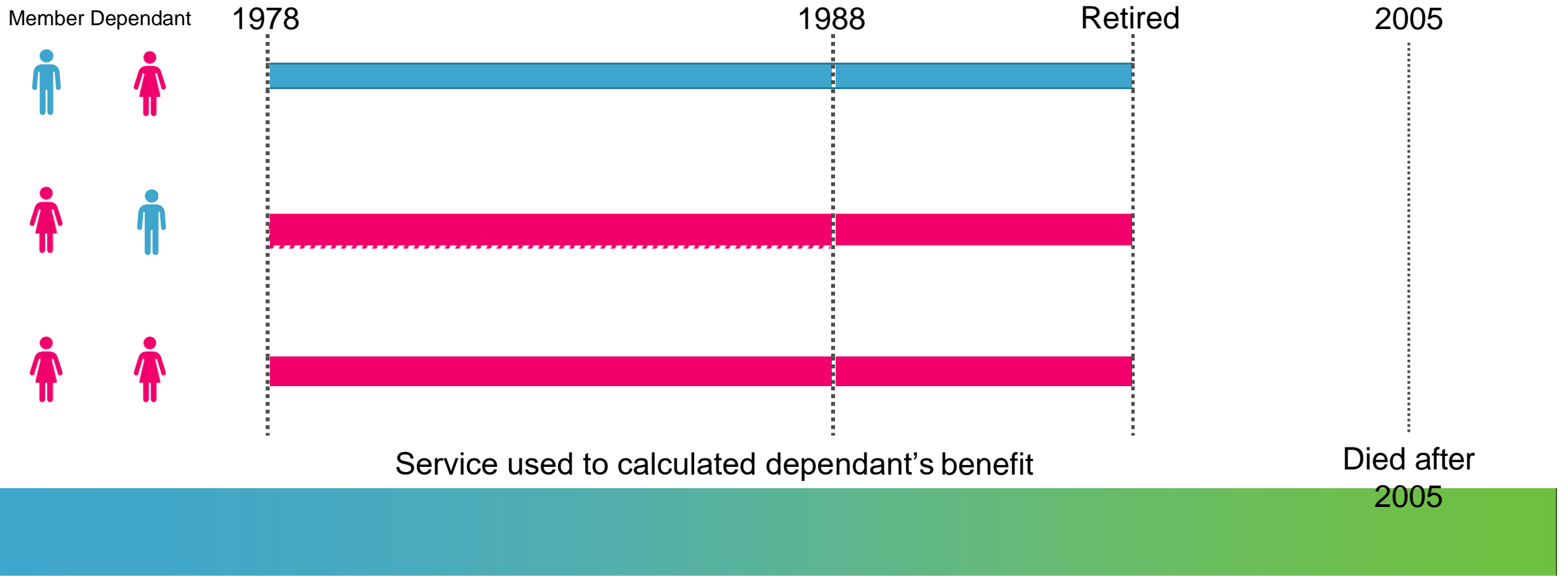
- What service is included when calculating a dependant's pension?







# What is the remedy?





# What will the impact be?



Members

- Some survivors pensions will need to be uplifted



Fund

- Funds to review all survivor pensions awarded to male survivors of female members who have died since 2005
- Track and trace may be required as survivor data may not exist



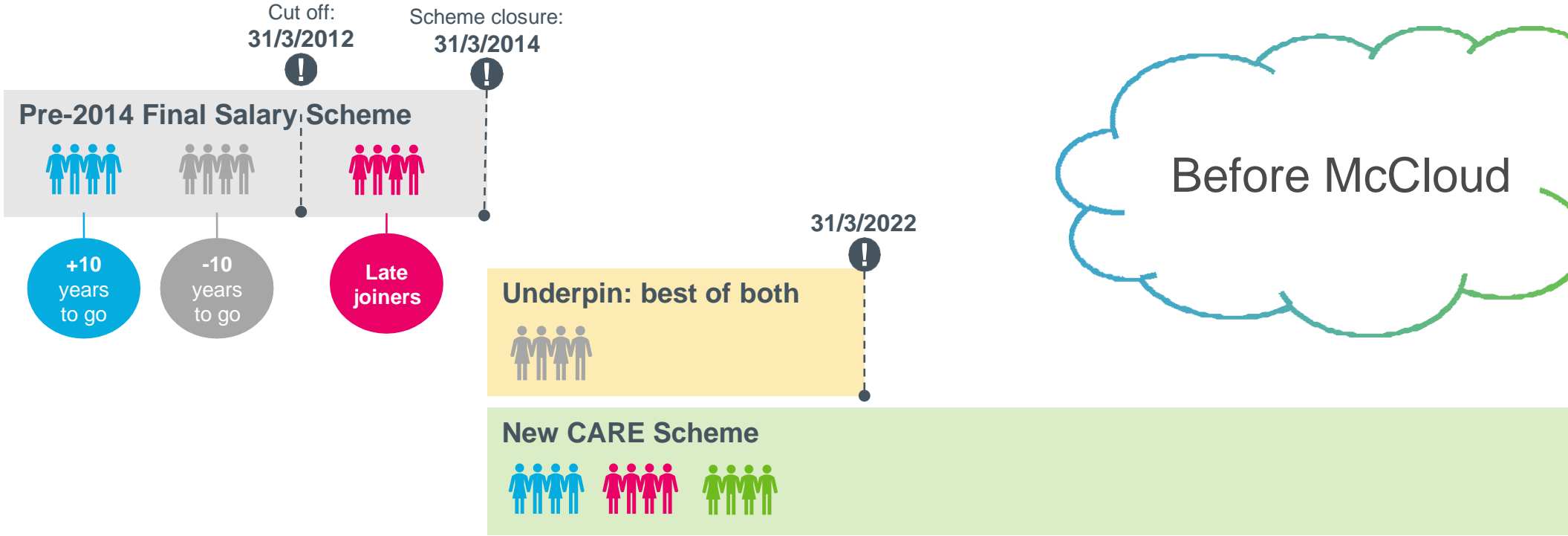
Employers

- Increasing pension costs – better benefits for members come at a price
- Impact on accounting disclosures



# McCloud

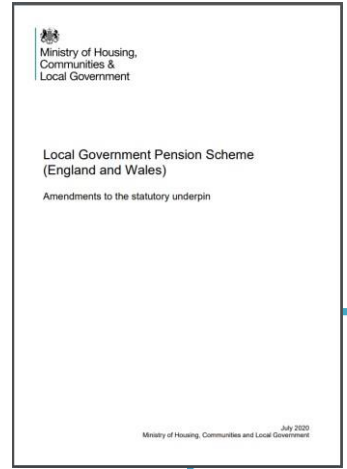
# LGPS2014 transitional protections



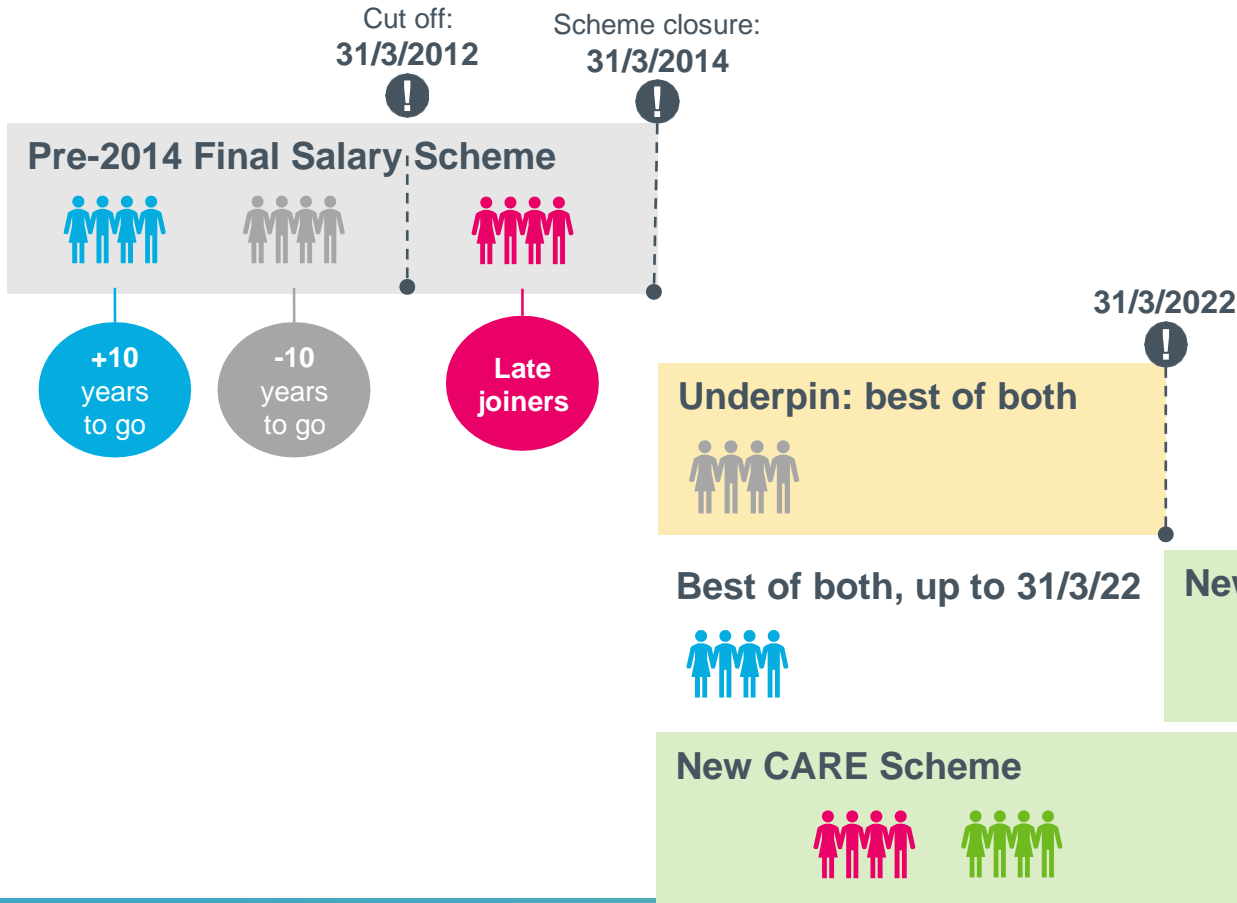
Transitional protections put in place for those close to retirement, against the Hutton Review's recommendations



# Proposed remedy in LGPS



After McCloud



Best of both will be extended to all members who were active in **2012**

Only those joining after **2012** will have no protections

Extend eligibility for protection to **ALL** members active at 31 March 2012, irrespective of age





# What will the impact be?



Members

- Some may see an increase in benefits, some will see no difference
- Possible tax implications – annual allowance and lifetime allowance
- Understanding what the changes mean now and in the future



Fund

- Administering an underpin can be challenging
- Additional data may be required from employers (both historical and in future)
- Helping members understand their benefits
- Significant pressure on resources



Employers

- May need to submit historical membership and payroll data
- Liabilities and contribution rates may increase
- Impact on accounting disclosures
- Ensuring members understand the changes to their benefits

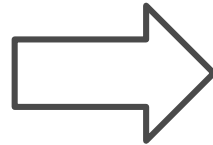
Significant amount of work being undertaken at national and local level to respond to the McCloud challenge



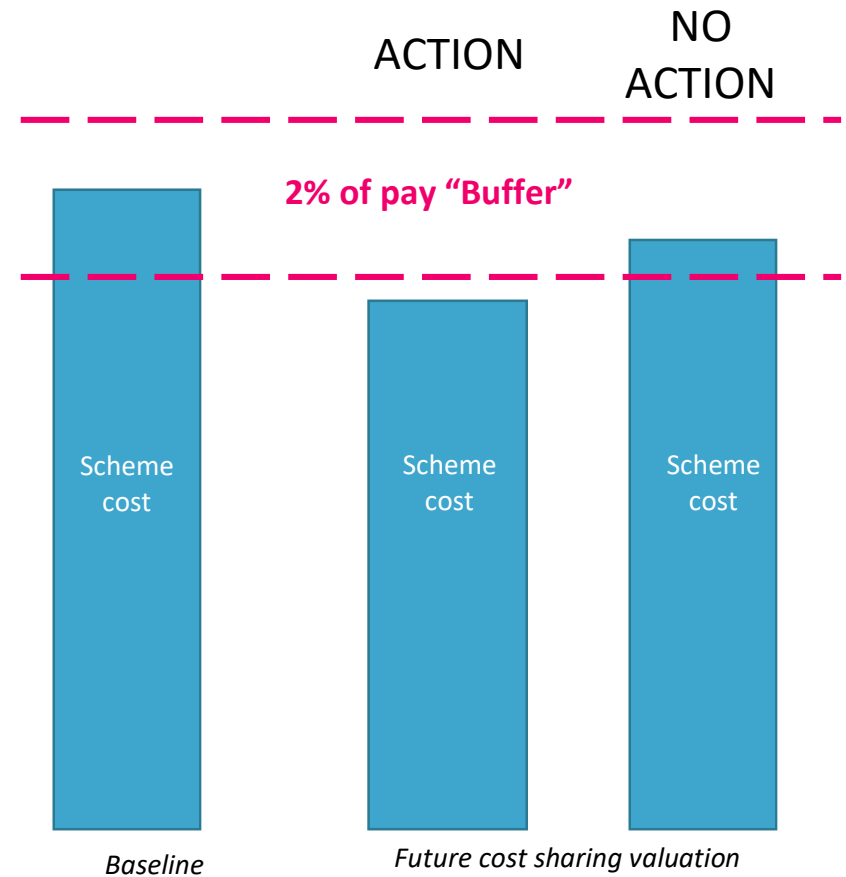


# Cost Management

# Cost Cap: what is it?



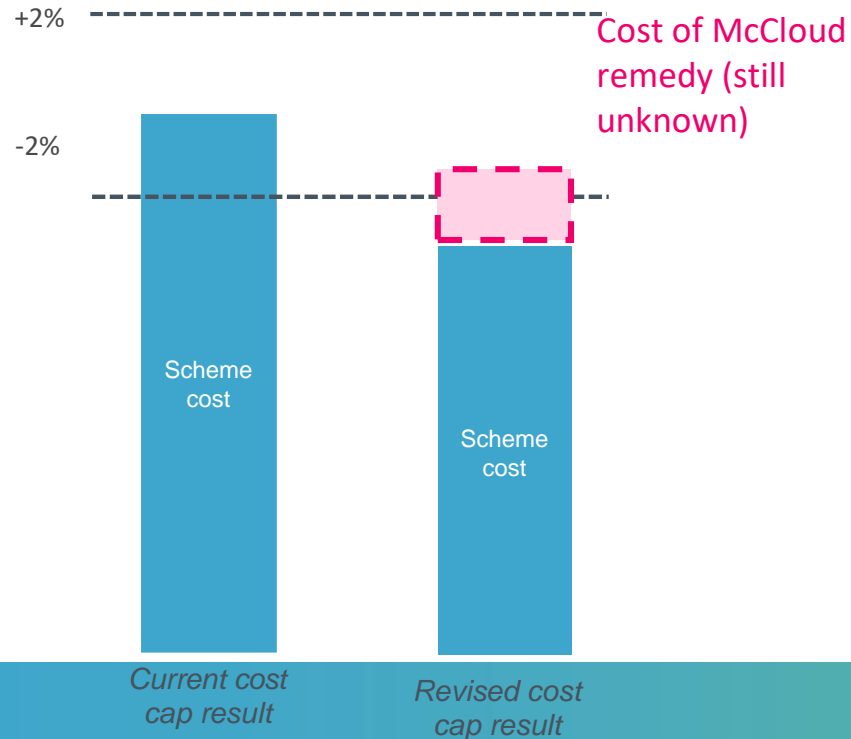
**Recommendation 12:** The Government, on behalf of the taxpayer, should set out a **fixed cost ceiling**: the proportion of pensionable pay that they will contribute, on average, to employees' pensions over the long term. If this is exceeded then there should be a consultation process to bring costs back within the ceiling, with an **automatic default** change if agreement cannot be reached.





# What does it mean for the LGPS?

- First cost management valuation date was 31 March 2016
- Still awaiting results as the 2016 valuation was paused due to McCloud case



- McCloud should be treated as separate benefit change
- Legal challenge against Government's view launched in 2020

HMT  
announced  
'unpausing' of  
Cost  
Cap  
valuations in  
July  
2020





# Managing employer risk

# New powers for funds to manage employer risk

- New regulations from 23 September 2020 in response to Covid-19

## Revising employer contribution rates before next formal triennial valuation

- Now permissible if there is a significant change to an employer's liabilities or covenant
- Previously only allowed if increase in the employer's liabilities
- Employers can also request a review of their contribution rate but reason must be as above

## Repaying cessation exit deficits

- Currently, employers must pay cessation deficit in a single, lump sum payment
- For some employers this is unaffordable
- Now permissible to agree a repayment schedule to spread the payment over a number of years

## Deferred debt arrangements

- Currently, when last active member leaves an employer must exit the Fund, with associated cessation payment
- Now permissible for employers to continue to participate in the Fund with only deferred and pensioner members
- Arrangements already exist in private sector multi-employer pension schemes

Funds must set out how these powers can be used in their Funding Strategy Statement  
MHCLG and SAB guidance expected in the near future

# Examples of new powers

## Deferred debt arrangement

- ☺ No immediate impact on balance sheet
- ☹ Exposed to investment risk so could gain from positive investment returns
- ☹ Contributions subject to change at each valuation/less certainty

## Repayment schedule

- ☺ Fixed amount
- ☺ Budgeting certainty
- ☹ Loss of future exposure to investment risk
- ☹ Accounting implication – debt on balance sheet

The new powers have the potential to give employers flexibility in managing their LGPS pension obligations



# Exit pay reform and £95k cap

# Two strands of exit pay reform in LGPS

## £95k cap

- Implemented on 4 November 2020
- No transition
- E&W councils, police & fire, academies
- Not colleges or admission bodies
- Limit size of exit package

## Wider LG exit pay reform

- Consultation ends 9 November
- Proposed 6 months transition
- E&W councils, police & fire, academies
- Not colleges or admission bodies
- Forced choice between redundancy pay & immediate

full pension

# £95k cap was a response to 'fat cat' exit packages

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News story

## Six-figure taxpayer-funded public sector exit payments to end

A consultation has been launched outlining how the government will introduce a £95,000 cap to stop huge exit payments when public sector workers leave their jobs.

Published 10 April 2019

From: [HM Treasury](#) and [The Rt Hon Elizabeth Truss MP](#)

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## Six-figure payoffs for public sector fat cats set to be banned as MPs finally enforce £95,000 cap on severance payments

- Redundancy packages will now be limited for civil servants among others
- Chief Secretary to Treasury Liz Truss wrote to ministers to finally implement cap
- Follows Daily Mail campaign to end 'golden goodbyes' of up to £473,000

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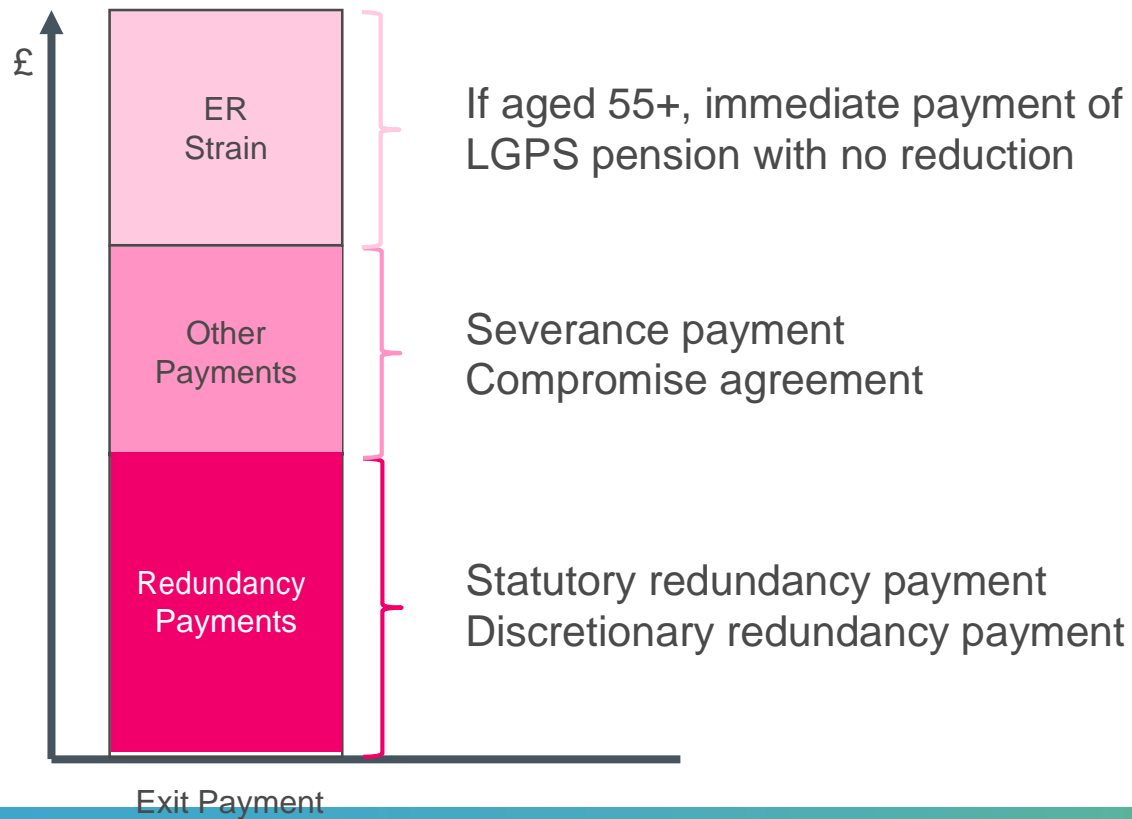
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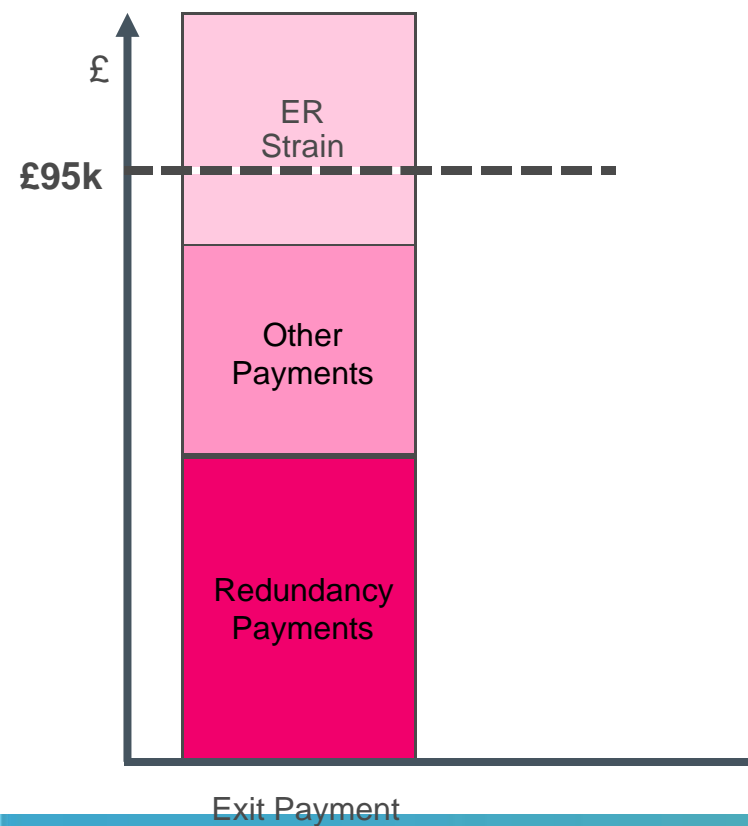
# What happens at the moment?



- Under current LGPS regulations, a member made redundant aged 55 or over must take immediate payment of pension without reduction
- Early payment of pension results in an “early retirement funding strain”
- Employer must make a payment to the Fund in respect of the ER strain



# What is changing?



- Discretionary redundancy payments limited to:
  - Maximum of 3 weeks' pay per year of service
  - Maximum of 15 months pay
  - Maximum salary of £80k to be used in calculation
- £95k cap on total cost of redundancy compensation, including ER strain

**Controversial!**

Restriction of Public Sector Exit Payment Cap Regulations 2020 passed in Parliament

a  
n

# Why is the inclusion of ER strain controversial?

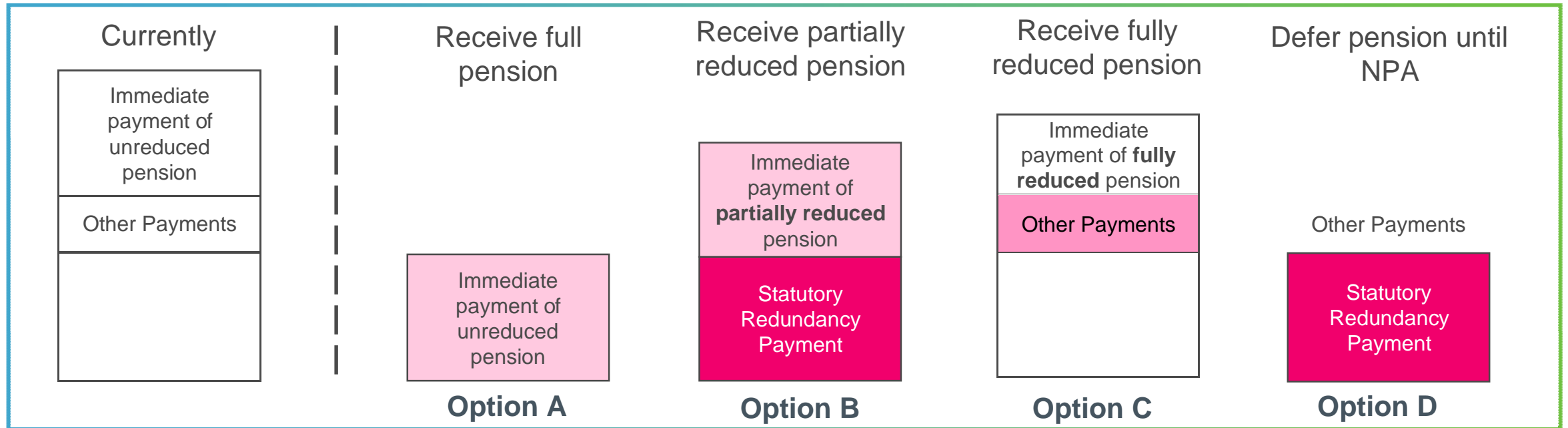
- The magnitude of ER strain is linked to more than salary
  - Length of service
  - Age at retirement

Examples	A	B	C	D
Salary	£30,000	£45,000	£90,000	£150,000
Exit Age	55	55	60	64
Service	30 years	20 years	10 years	6 years
Early Retirement Strain	<b>£112,000</b>	<b>£112,000</b>	<b>£58,000</b>	<b>£12,000</b>



# Wider Local Government exit pay reform

- Unexpected proposal which impacts redundancy payments for all members aged 55 or over



Members will now have to choose which option they want to take upon redundancy







# Relaxation of the £95k cap

- Possible to waive the £95k cap in cases of
  - Exceptional hardship
  - Prevents workforce management
- Local authorities
  - Right to waive can be provided by Full Council
- All other employers
  - Waiver must be granted by Secretary of State
  - Permission may need to also be granted by HM Treasury
- Instances where £95k cap does not apply
  - Payment as a result of an employer tribunal
  - Pay in lieu of notice, where payment is less than 25% of salary



# Implementation

- Restriction of Public Sector Exit Payment Cap Regulations 2020
  - Brings the £95k exit payment cap into force
  - Implemented from 4<sup>th</sup> November
- Uncertain when amendments to LGPS regulations will be made
  - Consultation has closed in November 2020
  - Until amendments made, immediate unreduced pension must be awarded
  - But employer can only fund cost up to £95k
- Ongoing work to clarify how to manage timing differences in Local Government

Legislation	Impact
HMT and MHCLG legislation not 'live'	Existing rules apply
HMT rules 'live' and MHCLG legislation not 'live'	£95K cap in force but existing LGPS Regulations mean member should get an unreduced pension if aged 55 or over (strain cost could therefore tip the exit package over £95k)
HMT rules 'live' and MHCLG legislation 'live'	£95k cap in force and LGPS regulations amended meaning members aged over 55 do not get an automatic right to an unreduced pension

If you are planning a redundancy exercise then these changes must be part of any considerations





# 2020 accounting hot topics

# Accounting hot topics



## Results

- Fund returns over the accounting year (to Mar 20, July 20 and Aug 20) were lower than expected.
- Impact of valuation re-measurement experience item in 2020 accounts (could be significant, positive or negative, on asset and obligation side)



## Audits

- Significantly increased auditor scrutiny and queries
- Additional costs to employers?



## New regs

- McCloud allowance (small impact, majority of employers making an allowance in 2020 – as per 2019)
- Goodwin (smaller impact, majority of employers not making explicit allowance in 2020)
- Cost cap (no allowance in 2020, possible impact in 2021 accounts if buffer is breached?)



# Thank you

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