

Essex Pension Fund Strategy Board	PSB 03
Date: 6 March 2019	

Update on Pension Fund Activity

Report by the Independent Governance & Administration Advisor

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1. Purpose of the Report

- 1.1 To introduce the Board to the new Independent Governance & Administration Adviser (IGAA) and receive a presentation on some of the key governance and administration hot topics.
- 1.2 To provide the Board with an update on the cost management process.

2. Recommendations

- 2.1 That the Board should note the report and presentation.

3. Background

- 3.1 As reported at the December PSB, Aon have been appointed to provide IGAA services for the Fund. Karen McWilliam from Aon will be attending the Board.
- 3.2 The main role of the IGAA is to provide guidance on the proper governance and administration of the Fund.

4. Presentation on current key governance and administration topics

- 4.1 The IGAA will provide a short presentation to the Board on some of the main governance and administration topics that will impact the Fund in the next two to three years. As part of this the IGAA will provide an update on the recent developments impacting the cost management process.

5. Cost management process

- 5.1 In the last few weeks, there has been a major development in the implementation of the cost management requirements (also referred to as "cost cap"). In summary:
 - valuations are carried out at a national level to ensure that the ongoing future cost of the scheme is maintained within a specified range of costs;
 - if those valuations find that the ongoing scheme cost is below the acceptable cost range, scheme member benefits are increased and/or scheme member contributions are decreased; if it is found to be above the acceptable cost range, then scheme member benefits are reduced and/or scheme member contributions are increased;
 - for the LGPS, valuations are carried out by both Her Majesty's Treasury (HMT) and by the Scheme Advisory Board (SAB), albeit using different parameters, with the SAB process being considered first, which then hopefully negates the need for any adjustment as a result of the HMT valuation;
 - the LGPS SAB results had been confirmed at the end of 2018 and it was found that the cost of the scheme was lower than the acceptable cost range, and accordingly improvements to the scheme's benefits, as well as a reduction to scheme member contribution rates, were due to be consulted on with a view to them coming into force from 1 April 2019;

- however, on 20 December 2018 the Court of Appeal found that transitional protections that were put in place as part of the reform of both the Judges' and the Firefighters' Pension Schemes were unlawful on the grounds of age discrimination and could not be justified. This is being referred to as the McCloud case, and a summary of the judgement is included in Appendix A;
- similar protections, which applied to all members within 10 years of retirement, were included in the reforms of all public service schemes, albeit the form of these protections varied from scheme to scheme. Although the McCloud case only relates directly to the Judges and Firefighters Pension Schemes, it is anticipated that the principles of the outcome could be accepted as applying to all public service schemes;
- as a result, both LGPS SAB and HMT have paused their cost management processes. LGPS SAB has announced "there are currently no changes to benefits planned in respect of the cost cap. This situation will be reviewed once McCloud is resolved which is not expected for some months." The full statement issued by SAB to all administering authorities is included in Appendix B together with a recent Q&A document in Appendix C which will be covered within the IGAA's presentation to the Board.

5.2 This is a major development which could have a fundamental impact on the Fund, its employers and scheme members:

- perhaps the least impact would occur if the McCloud judgement is ultimately overturned, and the cost management process therefore continues as originally planned; this would result in some employer contribution rate increases and benefit/contribution changes, but any retrospection to 1 April 2019 (on member benefits and contributions if required) would be difficult to implement;
- a much greater impact would occur if the McCloud judgement was determined to apply to the LGPS too, and the scheme benefits had to be adjusted accordingly to remove the inequality. This would probably result in a major review of scheme benefits and would be more likely to result in improvements and consequently an increase in employer pension costs.

5.3 One of the key concerns is the potential for any changes to affect contributions and liabilities differently at an employer level, which could arise from the Fund triennial valuation in 2019 (or a perhaps later).

- 5.4 The LGPS SAB are providing ongoing updates to administering authorities and are currently seeking views from administering authorities on whether central guidance should be issued to promote a consistency of approach on how the McCloud implications and/or cost management should be taken account of as part of the 2019 Fund triennial valuation exercise. Officers of the Fund are liaising with the Fund's Actuary on how best to respond to this question.

6. Link to Essex Pension Fund Objectives

- 6.1 Understanding all matters that could impact on the Fund is critical to the Fund in achieving its objectives, and in particular:
- Provide a high-quality service whilst maintaining value for money;
 - Understand and monitor risk and compliance;
 - Act with integrity and be accountable to our stakeholders for our decisions, ensuring they are robust and well based;
 - Evolve and look for new opportunities that may be beneficial for our stakeholders, particularly the Fund's beneficiaries, ensuring efficiency at all times.

7. Risk Implications

- 7.1 As shown in G12 and G14, the impact of national change outside the Fund's control could risk the Fund's ability to deliver services in line with legislative requirements.

8. Communication Implications

- 8.1 There will be ongoing reporting to the Board in relation to these matters and particularly the cost management process. The Fund will communicate with all employers of the Fund following confirmation from the Funds Actuary of the potential impact to the Valuation outcomes.

9. Finance and Resources Implications

- 9.1 These changes are likely to require significant input by officers and advisers during 2019/20 and probably into 2020/21, particularly relating to liaison with employers, updating administration systems and communications with scheme members.

10. Background Papers

- 10.1 PSB 02, 19 December 2018 – Independent Governance & Administration Adviser (IGAA) Appointment.