Brent	**Pensions Fund Sub-Committee** 6 October 2020
	Report from the Director of Finance

Actuarial Update: COVID-19 and Regulatory Changes

Wards Affected:	ALL
Key or Non-Key Decision:	Non-Key
Open or Part/Fully Exempt: (If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)	Open
No. of Appendices:	1. Brent LGPS Fund – COVID-19 and Regulatory Changes
Background Papers:	▪ N/A
Contact Officer(s): (Name, Title, Contact Details)	Minesh Patel, Director of Finance Ravinder Jassar, Head of Finance Sawan Shah, Senior Finance Analyst

1.0 Purpose of the Report

1.1 The purpose of this report is to assist the Pension Sub-Committee to understand the nature and impact of several recent changes to Regulations on the Fund as well as recent market movements.

2.0 Recommendation(s)

2.1 The Committee is asked to note the overall report.

3.0 Detail

3.1 This report provides a summarised overview of recent market movements and recent changes to the Fund Regulations. The full detailed paper is attached to this report in Appendix 1.

3.2 The report in Appendix 1 focuses on the following current topics:

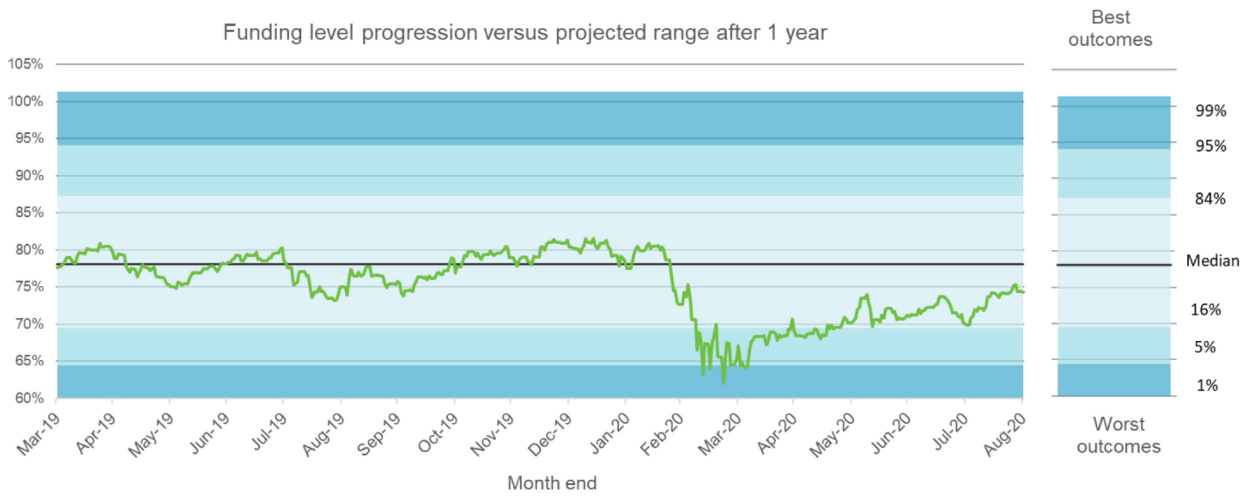
- COVID-19
- The McCloud judgement
- Cost Management Valuations 2016 and 2020

- Public Sector Exit Payments Cap
- Goodwin ruling
- Regulation changes to support management of employer risk

COVID-19

3.3 COVID-19 has had a substantial impact on the global economy and the financial markets in 2020. This led to the Fund's funding level becoming increasingly volatile from February 2020 onwards.

3.4 The Fund experienced a sharp fall in the funding level in March however there has been some 'bounce-back' in recent months:



3.5 Many businesses and institutions in all sectors have been affected significantly by COVID-19. The impact will vary by sector and by source of funding. The majority of the Fund's employers are public sector bodies, where the covenant is strong.

3.6 The most significant impact on covenant is in respect of other employers including those who are close to exit, are not publicly-funded and/or had a weak covenant at the 2019 valuation.

The McCloud judgement

3.7 As previously reported to the committee, the outcome of the McCloud court case last summer ruled that the transition protections given (the 'underpin') to older members when the 2008 LGPS final salary scheme closed are age discriminatory.

3.8 This is because the transition protections given were only applicable to members within 10 years of their Normal Retirement Age as at 1 April 2012.

3.9 The remedy is to retrospectively apply the same protections to all members who were in the 2008 LGPS scheme on 31st March 2012. In some cases, this will mean retrospectively recalculating benefits for pensioners, and paying arrears and interest.

3.10 This will result in a small increase in liabilities at Fund level of c£1M or 0.1%. At whole fund level, it is not expected the McCloud remedy will have a sizable impact on the funding position and hence on employer costs. However, increases for some employers may be significantly higher.

3.11 From an administration perspective, the effort required to implement the remedy will be significant and it is estimated the project will take 2 years or more to complete.

Cost Management Valuations 2016 and 2020

3.12 The Cost Management Valuations are an ongoing national process which is resulting in current uncertainty around the benefit structure of the LGPS.

3.13 This mechanism works on the basis that every 3 or 4 years (the frequency varies between public sector pension schemes), a valuation at national level will be carried out by the Government Actuary's Department (GAD) on behalf of Treasury to assess the overall cost of pension provision.

3.14 The Government announced in January 2019 that the Cost Management valuation process would be put on hold until McCloud was resolved. The 2016 HM Treasury (HMT) cost management valuation process has recommenced and may result in changes to member benefits or member contribution rates. Any changes will be back dated to 1 April 2019. The 2020 HMT cost management valuation is expected to start shortly.

Public Sector Exit Payments Cap

3.15 HMT have announced that an exit payment cap of £95,000 applying to all exits from public sector employers will be in place by the end of the year. Exit payments include redundancy payments, severance payments and pension strain costs. If the total value of such payments including strain costs exceeds the £95,000 cap then an employee's pension will be reduced.

3.16 MHCLG have also proposed further changes to redundancy pay for public sector employees, notably that people over 55 will no longer be able to receive both redundancy pay and immediate pension in full.

3.17 Currently, Pension Strain Costs (the cost that an employer pays to the Fund on the early retirement of a member because of redundancy or efficiency retirement) are calculated at calculated at a local fund level. This local approach is unlikely to be suitable under the 95k cap and therefore the Ministry of Housing, Communities and Local Government (MHCLG) have asked the Government Actuary's Department (GAD) to produce standardised factors for use in these calculations.

3.18 Although this policy was first announced back in 2015, there is now a very short timeframe for implementation and for the required changes to Regulations to be made. This has immediate implications for any employers planning redundancy exercises, as any quotes issued now may no longer be accurate when the time comes to pay them.

Goodwin ruling

3.19 The Goodwin case is another discrimination case addressing discrimination of the grounds of sexual orientation. Again, although the funding costs are small, this will be a further administration and communication burden to address.

Regulation changes to support management of employer risk

3.20 In May 2019, MHCLG launched its consultation “Local Government Pension Scheme: Changes to the Local Valuation Cycle and the Management of Employer Risk”. The consultation sought views in the following areas:

a) Changes to the LGPS local fund valuation cycle
b) Increased flexibility for Funds to carry out interim valuations and/or review employer contributions between formal valuations
c) Proposals for flexibility around employer cessation debts
d) Proposals for policy changes for payments of employer exit credits
e) Potential changes to employers required to offer LGPS membership.

3.21 The Government published a response to items (b) and (c) on 26 August with changes to regulations coming into force on 23 September 2020. Administering Authorities will now have increased powers to review employer contribution rates between valuations and to enter into repayment plans with exiting employers. It also introduces a “deferred employer” status for employers, whilst also giving employers the power to request a review of their contribution rate.

4.0 Financial Implications

4.1 These are set out throughout the report.

5.0 Legal Implications

5.1 Not applicable.

6.0 Equality Implications

6.1 Not applicable.

7.0 Consultation with Ward Members and Stakeholders

7.1 Not applicable.

8.0 Human Resources

8.1 Not applicable.

<u>Report sign off:</u>

Minesh Patel
Director of Finance