

CYNGOR SIR POWYS COUNTY COUNCIL

**Pensions and Investment Committee
12th February 2015**

REPORT BY: Strategic Director of Resources

SUBJECT: LGPS Cost Control

REPORT FOR: Information

1 Introduction

- 1.1 This paper outlines the role of LGPS pension funds in the cost control process for the new LGPS and is based on a briefing issued by the Shadow Scheme Advisory Board on 24th December 2014.

2 Assessing the Cost of the LGPS

- 2.1 In the LGPS in England & Wales, there will be two mechanisms used to assess the costs of the reformed scheme:

- a) the employer cost cap process as operated by HM Treasury, and
- b) the future service cost process as operated by the LGPS Scheme Advisory Board.

The Scheme will be assessed every three years against the cost control mechanisms using the data provided to individual actuaries for valuation purposes. Importantly, both processes could lead to changes to the scheme design or to the level of members' contributions if the mechanisms demonstrate that the cost of the LGPS has moved sufficiently from the target.

3 The Role of Administering Authorities in the Process

- 3.1 Under the terms of the Public Service Pensions Act 2013, the costs of the reformed LGPS must be periodically assessed to ensure that the reforms are affordable and sustainable.
- 3.2 There are two mechanisms in the LGPS because the employer cost cap process has been partly established in order to demonstrate consistency between the public service pension schemes. Because of this, the future service cost process has been set up to reflect the specifics of the LGPS experience in assessing the costs of the pension scheme reforms.

- 3.3 The cost control processes will be subject to tight timescales and the Government Actuary's Department (GAD) will require the submission of accurate and consistently reported information in order to calculate figures that best reflect the experience of the LGPS. This will put further pressure on administering authorities and employers to provide accurate and timely data sooner than has traditionally been the case.

4 Data Requirements

- 4.1 The move to a career average scheme requires that certain additional information is held and extractable in order for GAD's actuarial calculations to be undertaken. For the cost control processes, GAD require the following information to be provided by each LGPS pension fund:

- a) **Pre- and post- 14 data** - For actives, deferred and pensioner members, pension amounts split between:
- amounts relating to pre-2014 accrual, and
 - amounts relating to post-2014 accrual.
- b) **50/50 section and full section data** - For actives, deferred and pensioner members, post-2014 pension amounts split between:
- those relating to 50/50 section membership, and
 - those relating to full section membership.
- c) **Cashflows** - For benefits paid and transfers paid, split between:
- pre-2014 membership,
 - post-2014 50/50 section membership, and
 - post-2014 full section membership.
- d) **Contributions** - For employee contributions, split between:
- contributions paid whilst in 50/50 section, and
 - contributions paid whilst in full section.
- e) **Membership movements** - For those leaving and joining the pension fund:
- 'Benefits at date of exit' for those members leaving or retiring from active service after April 2014, and
 - 'Benefits at date of re-joining' for those members aggregating pre-2014 benefits.
- f) **Commutation** - For those who have commuted any of their pension to lump sum since April 2008:
- How much in annual pension they commuted to lump sum, and
 - The maximum amount they could have commuted to lump sum.

- 4.2 These data requirements are **in addition to** the 'normal' data required by the Fund Actuary for each valuation. It is very likely that in order to meet this obligation, additional costs will be incurred, both by the Pension Fund and by Fund Employers who will need to provide the initial base data – particularly where there are difficulties extracting the

required data from payroll systems.

5 **Recommendation**

5.1 To note the contents of this report.

Recommendation:		Reason for Recommendation:	
To note the Pension Fund's role in the LGPS cost control process.		As per report	
Person(s) To Action Decision:	Pensions Manager		
Date By When Decision To Be Actioned:			
Relevant Policy (ies):	N/A		
Within Policy:	N/A	Within Budget:	N/A
Contact Officer Name:	Tel:	Fax:	Email:
Joe Rollin	08708 510264	01597 826290	joe.rollin@powys.gov.uk
Relevant Portfolio Member(s):		Councillor Dai Davies	
Relevant Local Member(s):		N/A	