



Local Government Pensions Board

Date: TUESDAY, 8 JUNE 2021

Time: 1.45 pm

Venue: VIRTUAL PUBLIC MEETING (ACCESSIBLE REMOTELY)

Members: James Tumbridge (Chairman) Jon Averbs
Martin Newnham (Deputy Mark Wheatley
Chairman) Vacancy, Scheme Member
Christina McLellan Representative

Enquiries: Chris Rumbles
tel. no.: 020 7332 1405
christopher.rumbles@cityoflondon.gov.uk

Accessing the virtual public meeting

Members of the public can observe this virtual public meeting at the below link:
https://youtu.be/9CX5tAo_hd8

This meeting will be a virtual meeting and therefore will not take place in a physical location. Any views reached by the Committee today will have to be considered by Kate Limna after the meeting in accordance with the Court of Common Council's Covid Approval Procedure who will make a formal decision having considered all relevant matters. This process reflects the current position in respect of the holding of formal Local Authority meetings and the Court of Common Council's decision of 15th April 2021 to continue with virtual meetings and take formal decisions through a delegation to the Town Clerk and other officers nominated by him after the informal meeting has taken place and the will of the Committee is known in open session. Details of all decisions taken under the Covid Approval Procedure will be available on line via the City Corporation's webpages.

A recording of the public meeting will be available via the above link following the end of the public meeting for up to one municipal year. Please note: Online meeting recordings do not constitute the formal minutes of the meeting; minutes are written and are available on the City of London Corporation's website. Recordings may be edited, at the discretion of the proper officer, to remove any inappropriate material.

John Barradell
Town Clerk and Chief Executive

AGENDA

1. **APOLOGIES**

2. **MEMBERS' DECLARATIONS UNDER THE CODE OF CONDUCT IN RESPECT OF ITEMS ON THE AGENDA**

3. **MINUTES**

To consider minutes as follows:-

For Decision

a) To agree the public minutes of the Local Government Pension Board meeting held on 8th March 2021 (Pages 5 - 8)

b) To agree the public minutes of the Local Government Pensions Board meeting held on 6th May 2021. (Pages 9 - 10)

4. **OUTSTANDING ACTIONS**

Report of the Town Clerk.

For Information
(Pages 11 - 12)

5. **PRESENTATION ON MCCLOUD**

Presentation by the Chamberlain.

For Information

6. **CITY OF LONDON LOCAL GOVERNMENT PENSION SCHEME - RISK REGISTER**

Report of the Chamberlain.

For Decision
(Pages 13 - 34)

7. **THE CITY CORPORATION'S PENSIONS SCHEME - UPDATE**

Report of the Chamberlain.

For Information
(Pages 35 - 116)

8. **QUESTIONS ON MATTERS RELATING TO THE WORK OF THE BOARD**

9. **ANY OTHER BUSINESS THAT THE CHAIRMAN CONSIDERS URGENT**

10. **EXCLUSION OF THE PUBLIC**

MOTION - That under Section 100(A) of the Local Government Act 1972, the public be excluded from the meeting for the following items on the grounds that they involve the likely disclosure of exempt information as defined in Part I of Schedule 12A of the Local Government Act.

For Decision

Part 2 - Non-Public Agenda

11. **NON-PUBLIC MINUTES OF THE PREVIOUS MEETING**

To agree the non-public minutes of the meeting held on 8th March 2021.

For Decision
(Pages 117 - 118)

12. **NON-PUBLIC APPENDIX: THE CITY CORPORATION'S PENSION SCHEME UPDATE**

Non-public appendix to be read in conjunction with item 7 on the agenda.

For Information
(Pages 119 - 126)

13. **NON-PUBLIC QUESTIONS ON MATTERS RELATING TO THE WORK OF THE BOARD**

14. **ANY OTHER BUSINESS THAT THE CHAIRMAN CONSIDERS URGENT AND WHICH THE COMMITTEE AGREES SHOULD BE CONSIDERED WHILST THE PUBLIC ARE EXCLUDED**

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LOCAL GOVERNMENT PENSIONS BOARD

Monday, 8 March 2021

Minutes of the meeting of the Local Government Pensions Board held as a Virtual Public Meeting.

Present

Members:

James Tumbridge (Chairman)	Jon Averns
Martin Newnham (Deputy Chairman)	Yvette Dunne
Christina McLellan	Mark Wheatley

Officers:

Kate Limna	- Corporate Treasurer
Jeff Henegan	- Chamberlain's Department
Matt Mott	- Pensions Manager
Christopher Rumbles, Clerk	- Town Clerk's Department

The Chairman acknowledged it would be Yvette Dunne's last Local Government Pensions Board meeting, with her current term ending in April 2021 and having decided to stand down from the Board at this time.

The Chairman noted that Ms Dunne had been a Member of Local Government Pensions Board since it began in 2016 and he put on record his personal thanks for the valued contribution and commitment that she had shown throughout this time in supporting the work of the Board. The Chairman took the opportunity on behalf of the Board to offer Ms Dunne all their very best for the future.

1. APOLOGIES

There were no apologies received.

2. MEMBERS' DECLARATIONS UNDER THE CODE OF CONDUCT IN RESPECT OF ITEMS ON THE AGENDA

There were no declarations of interests.

3. MINUTES OF THE PREVIOUS MEETING

Resolved, that the public minutes and non-public summary of the meeting on 5th October 2020 are approved as an accurate record of the meeting.

The Board noted that matters arising were all addressed within items on the agenda.

4. OUTSTANDING ACTIONS

The Board considered a report of the Town Clerk providing a note of actions from previous meetings.

The Chairman questioned if the Pension Administration procurement remained on track and the Pensions Manager confirmed that the evaluation of tender application should be completed during the next couple of weeks. The Pensions Manager referred to the update later on the agenda and confirmed a further update would be provided to the Board when the contract has been awarded.

Resolved, that the Board notes the report.

5. TERMS OF REFERENCE: ANNUAL REVIEW

The Board received a report of the Town Clerk presenting the Terms of Reference for the Local Government Pensions Board and providing an opportunity for any proposed changes to be considered in time for the annual reappointment of Committees by the Court of Common Council.

The Chairman commented that he considered the terms of reference to be in a solid space. The Employer Representative appointed by the Town Clerk remarked on it being unlikely that he would still be with the City Corporation this time next year and suggested an appropriate appointment to the Board would need considering. The Chairman proposed an approach be made to the Town Clerk on the process for appointing an Employer Representative to the Board.

The Corporate Treasurer confirmed that a recruitment and selection process had begun for recruitment into the vacancy created by Ms Dunne standing down from the Board. A letter would be going to all Scheme Members advertising the vacancy, with the aim of appointing in advance of the next Board meeting in June.

Resolved, that the Local Government Pensions Board terms of reference be approved for submission to the Court of Common Council in April 2021.

6. THE CITY OF LONDON LOCAL GOVERNMENT PENSION SCHEME - RISK REGISTER

The Board considered a report of the Chamberlain presenting a Risk Register for the Local Government Pensions Board to allow an opportunity to review existing risks and actions presented and to indicate whether they considered appropriate control measures were in place.

The Board were in agreement that the Risk Register included appropriate risks.

Resolved, that the Board: -

- Agree that appropriate control measures were in place; and
- That that were no further risks relating to the pension administration overseen by the Local Government Pensions Scheme Board.

7. THE CITY CORPORATION'S PENSIONS SCHEME - UPDATE

The Board received a report of the Chamberlain providing information regarding a range of topics in relation to the City Corporation's Pension Scheme (the Scheme).

The Chairman questioned proposals relating to the Target Operating Model and whether any changes were envisaged to Pensions Office as part of this. The Pensions Manager referred to high level information provided on the Target Operating Model at the end of last year indicating pensions administration would move to a new area under a Chief Operating Officer.

The Chairman stressed the Board should be made aware of the impacts from any changes. The Corporate Treasurer clarified that arrangements relating to the Target Operating Model had so far been dealing with putting in place top level management. As part of the Target Operating Model, the proposal was for pensions administration to move across under a Chief Operating Officer, but this has not been actioned yet and it was not possible at this point to say when this may happen as no further information has been provided since the communication last November.

The Chairman suggested that he and the Deputy Chairman needed to understand the impacts of the Target Operating Model. The Chairman added that the Board had established a way of working that had resulted in the right information coming forward, with this being reflected in the Board asking fewer questions on the papers presented at each meeting. The Chairman suggested keeping the position stable and retaining pensions administration under the responsibility of the Chamberlain.

The Chairman proposed putting on record the need for those taking forward the Target Operating Model to brief the Chairman and Deputy Chairman to allow them an opportunity to feed into the process before any changes were implemented. The Corporate Treasurer proposed the Chairman and Deputy Chairman take an opportunity to feed in the views of the Board.

Members unanimously supported the Corporate Treasurer's proposal that the Chairman and Deputy Chairman feedback the views of the Board.

Resolved, that the updated be noted.

8. FLEXIBLE RETIREMENT

The Board received a joint report of the Director of HR and the Chamberlain setting out the process that would ensure there was no adverse impact on the Pensions Fund from the Flexible Retirement Opportunity being offered to employees.

The Chairman acknowledged the paper addressed the question raised at the last meeting. Members agreed and the position appeared straightforward.

Resolved, that the report be received, and its content noted.

9. QUESTIONS ON MATTERS RELATING TO THE WORK OF THE BOARD

There were no questions.

10. ANY OTHER BUSINESS THAT THE CHAIRMAN CONSIDERS URGENT

There were no additional items of business.

11. **EXCLUSION OF THE PUBLIC**

Resolved, that under section 100(A) of the Local Government Act 1972, that the public be excluded from the meeting for the following items on the grounds that they involve the likely disclosure of exempt information as defined in Part I of Schedule 12A of the Local Government Act.

12. **NON-PUBLIC MINUTES OF THE PREVIOUS MEETING**

RESOLVED – That the non-public minutes of the previous meeting on 5th October be approved as an accurate record of the meeting.

13. **NON-PUBLIC APPENDIX: THE CITY CORPORATION'S PENSION SCHEME - UPDATE**

The Board received a non-public appendix to be read in conjunction with item 7 the City Corporation's Pension Scheme Update.

14. **NON-PUBLIC QUESTIONS ON MATTERS RELATING TO THE WORK OF THE BOARD**

A Member raised a question relating to the McCloud judgment and potential impacts on the Pension Scheme.

15. **ANY OTHER BUSINESS THAT THE CHAIRMAN CONSIDERS URGENT AND WHICH THE COMMITTEE AGREES SHOULD BE CONSIDERED WHILST THE PUBLIC ARE EXCLUDED**

There was no other business.

The meeting closed at 5.10pm.

Chairman

Contact Officer: Chris Rumbles
tel. no.: 020 7332 1405
christopher.rumbles@cityoflondon.gov.uk

LOCAL GOVERNMENT PENSIONS BOARD

Thursday, 6 May 2021

Minutes of the meeting of the Local Government Pensions Board held at the Guildhall EC2 at 8.00 am

Present

Members:

Christina McLellan
James Tumbridge
Jon Averbs

Martin Newnham
Mark Wheatley

Officers:

Matt Mott - Chamberlain's Department
Christopher Rumbles, Clerk - Town Clerk's Department
Bukola Soyombo - Chamberlain's Department

1. APOLOGIES

There were no apologies received.

2. MEMBERS' DECLARATIONS UNDER THE CODE OF CONDUCT IN RESPECT OF ITEMS ON THE AGENDA

There were no declarations of interests.

3. ORDER OF THE COURT OF COMMON COUNCIL

Members noted the order of the Court of Common Council of 15th April 2021 appointing the Committee and setting its terms of reference for the ensuing year.

4. ELECTION OF CHAIR

In accordance with Standing Order No. 29, the Committee proceeded to elect a Chair for the ensuing year. James Tumbridge, being the only Member having expressed their willingness to serve was duly elected Chairman.

5. ELECTION OF DEPUTY CHAIR

In accordance with Standing Order No 30, the Committee proceeded to elect a Deputy Chair for the ensuing year. Martin Newnham, being the only Member have expressed their willingness to serve was duly elected Deputy Chairman.

The meeting closed at 8.12am

Chairman

Contact Officer: Chris Rumbles
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Local Government Pension Board – Public Outstanding Actions List

Date raised	Action	Officer responsible	To be completed/ progressed to next stage	Comment
8.3.21	<p>Target Operating Model Chairman to write to the Town Clerk feeding back the views of the Board that any impacts from changes as part of Target Operating model be made known.</p> <p>An opportunity should be allowed for the Board to feed in its views on any proposed changes before these are implemented.</p>	Chairman / Corporate Treasurer	8 th June 2021	<p>COMPLETE</p> <p>Letter sent to the Town Clerk.</p>
8.3.21	<p>Mc Cloud Judgement Update to be given to the Board to allow consideration options for further communication of the judgement.</p>	Pensions Manager	8 th June 2021	Update and training presentation at meeting

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Committee:	Date:
Local Government Pensions Board	8 June 2021
Subject: The City of London: Local Government Pension Scheme – Risk Register	Public
Report of: The Chamberlain	For Decision
Report author: Matt Mott – Chamberlain’s Department	

Summary

This report reviews the Risk Register for the Local Government Pensions Board. The Risk Register details the key risks that the Board has identified alongside a risk score which indicates the likelihood of a risk being realised together with the potential impact and the appropriate mitigations.

When reviewing the risks, the Board should be aware that generic risks are also included in the City of London Police Pension Scheme Pension Board risk register. The risks are CHB LGPS 03 Legislative Compliances, 04 Pension Scheme Administration, 05 Fraud and 07 Cyber security.

Officers have conducted a preliminary review of the Risk Register and are not recommending any changes to the current scores.

The Risk Register is included at Appendix A(ii) with risk updates underlined throughout. The Risk Register is reviewed at each meeting by the Local Government Pensions Board and more frequently by officers, who report any material changes or new risks identified in between reviews on an exceptions basis.

Recommendation

Members are asked to:

- review the existing risks and actions present on the Local Government Pension Board’s Risk Register, and confirm that appropriate control measures are in place; and
- confirm that there are no further risks relating to the pension administration overseen by the Local Government Pension Scheme Board

Main Report

Background

1. The Local Government Pension Board instituted a Risk Register on 20 October 2016 to help identify and manage the strategic risks facing the Board in discharging its responsibilities to oversee the City's Pension Fund. The current Risk Register, as agreed by the Board on 5 October 2020, is included as Appendix A (i).
2. The Board reviews the Risk Register at each meeting. Officers review the register more frequently and report any material changes between reviews on an exceptions basis to the Board. This is in line with standard risk review procedures across the rest of the City of London Corporation.

Review of Risks

3. The method of assessing risk reflects the City of London's standard approach to risk assessment as set out in its Risk Management Strategy approved by the Audit and Risk Management Committee in May 2014. The City of London Corporation risk matrix, which explains how risks are assessed and scored, is attached at Appendix A (ii) of this report. Risk scores range from one, being lowest risk, to the highest risk score of thirty-two. These scores are summarised into 3 broad groups, each with increasing risk, and categorised "green", "amber" or "red".

Update on risks

4. The Revised Risk Register is attached at Appendix A(i) and the Risk Matrix at Appendix (ii)
5. At its meeting on 5 October 2020 the Board requested a new risk to be added to the Risk Register concerning the procurement of a new contract for the pension administration software. Risk CHB LGPS 008 Pension Administration Software identifies the risks associated with the expiry of the existing contract on 13 October 2021 and the procurement process to replace it immediately, enabling CoL to continue to meet its statutory obligation as an Adminstrating Authoring for the City of London LGPS. The likelihood of the procurement not completing in time and CoL unable to meet its statutory administrative requirements is unlikely. If, however, the procurement did fail and CoL were without an administration system to hold member data and perform pension calculations and payments the impact would be extreme. The tender process has now completed and applicants notified of the award. The risk, however, is still relevant as the contract has yet to be formalised. Once the contract has been agreed and signed by both parties the risk will be significantly reduced. Until then risk CHB LGPS 008, remains scored as 16 and is red.
6. The scores for other risks have been maintained at their previous levels, although these risks have each been reviewed and updated where necessary in the Register itself. Updates to the Risk Register are underlined throughout.

7. Officers have also considered whether in addition to risk CHB LGPS 008, any new further risks have emerged since the last review. Although the Board's operating environment continually changes officers have determined that the existing Register captures the material risks facing the Board and enables the Board to concentrate on the most prescient risks.
8. Each risk presented in the Risk Register is accompanied by one or more "action(s)" which reflect how the risk is managed and mitigated. A "due date" for required completion is set against each action. Due to the nature of the risks overseen by the Board, in many cases it is impossible to entirely eliminate a risk, and therefore corresponding actions will always remain live. These ongoing actions are necessary in order to maintain the current risk score. Where this is the case the Risk Register includes an annual due date, which will be renewed each year.

Conclusion

9. The risks overseen by the Local Government Pension Board are primarily of low likelihoods but represent substantial impact, particularly with regards to financial loss and reputational damage. The Board is requested to confirm that appropriate control measures are in place for these risks and that there are no other risks that should be added to the Risk Register.

Appendices:

Appendix A (i)– Risk Register
Appendix A (iii) - Risk Matrix

Contact:

Matt Mott
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CHB LGPS Detailed risk register EXCLUDING COMPLETED ACTIONS

Report Author: Chris Anastasi

Generated on: 12 January 2021



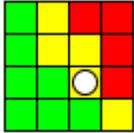
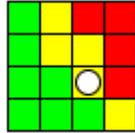
Rows are sorted by Risk Score

Risk no, title, creation date, owner	Risk Description (Cause, Event, Impact)	Current Risk Rating & Score		Risk Update and date of update	Target Risk Rating & Score		Target Date	Current Risk score change indicator
Page 17 8 Pension Administration Software	<p>Cause: (i) Contract expires and is not replaced. (ii) Contract expires and replacement is delayed.</p> <p>Event: Unable to meet statutory obligations of the LGPS or PPS</p> <p>Effect: (i) Pensions not paid (ii) sanctions and fine (iii) Complaints and loss of reputation.</p>		16	<p>The current software contract expires on 13 October 2021 following a two year extension. The CoL must complete a procurement exercise to appoint or re-appoint a provider by 14 October 2021.</p> <p>Failure to deliver by 14 October 2021 may result in a delay to processing of benefits and the cessation of the Local Government Pension Scheme (LGPS) administration processes.</p> <p>There is a Framework for LGPS software administered by Norfolk County Council. The framework has already identified and selected the providers that may meet the CoL requirements and provides technical specification of the software.</p>		8	31-Oct-2021	

04-Jan-21				<p><u>The procurement process has been completed and applicants notified of the award.</u></p> <p><u>The contract has not yet been signed by either party, and until it has been signed the risk should remain unchanged.</u></p> <p>11-May-2021</p> <p>Matt Mott</p>			Reducing
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Action no	Action description	Latest Note	Action owner	Latest Note Date	Due Date
008a	Papers presented to CoL Boards for approval, stakeholder consulted	Procurement, Digital Services and Project Boards attended in August, September, October and November request to approve process and move to next steps. Return to Board in March 2021 prior to award of contract. Chief Officer approval was required to award and commence work as a return to Digital Services and Project Board was not required at this point in time. The Gateway 5 report was provided to the Town Clerks department to distribute to the Boards.	Matt Mott	11-May-2021	31-Oct-2021
008b	Ensure all relevant providers are included in tender as per the framework, seeking timely outcome and value for money	Tender released 8 January and closes to applications on 9 February 2021. The process has been completed and Procurement have written to applicants with outcome. This risk can now be removed from the register	Matt Mott	11-May-2021	31-Oct-2021
008c	Robust checking of software specification questions and accuracy of answers across all areas of the administration.	Providers will be questioned about all areas of software provision such as member record data, workflow and accuracy of core calculations prior to offer and anticipated award in early April. This has now been completed and the risk can be removed from the register	Matt Mott	11-May-2021	31-Oct-2021
008d	Removal of single person dependencies	With effect from 9 February members of the Pensions Office will be involved in the evaluation of the applications and determination of award with procurement. This will aid a successful outcome by reducing the single person dependency within the Pensions Office that currently exist with only the Pensions Manager involved in the procurement process, allowing a successful outcome even in the event of officer absence for reason such as illness etc. As we move into implementation of the contract and system improvements other members of the Pensions Office will become involved	Matt Mott	11-May-2021	31-Oct-2021
008e	Resourcing - Work with the successful vendor on resource planning at project commencement to ensure all resource requirements are identified from the onset. This will be	As part of the information issued by the Norfolk County Council Framework all onboarding to be considered as a deliverable. Question will be asked of all potential bidders based on this information	Matt Mott	11-May-2021	31-Oct-2021

	part of a wider mobilisation plan.	<u>Project Management resource allocated from IT Project office to help manage post tender award to be confirmed and will commence once contract has been signed.</u>			
008f	Ensuring that the pensions administration software is included in the departmental business continuity plans	Updating the business impact analysis details used in the departmental continuity plan as required.	David Clelland	11-May-2021	02-Nov-2021
008g	Include Data migration and Exit management in the requirement to vendors.	All system data identified, Analysis carried out on all data sets. Estimated budget allocated to each data migration event. Decommissioning of On-Premise legacy systems can be carried out under the current support contract. Contractual obligation for migration support from the Incumbent exists.		11-May-2021	31-Oct-2021

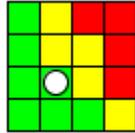
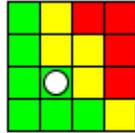
Risk no, title, creation date, owner	Risk Description (Cause, Event, Impact)	Current Risk Rating & Score		Risk Update and date of update	Target Risk Rating & Score		Target Date	Current Risk score change indicator
CHB LGPS Page 19 Insufficient assets	Cause: The asset allocation of the Pension Fund is unable to fund long term liabilities Event: There are insufficient assets to meet liabilities Effect: Reduced income or lower than anticipated growth. Participating employers are required to provide further funding through increased contributions to finance liabilities.	 Likelihood Impact	8	The Financial Investment Board reviewed the investment strategy at its meetings in June and July 2020. The Board maintained the existing asset allocation strategy and reduced the absolute return target from 5.7% p.a. to 5.2% p.a. (which is consistent with the strategy for funding the Pension Fund's liabilities). The review was heavily supported by the Fund's Investment Consultant. The investment strategy remains appropriate in the context of the Fund's funding objectives. The Pension Fund was impacted in the first quarter of 2020 by the downturn in financial markets related to COVID-19. Asset values have recovered since the end of March, and although there is notable uncertainty about the long term impact of the virus on the global economy, some stability has returned to asset prices. The investment strategy review took	 Likelihood Impact	8	31-Mar-2022	

17-Dec-2019 Caroline Al-Beyerty			<p>place after the emergence of the pandemic and as such officers are confident that the current approach remains appropriate in terms of the Fund's funding objectives. As such the current risk score of 8, has been maintained.</p> <p>21 September 2020</p> <p><u>The Pension Fund's absolute return target has been set at 5.2% annually from 1st April 2020 by the Financial Investment Board (which is consistent with the strategy for funding the Fund's liabilities). The Fund's investment assets performed strongly in the year to 31 March 2021 with an overall annual return of +27.7%, following the Covid-19 driven downturn in markets in the first quarter of 2020. The Fund is now meeting its absolute return target over all time horizons and has also either outperformed or matched its asset allocation targets. The score for this risk has been maintained to reflect the judgement that the likelihood of this risk materialising is "unlikely".</u></p> <p>25 May 2021</p>				Constant
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Action no	Action description	Latest Note	Action owner	Latest Note Date	Due Date
CHB LGPS 001a	The Investment strategy of the Pension Fund is reviewed at least every three years by the Financial Investment Board with proper advice from the Investment Consultant.	Following shortly after the completion of the 2019 triennial valuation of the Fund's liabilities, the Financial Investment Board reviewed the Pension Fund investment strategy at its meetings in June and July 2020. This ensured that the investment strategy remained appropriate in the context of the Fund's updated liabilities valuation and the current investment environment.	Caroline Al-Beyerty; Kate	08-Jan-2021	31-Mar-2023

			Limna		
CHB LGPS 001b	The investment performance of the Pension Fund is measured against absolute return targets required to meet long term objectives. This is reported to the Financial Investment Board throughout the year and is supplemented by market insight from the Corporation's Investment Consultant who will assist any strategic decisions required in between the three-year formal strategy reviews.	Individual Fund investment performance is brought to each Financial Investment Board for consideration.	Kate Limna; <u>James</u> <u>Graham</u>	12-Jan- 2021	31-Mar- 2022

Action no	Action description	Latest Note	Action owner	Latest Note Date	Due Date
CHB LGPS 004a	Job descriptions used at recruitment to attract candidates with skills and experience related to LGPS administration. The appraisals process to monitor progress and assess training needs.	Ensuring that candidates with the necessary skills and abilities are employed by the City. Once in post, staff continue to receive relevant training and attend courses, seminars and conferences when appropriate. Have trained multiple team members for extra duties due to parental leave cover	Matt Mott	11-May-2021	31-Mar-2022
CHB LGPS 004b	Scheme administrators are trained to use the pensions administration software.	Ensuring that administrators are fully trained to use the pension administration software to enable them to provide accurate and efficient calculations. In addition, administrators should know the correct process to report to the software provider any errors encountered with the system in order that they can be investigated and resolved.	Matt Mott	11-May-2021	31-Mar-2022
CHB LGPS 004c	Practical disaster recovery/succession plans in place to ensure continuity in the event that key staff leave or are unable to work for a prolonged period of time.	Ensuring that skill sets are not restricted to one staff member alone. Priority cases and work types are identified to ensure continuation in the event that staff or other resources become unavailable. Disaster Recovery reviewed in light of COVID 19 and officers having worked from home since 23 March 2020.	Matt Mott	11-May-2021	31-Mar-2022
CHB LGPS 004e	Accurate and appropriate checking procedures in place at all areas of administration.	All checking procedures reviewed and where necessary amended due to take account of COVID 19 and officers having worked from home since 23 March 2020.	Matt Mott	11-May-2021	31-Mar-2022

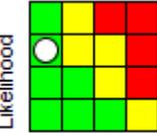
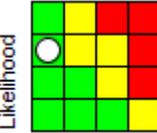
Risk no, title, creation date, owner	Risk Description (Cause, Event, Impact)	Current Risk Rating & Score		Risk Update and date of update	Target Risk Rating & Score		Target Date	Current Risk score change indicator
<p>CHB LGPS 006 Employer insolvency</p> <p>17-Dec-2019 Caroline Al-Beyerty</p>	<p>Cause: Processes not in place to capture or review covenant of individual employers. Event: Employer becomes insolvent or is abolished with insufficient funding to meet liabilities. Effect: Fund would pick up the liabilities potentially leading to increased contribution rates for other employers.</p>	<p>Likelihood</p>  <p>Impact</p>	<p>4</p>	<p>Since 2013 the LGPS regulations generally require all admission bodies to enter into an indemnity or bond to cover the possibility of an employer becoming insolvent or prematurely leaving the Fund. This would mean the Fund and the remaining employers would have to meet the outgoing employer's liabilities in the Fund.</p> <p>The actuary assesses the value of these risks to the Fund and sets the value for a bond, generally for a three-year period.</p> <p>It is generally a requirement of the City of London for all new admission agreements to have a bond and the responsibility of the admission body to arrange and regularly reassess the bond.</p> <p>22-Jan-2020</p>	<p>Likelihood</p>  <p>Impact</p>	<p>4</p>	<p>31-Mar-2022</p>	<p></p> <p>Constant</p>

Action no	Action description	Latest Note	Action owner	Latest Note Date	Due Date
CHB LGPS 006a	Bond indemnity/guarantee required for admitted bodies and incorporated into admission agreements where appropriate.	Recent admissions to the scheme have provide a bond.	Matt Mott	11-May-2021	31-Mar-2022

Risk no, title, creation date, owner	Risk Description (Cause, Event, Impact)	Current Risk Rating & Score		Risk Update and date of update	Target Risk Rating & Score		Target Date	Current Risk score change indicator
CHB LGPS 007 Cyber security Page 25 17-Dec-2019 Caroline Al-Beyerty	Cause: (i) Ineffective procedures. (ii) Inadequately trained staff. (iii) IT system failure (iv) Data Accuracy. (v) Lack of resources. Event: Breach of Corporate IT systems and Cyber security. Effect: (i) Inaccurate benefits paid or delayed. (ii) Increased costs of inefficiencies. (iii) Financial penalties/sanctions. (iv) Breach of Data Protection regulations. (v) Loss/corruption of data	 Likelihood Impact	4	A malicious breach of Corporate IT systems may lead to a failure of the pensions administration system and/or a breach of Data Protection regulations. A failure of the pensions administration system or a breach of the DP regulations may mean a failure or inability to calculate benefits accurately and on time which may lead to financial penalties and sanctions being imposed by the governing industry bodies such as the Pensions Regulator or Information Commissioner's Office.	 Likelihood Impact	4		 Constant

Action no	Action description	Latest Note	Action owner	Latest Note Date	Due Date
CHB LGPS 007a	Pensions administration staff to be aware of the corporate policy regarding cyber security and to follow the guidelines given.	Corporate online training regarding cyber-security to be carried out by all staff and reviewed as required.	Matt Mott	11-May-2021	31-Mar-2022

CHB LGPS 007b	Corporate and departmental specific software to be updated as required to ensure the latest and most secure version is being used..	To ensure the most up-to-date software is being used, staff should update their computers as and when prompted.	Matt Mott	11-May-2021	31-Mar-2022
CHB LGPS 007c	Ensuring that the pensions administration software is included in the departmental business continuity plans	Updating the business impact analysis details used in the departmental continuity plan as required.	Matt Mott	11-May-2021	31-Mar-2022
CHB LGPS 007d	Pensions administration staff to be aware of Data Protection legislation	Data Protection reviewed and all staff reminded of the legislation and its importance. Processes amended for home working since 23 March 2020, ensuring the protection of scheme member data.	Matt Mott	11-May-2021	31-Mar-2022

Risk no, title, creation date, owner	Risk Description (Cause, Event, Impact)	Current Risk Rating & Score		Risk Update and date of update	Target Risk Rating & Score		Target Date	Current Risk score change indicator
CHB LGPS 003 Legislative Compliances	<p>Cause: (i) Lack of appropriate knowledge or skill. (ii) Lack of training/ appropriately skilled staff.</p> <p>Event: The failure to comply with legislative requirements.</p> <p>Effect: (i) Inaccurate benefits paid. (ii) Financial loss. (iii) Increase in Appeals. (iv) Fines from Pensions Regulator. (v) Reputational damage</p>	 <p>Likelihood</p> <p>Impact</p>	<p>3</p>	<p>Local Government Pension Scheme (LGPS) regulations determine how LGPS benefits should be calculated; the procedures to be followed in certain circumstances (i.e. normal retirement and ill health retirement); the timeframes/deadlines to be adhered to; and the notifications to be provided to Scheme members.</p> <p>In addition, overriding pension legislation and other bodies such as the Pensions Regulator, HM Revenue & Customs, the Office of National Statistics and the Financial Conduct Authority may impose rules that work alongside the LGPS regulations or may even supersede them.</p> <p>If the members of the Pensions Office that are responsible for administration of the LGPS Scheme lack the necessary legislative knowledge and skills payment of benefits may be delayed or may be inaccurate.</p> <p>This may lead to formal complaints or appeals from scheme members, there representative or scheme employers resulting in financial penalties and sanctions imposed by the governing bodies such as the Pensions Regulator or the Pensions Ombudsman and a loss of reputation.</p>	 <p>Likelihood</p> <p>Impact</p>	<p>3</p>	<p>31-Mar-2022</p>	

17-Dec-2019 Caroline Al-Beyerty				04- Feb- 2020				Constant
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Action no	Action description	Latest Note	Action owner	Latest Note Date	Due Date
CHB LGPS 003a	Robust recruitment and training processes.	Ensuring that suitable staff are recruited at the correct salary levels and that appropriate training is provided will help to prevent non-compliance with legislative requirements	Matt Mott	11-May-2021	31-Mar-2022
CHB LGPS 003b	The governing legislation may change or evolve over time and it is therefore important that staff maintain accurate and up-to-date knowledge of the Regulations.	Regular attendance at seminars, forums, webinars and user groups will ensure that knowledge of the relevant legislation is kept up-to-date and accurate.	Matt Mott	11-May-2021	31-Mar-2022

		audited without qualification. The draft report was published by the statutory deadline of 1 December with the final version being published on 11 December as the audit certificate was not issued until this date. The Pension Fund Accounts for the year ending 31 March 2021 have been drafted to timetable and the Pension Fund Annual Report is currently being prepared by officers with a view to submitting a draft report for external audit in early June. The audited accounts and report will need to be published by the statutory deadline of 1 December 2021.			
CHB LGPS 002d	Checking for errors or inconsistencies in valuation extract report before submission to the Actuary	Officers review data quality prior to submission to the actuary. Additionally, member data is submitted separately from employer level cash flow data, which are held on two distinct management information systems. As a result, errors are more easily identified during the valuation process itself. For example, if the member data demonstrates that a given number of members belonging to a single employer retired during the valuation period then this should also be evident from the benefit payments reported in the cash flow data.	Matt Mott; <u>James Graham</u>	11-May-2021	31-Mar-2022

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City of London Corporation Risk Matrix (Black and white version)

Note: A risk score is calculated by assessing the risk in terms of likelihood and impact. By using the likelihood and impact criteria below (top left (A) and bottom right (B) respectively) it is possible to calculate a risk score. For example a risk assessed as Unlikely (2) and with an impact of Serious (2) can be plotted on the risk scoring grid, top right (C) to give an overall risk score of a green (4). Using the risk score definitions bottom right (D) below, a green risk is one that just requires actions to maintain that rating.



(A) Likelihood criteria

Criteria	Rare (1)	Unlikely (2)	Possible (3)	Likely (4)
Probability	Less than 10%	10 – 40%	40 – 75%	More than 75%
Time period	Has happened rarely/never before	Unlikely to occur	Fairly likely to occur	More likely to occur than not
Numerical	Unlikely to occur in a 10 year period	Likely to occur within a 10 year period	Likely to occur once within a one year period	Likely to occur once within three months
	Less than one chance in a hundred thousand (<10 ⁻⁵)	Less than one chance in ten thousand (<10 ⁻⁴)	Less than one chance in a thousand (<10 ⁻³)	Less than one chance in a hundred (<10 ⁻²)

(B) Impact criteria

Impact title	Definitions
Minor (1)	Service delivery/performance: Minor impact on service, typically up to one day. Financial: financial loss up to 5% of budget. Reputation: Isolated service user/stakeholder complaints contained within business unit/division. Legal/statutory: Litigation claim or find less than £5000. Safety/health: Minor incident including injury to one or more individuals. Objectives: Failure to achieve team plan objectives.
Serious (2)	Service delivery/performance: Service disruption 2 to 5 days. Financial: Financial loss up to 10% of budget. Reputation: Adverse local media coverage/multiple service user/stakeholder complaints. Legal/statutory: Litigation claimable fine between £5000 and £50,000. Safety/health: Significant injury or illness causing short-term disability to one or more persons. Objectives: Failure to achieve one or more service plan objectives.
Major (4)	Service delivery/performance: Service disruption > 1 - 4 weeks. Financial: Financial loss up to 20% of budget. Reputation: Adverse national media coverage 1 to 3 days. Legal/statutory: Litigation claimable fine between £50,000 and £500,000. Safety/health: Major injury or illness/disease causing long-term disability to one or more people. Objectives: Failure to achieve a strategic plan objective.
Extreme (8)	Service delivery/performance: Service disruption > 4 weeks. Financial: Financial loss up to 35% of budget. Reputation: National publicity more than three days. Possible resignation of leading member or chief officer. Legal/statutory: Multiple civil or criminal suits. Litigation claim or find in excess of £500,000. Safety/health: Fatality or life-threatening illness/disease (e.g. mesothelioma) to one or more persons. Objectives: Failure to achieve a major corporate objective.

(C) Risk scoring grid

Likelihood	Impact			
	Minor (1)	Serious (2)	Major (4)	Extreme (8)
X				
Likely (4)	4 Green	8 Amber	16 Red	32 Red
Possible (3)	3 Green	6 Amber	12 Amber	24 Red
Unlikely (2)	2 Green	4 Green	8 Amber	16 Red
Rare (1)	1 Green	2 Green	4 Green	8 Amber

(D) Risk score definitions

RED	Urgent action required to reduce rating
AMBER	Action required to maintain or reduce rating
GREEN	Action required to maintain rating

This is an extract from the City of London Corporate Risk Management Strategy, published in May 2014.

Contact the Corporate Risk Advisor for further information. Ext 1297
October 2015

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Agenda Item 7

Committee:	Date:
Local Government Pensions Board	08 June 2021
Subject: The City Corporation's Pensions Scheme - Update	Public
Report of: The Chamberlain	For Information
Report author: Matt Mott – Chamberlain's Department	

Summary

At the Board's meeting on 20 October 2016, it was agreed that information regarding a range of topics in relation to the Corporation's Local Government Pensions Scheme (the Scheme) would be provided at each meeting. Members have indicated that information regarding communications be provided on an annual basis and all of the other items of information will be provided at each meeting except for when there is no updated information since the previous meeting

Item	Update
Annual schedule of events for the Pensions Scheme	Update provided (Appendix A).
Data Protection Act 2018 (DP18) – Data Retention Policy	<p>The Data Retention Policy is due an annual review in June.</p> <p>Following the review by the Pensions Office in 2020 no changes were made, however, to ensure all scheme employers are aware of the way data is retained by the Fund a copy of the policy was provided to all employers.</p> <p>The Pension Office will review the policy by the end of the month to ensure it is still appropriate.</p> <p>CoL Pension Fund Data Retention Policy (Appendix B).</p>
Information of Scheme Record Keeping	No amendments since the last Board meeting.
A record of any complaints or disputes under the Scheme's complaints procedure	1 IDR
Public Service Pensions Reporting Breaches of Pension Law	None to report
Any audit reports relating to the administration of the Scheme	None to report
Any reports relating to the administration of the Pension Scheme which have been considered by other Committees	None to report.

<p>Guaranteed Minimum Pensions (GMP) Reconciliation</p>	<p>Pension data is continuing to be analysed and JLT/Mercer are liaising with HMRC.</p> <p>HMRC have advised that they will issue a final report. Due to Covid 19 this has been delayed and HMRC have not indicated when this will be published..</p> <p>A report will be brought to the Board once the reconciliation has been completed.</p>
<p>Covid 19</p>	<p>Due to Covid 19 the Pensions Office continue to work from home .</p> <p>The TPR, LGA & SAB guidance remains and 3 key services should be retained at all times and they are:</p> <ul style="list-style-type: none"> • Continued payment of pension benefits to existing pension members • Commencement of pension benefits to new retirees • Ceasing of pension payments due to notification of death. <p>The Pensions Office has continued to provide all services to scheme members, although postal communications are still a challenge.</p> <p>Generally communication continues to be by email and phone calls. Where scheme members have not or are unable to verify their details letters are still posted.</p> <p>The Pensions Office has created a shared team folder which staff access when they visit the office (voluntarily) to print and post letters.</p> <p>This is a collaborative effort as the letters posted could be from any colleague and any aspect of the pension administration.</p> <p>As Covid restrictions ease we hope to visit the office on a more regular basis to check inbound post and continue to send out letters.</p> <p><i>Returning to the Office.</i> The Corporation intends to begin a gradual return to the Guildhall from 21 June</p>

	<p>The Corporation is looking ahead to what the future holds for the way we work and the Workplace Steering Group have developed a set of Workplace Design Principles of which the key recommendations are that:</p> <ul style="list-style-type: none"> • workplaces be used as a space for collaboration • employees are provided with the appropriate technology • staff are managed on their output, objectives and priorities, not on their physical presence in the workplace <p>There is a Chamberlain’s “return to office” working group that the Pension Office is part of to ensure the business needs of the pension administration and the needs of its employees are considered in a new long term fundamental change into working more flexibly to allow us to be more efficient and responsive.</p>
<p>Procurement of Pension Administration System</p>	<p>The applications have been moderated by procurement, IT and the Pensions Office and the Chamberlain has authorised the award of contract and commencement of work.</p> <p>The Procurement Team have written to all applicants notifying them of the decision to award the contract</p> <p>Appendix C is a copy of the latest report (Gateway 5) that has been signed off by The Chamberlain and shared with Procurement, IT and Town Clerks departments.</p> <p>Appendix C Gateway 5 Report Non Public</p>
<p>Scheme Year End Process</p>	<p>Scheme employers including the Corporation have submitted the necessary scheme member data to the Pensions Office, such as pensionable pay, pension contributions, working hours etc.</p> <p>The Pensions Office is currently running this information into the pensions software system, Altair and completing necessary data checks in doing so.</p> <p>The Year End process is a necessary collection of scheme member data at scheme Year End (31 March) to ensure all information held on Altair is the most recent</p>

	<p>and most accurate as possible. This information is used for scheme member benefit calculations throughout the coming year including pension benefit values included in annual benefit statements .</p>
<p>City Print contract</p>	<p>APS have been provided with templates of the bulk printing the Fund requires throughout 2021/22.</p> <p>The first three distributions, the LGPS pensioner newsletter with Pension Board Employer Representative advert , the Police pensioner newsletter and the Pension Board Employer Representative advert to deferred members, have been successfully mailed. This amounts to approximately 10,000 items of post.</p> <p>The annual benefits statement will be the next mailing as they have a statutory deadline of 31 August 2021.</p> <p>The statements will be processed in two mailings, the deferred statements will be distributed in July followed by the distribution of the active member statements in August.</p> <p>These two mailing will be approximately a further 9,000 items of post.</p>
<p>Public Sector Pensions Legal Challenge</p>	<p><u>Lord Chancellor and Secretary of State for Justice v McCloud and others</u></p> <p>The underpin was put forward as a remedy to end discrimination in the MHCLG LGPS McCloud consultation in 2020. The underpin is a protection that allows qualifying scheme members to retire with a pension based on the 2008 final salary scheme instead of the 2015 CARE scheme if the values are higher.</p> <p>On 13 May 2021 MHCLG issued a ministerial statement confirming the LGPS underpin will be amended for the purpose of the McCloud remedy. Legislation is anticipated to be in force by April 2023.</p> <p>However, the McCloud remedy, has yet to be formalised by MHCLG.</p> <p>It is understood the final remedy will resemble the proposal as confirmed in the recent ministerial statement, although not all details information has been provided.</p>

	<p>LGPS Funds have already begun making plans to identify scheme members that may have been discriminated against and software providers are already developing their pensions systems to provide necessary calculations based on the probability of what the remedy will look like.</p> <p>This means there is a risk that the work currently being undertaken may need to be changed or at least amended when the formal remedy is published. Without taking such a risk and acting now the Funds and software providers will likely be unable to deliver on the legislation in 2023.</p> <p>The MHCLG Consultation 2020 is attached as Appendix D for information only as it sets out the details of the proposal.</p>
Target Operating Model (TOM)	<p>A new TOM has been announced for the financial year 2021/22 and a high level structure has been approved by the Court of Common Council.</p> <p>Recruitment to senior posts in the new structure has been finalised and the implementation of the TOM has begun – although many areas of it are still under consultation. It is anticipated to be fully in place with effect from 31 March 2022.</p> <p>When further relevant details are known they will be brought to the attention of the Board.</p>

Recommendation

The Board is recommended to consider the information provided in the following reports and provide any comments in relation to this information.

Appendices:

Appendix A – Annual Schedule of Events

Appendix B - Corporation retention policy

Appendix C – Gateway 5 report NON PUBLIC

Appendix D – MHCLG Consultation amendments to LGPS Underpin

Contact:

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Local Government Pensions - Schedule of Events 2021/22

Date Due	Event	Completed
31 January 2021	HMRC Event Reports – List of Annual Allowance cases exceeding the Previous years' threshold.	13 January 2021
1 April 2021	Pensioner Newsletter and Board Vacancy Advert	26 March 2021
March 2021 Within 2 weeks of quarter date	Tax return for Quarter 4 (to 31/3/2021)	1 April 2021
1 April 2021	Employee Contribution band review/ implementation.	1 April 2021
1 April 2021	Revaluation of CARE benefits.	1 April 2021
1 Monday in April following Tax Year End	Pensions Increase (PI) – Annual Inflation increase.	12 April 2021
31 May 2021	Pensioner P60s distributed	21 May 2021
June 2021 Within 2 weeks of quarter date	Tax return for Quarter 1 (to 30/06/2021)	
31 July 2021	Publish signed draft City Fund Accounts (including the Pension Fund Accounts)	
31 August 2021	Issue of Annual Benefit Statements deadline.	
September 2021 Within 2 weeks of quarter date	Tax return for Quarter 2 (to 30/09/2018)	
TBA	Draft accounts to Audit & Risk Management Cttee and Finance Cttee	
30 September 2021	Employee Contribution Band review	
30 September 2021	Publish signed audited City Fund Accounts (including the Pension Fund Accounts)	
1 October 2021	Office of National Statistics (ONS) Survey	
5 October 2021	Issue of Annual Allowance (AA) Saving Statements deadline	
6 November 2021	Scheme Return to the Pensions Regulator	
1 December 2021	Publication of Pension Fund Accounts and Annual Report	
December 2021 Within 2 weeks of quarter date	Tax Return for Quarter 3 (to 31/12/2020)	

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City of London Corporation Pension Fund

Data Retention Policy

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Purpose

The City of London Corporation Pension Fund has a number of responsibilities under the Data Protection Act 2018 (“DPA 2018”) and the General Data Protection Regulation (“GDPR”) in relation to the processing of personal data it carries out.

One such responsibility is to comply with the fifth data protection principle, Storage Limitation, which requires personal data to be deleted when it is no longer needed. The timescales in most cases are not set. They will depend on business circumstances and the reasons why the data was originally collected.

The period of retention is, therefore, at the discretion of the City of London Corporation Pension Fund provided that personal data is not kept longer than is necessary for the purposes for which it was obtained. Thus, the period of time data may be retained may vary between scheme member and circumstance.

This note provides guidance to staff in relation to recognising how long data should be retained in order to ensure the City of London Corporation Pension Fund complies with its legal obligations under DPA18 and GDPR.

For the purposes of this policy, ‘personal data’, ‘special category personal data’, ‘data subject’ and ‘processing’ have the same meaning as defined in section 3 and Schedule 1 of the DPA18 and outlined in the Data Protection Policy.



Understanding Personal Data Retention

It is essential for all City of London Corporation Pension Fund employees to have at least a basic level of understanding of data retention, in order to recognise the importance of processing personal data correctly, reduce the possibility of deliberately or accidentally deleting personal data that should be retained or retaining longer than is justified.

To that effect, all staff must complete the mandatory data protection e-learning course, available on the City Learning system.

Where there is any uncertainty concerning whether data should be retained, clarification should in the first instance be sought from the Pensions Manager and if still unclear from the Information Compliance Team.

Type of Personal Data Retained

The types of personal data we hold and process can include:

- Contact details, including name, address, telephone numbers and email address.
- Identifying details, including date of birth, national insurance number and employee and membership numbers.
- Information that is used to calculate and assess eligibility for benefits, for example, length of service or membership and salary information.
- Financial information relevant to the calculation or payment of benefits, for example, bank account and tax details.
- Information about scheme members and their family, dependents or personal circumstances, for example, marital status and information relevant to the distribution and allocation of benefits payable on death.
- Information about scheme member health, for example, to assess eligibility for benefits payable on ill health, or where health is relevant to a claim for benefits following the death of a member of the Fund.
- Information about a criminal conviction if this has resulted in a scheme member owing money to their employer or the Fund and the employer or Fund may be reimbursed from the scheme member benefits.



How Long we Retain Personal Data

We would normally expect to retain data for up to 15 years after pension payments have ceased or up to age 75 for former scheme members where there is not a liability to pay a pension.

We will only keep personal data for as long as the Pension Fund need to in order to fulfil the purpose(s) for which it was collected and for so long afterwards as considered may be required to deal with any questions or complaints that may be received about our administration of the Fund, unless we elect to retain scheme member data for a longer period to comply with our legal and regulatory obligations.

In practice this means that personal data will be retained for such a period as an active scheme member or pensioner scheme member , or any beneficiary who receives pension benefits after the death of the scheme member, are entitled to benefits from the Fund and for a further period of 15 years after those benefits cease to be paid.

When a scheme member opts out of the scheme or leaves Local Government employment and receives a refund of contributions or elects to transfer the value of their LGPS benefits to another pension provider, the liability to pay pension benefits will be discharged. In such an event the Pension Fund will retain the personal data of the scheme member until they are aged 75*.

*Under LGPS regulations 2013, regulation 32(2), all pension benefits due must be in payment prior to the scheme member's 75th birthday.

The right to erasure (“right to be forgotten”)

Under section 47 of the DPA18 (Article 17 GDPR), a data subject has the right to obtain from the data controller the erasure of personal data concerning them and the data controller must erase the personal data without undue delay. This is not, however, an absolute right.

Former scheme members under section 47 can request the Fund erase their personal data where the criteria of article 17 are met. The pension Fund may consider the criteria have not been met (for the reasons as stated in How Long we Retain Personal Data) and may still require the personal data to be retained. This may occur where the former scheme member has received a transfer value from the City of London Pension Fund paid to another pension arrangement or received a refund of contributions in respect of their period of membership in the City of London Pension Fund.



The Pension Fund would in these circumstances only consider retaining a reduced or “skeleton file” in order to be able to fulfil the legal and regulatory obligations.

Data Retained in Skeletal Record

- Name
- Date of birth
- National insurance number
- Record of period of membership
- Election to leave pension fund
- Election to receive payment of refund of contributions
- Election to transfer benefits to another pension provider
- Evidence of the refund payment/transfer value payment
- Other personal data considered necessary to fulfil legal and regulatory obligations

Review

This policy will be reviewed by the City of London Corporation Pension Fund annually to confirm the correct information is being retained.



Ministry of Housing,
Communities &
Local Government

Local Government Pension Scheme (England and Wales)

Amendments to the statutory underpin



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July 2020

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Scope of the consultation

Topic of this consultation:	This consultation seeks views on changes to the Local Government Pension Scheme in England and Wales (LGPS). It outlines proposed changes to the LGPS statutory underpin protection to remove unlawful discrimination found by the Courts in relation to public service pension scheme ‘transitional protection’ arrangements. Specifically, we propose to remove the condition that required a member to have been within ten years of their normal pension age on 1st April 2012 to be eligible for underpin protection. In removing the discrimination, we are proposing a number of supplementary changes to ensure the revised underpin works effectively and consistently for all members.
Scope of this consultation:	MHCLG is consulting on changes to the regulations governing the Local Government Pension Scheme (LGPS).
Geographical scope:	These proposals relate to the LGPS in England and Wales only. Separate consultation exercises will be undertaken by the relevant devolved authorities relating to the issues addressed in this consultation as they affect the local government pension schemes in Scotland and in Northern Ireland.
Impact Assessment:	<p><u>Public Sector Equality Duty</u></p> <p>The Ministry of Housing, Communities and Local Government has analysed the proposals set out in this consultation document (MHCLG) to fulfil the requirements of the Public Sector Equality Duty (PSED) as set out in section 149 of the Equality Act 2010. This requires the Department to pay due regard to the need to:</p> <ol style="list-style-type: none"> 1) eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Act 2) advance equality of opportunity between people who share a protected characteristic and those who do not 3) foster good relations between people who share a protected characteristic and those who do not. <p>The proposals outlined here are intended to remove age discrimination, which had been found to be unlawful in the</p>

firefighters' and judicial pension schemes, from the LGPS rules governing the underpin. We consider that the changes proposed will significantly reduce differential impacts in how the underpin applies based on a member's age, by removing the age-related qualifying criteria found to be unlawful by the Courts in the context of the firefighters' and judicial pension schemes.

Based on analysis undertaken by GAD on active membership data for the LGPS as at 31st March 2019, we anticipate that some differences in how the underpin would apply to members of different age groups would remain. These are set out separately below, along with our assessment of these differences.

1) Qualification for the underpin - GAD's analysis shows that older active members on 31st March 2019 would be more likely to qualify for the revised underpin than younger active members. This is principally because of our proposal that the 31st March 2012 qualifying date for underpin protection is retained. The proportion of members active in the scheme as at 31st March 2019 who had been members of the scheme on 31st March 2012 is lower for younger members, where experience shows they have a higher withdrawal rate from scheme membership. We consider that members joining the LGPS after 31st March 2012 do not need to be provided with underpin protection. Members who joined after this date will have joined the LGPS when either it had already transitioned to the career average structure (for post-1st April 2014 joiners), or when it was well publicised that the LGPS benefits were reforming.

2) Members who benefit from the underpin - GAD's analysis also shows that active members between the ages of 41 and 55 as at 31st March 2019 would be more likely to benefit from the revised underpin (i.e. where the calculated final salary benefit is higher than the calculated career average benefit) than their younger and older colleagues. This reflects previous experience and future expectation that:

- this group are more likely than their older colleagues to experience the pay progression that would make the final salary benefit higher over the underpin period and
- this group are more likely than their younger colleagues to remain in active membership until such time as they would receive the pay progression necessary for the underpin to result in an addition to their pension (e.g. through promotions and other pay increases).

These differential impacts reflect the workings of a final salary scheme, and demonstrate some of the effects that can arise under that design. The Government proposes to move all local

government pensions accrual to a career average basis, without underpin protection, from April 2022 to apply a fairer system to all future service.

In relation to sex, we anticipate that, broadly, the proportion of men and women who would qualify for the revised underpin and benefit from that protection matches the profile of the scheme. This assessment is also based on analysis undertaken by GAD on active membership data for the LGPS as at 31st March 2019.

Proportionally, GAD's assessment is that men would be marginally more likely to qualify for the revised underpin and to benefit to a greater extent from underpin protection than women. This reflects the fact that, in line with previous scheme experience, the average male LGPS member would be expected to have higher salary progression than the average woman and that women are generally expected to have higher voluntary withdrawal rates than men. Members with longer scheme membership and with higher salary progression would be more likely to receive an addition to their pension through the underpin (i.e. where the final salary benefit is higher).

These small differential impacts also demonstrate some of the effects that can arise under a final salary design. The Government proposes to move all local government pensions accrual to a career average basis, without underpin protection, from April 2022 to apply a fairer system to all future service.

Limited data specific to the LGPS in England and Wales is available in relation to other protected characteristics. However, we have considered wider data from the Labour Force Survey (Q1 2020) and the Annual Population Survey (2019) in considering these characteristics. We do not consider that the changes to underpin protection proposed in the consultation will result in any differential impact to individuals with the following protected characteristics: disability, ethnicity, religion or belief, gender reassignment, pregnancy and maternity, sexual orientation and marriage/civil partnership.

Further information regarding the equalities impacts of our proposals is contained in paragraphs 111 to 127. In this consultation, we are seeking views from stakeholders on the equalities impacts of the changes proposed. These views will be considered in determining how to proceed following the consultation exercise.

The potential equalities impacts of our proposals will be kept under review. A further equalities impact assessment will be

	<p>undertaken following the consultation at the appropriate juncture.</p> <p><u>Other impacts</u> The proposals in this paper are estimated to cost LGPS employers £2.5bn in the coming decades, as protected members retire and begin to receive their benefits. This estimate is based on a number of assumptions regarding the demographics of the LGPS in the years to come. Predicting whether the underpin becomes valuable in the future depends heavily on assumptions on long-term future pay growth trends. The £2.5bn estimate is based on an annual future long-term pay growth assumption of CPI+2.2%, which is the assumption used by GAD for the 2016 valuations of public service pension schemes. If annual future pay growth is less than this, the ultimate costs will be lower (and vice versa).</p> <p>As the LGPS is a funded scheme, employer contribution rates are set through local fund valuations and take into account a number of factors. As a result of this, it is not possible to say precisely how the proposals may impact on any individual employer's contribution rate.</p> <p>None of the changes contained in this consultation require a Regulatory Impact Assessment under the Small Business, Enterprise and Employment Act 2015.</p>
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Basic Information

To:	<p>This consultation outlines details of proposed changes to the benefits of the LGPS and is particularly aimed at LGPS administering authorities, scheme members, scheme employers and their representatives.</p> <p>Any change to the LGPS is likely to be of interest to other stakeholders as well, such as professional advisers and local taxpayers. We welcome views on the proposals from all interested parties.</p>
Body/bodies responsible for the consultation:	Local Government Finance Stewardship, Ministry of Housing, Communities and Local Government
Duration:	This consultation will last for 12 weeks from 16/07/2020 to 08/10/2020
Enquiries:	For any enquiries about the consultation please contact: LGPensions@communities.gov.uk
How to respond:	Please respond by email to: LGPensions@communities.gov.uk

Alternatively, please send postal responses to:

Local Government Finance Stewardship
Ministry of Housing, Communities and Local Government
2nd floor, Fry Building
2 Marsham Street
London
SW1P 4DF

When you are responding, please make it clear which questions you are responding to. Additionally, it would be very useful if you could confirm whether you are replying as an individual or submitting an official response on behalf of an organisation and include:

- your name,
- your position (if applicable),
- the name of your organisation (if applicable),
- an address (including post-code),
- an email address, and
- a contact telephone number.

Introduction

1. This consultation contains proposals to amend the rules governing ‘transitional protection’ in the LGPS, following a successful legal challenge to transitional protection arrangements in the firefighters’ and judicial pension schemes.

2. In April 2014, a series of changes were made to the Local Government Pension Scheme in England & Wales (LGPS) to reform the scheme’s benefits structure. These changes were implemented as part of a wider project across Government to reform public service pensions and put them on a more sustainable, affordable and fairer footing for the longer term. In the LGPS, these changes included:

- moving benefit accrual from a final salary to a career average basis, and
- linking members’ normal pension age with their State Pension age (but at a minimum of 65).

3. Following negotiations with trade unions, transitional protection for members nearing retirement was implemented by the Government as part of the overall reform package and was designed to ensure that older workers had certainty and would not be any worse off as a result of the reforms made to the scheme. Transitional protection arrangements applied across public service pension schemes and in the LGPS were implemented through a statutory ‘underpin’.

4. Whilst all LGPS members joined the career average scheme in April 2014, members who met certain qualifying criteria (including that they had been within ten years of their final salary scheme normal pension age on 1st April 2012) gained statutory underpin protection. Underpin protection means additional checks are undertaken for protected members with the intent of ensuring that the career average pension payable under the reformed LGPS is at least as high as the member would have been due under the final salary scheme. Where it is not as high, scheme regulations provide that an addition must be applied to the member’s career average pension to make up the shortfall.

5. In the ‘McCloud’ and ‘Sargeant’ court cases (which related to the judicial and firefighters’ pension schemes respectively), the Court of Appeal found that the transitional protection arrangements in those schemes directly discriminated against younger members in those schemes and this could not be objectively justified. In July 2019, the Government confirmed its view that the ruling had implications for all the main public service pension schemes, including the LGPS, and that the discrimination would be addressed in all the relevant schemes, regardless of whether members had lodged a legal claim.

6. This consultation sets out how MHCLG propose to amend the statutory underpin to reflect the Courts’ findings in these cases. Primarily, we propose to remove the age requirements from the underpin qualification criteria. However, we are also proposing additional changes to ensure that the underpin works effectively and consistently for all qualifying members following the extension of the underpin to younger members. From April 2022, it is proposed that the period of underpin protection will cease and all active LGPS members will accrue benefits in the career average scheme, without a continuing final salary underpin.

7. Views from respondents are sought on questions 1 to 29 as well as on the draft regulations attached as annex B.

Background

Public service pension reform and transitional protection

8. In April 2014 and April 2015 the Government introduced reformed public service pension schemes. The changes followed a fundamental structural review by the Independent Public Service Pension Commission (IPSPC), chaired by Lord Hutton of Furness.

9. The Government commissioned the review because the cost of providing the schemes had increased significantly over the previous decades, with most of this increase falling to the taxpayer. At the same time, occupational pension provision in the private sector had changed significantly; employers were increasingly moving away from offering defined benefit pension schemes¹.

10. In their final report², the IPSPC set out a framework for comprehensive reform of public service pensions that sought to balance concerns about the cost of the schemes to taxpayers and the need to ensure decent levels of retirement income for those who have devoted their working lives in the service of the public.

11. The Government accepted Lord Hutton's recommendations as the basis for consultation with scheme employers, trade unions and other interested parties. During negotiations the Government agreed to protect those public service workers who, as of 1 April 2012, had ten years or less to their normal pension age (NPA)³, as they had least time to prepare.

12. The reforms were implemented in the LGPS in England and Wales from 1st April 2014, and in the other main public service pension schemes from 1st April 2015. The main features of the reformed schemes include later retirement ages to reflect the fact people have been living longer, higher employee contributions to rebalance the costs of the schemes between the members and taxpayers, and pensions based on average earnings rather than on pay at the point members retire or otherwise leave the schemes.

13. The schemes were designed to ensure that members would have good pensions, which at least met the target levels identified by Lord Turner's Pension Commission on the levels of income needed in retirement. The reformed schemes should provide many low and middle earners working a full career with pension benefits at least as good as, if not better than, the benefits they would have received under the previous arrangements.

14. The reformed schemes remain among the most generous available in the UK, and an important part of the remuneration of public service workers. Public service pension

¹ Chart Ex. 1, p8 of IPSPC interim report, October 2010, https://www.ucu.org.uk/media/4328/Independent-Public-Service-Pensions-Commission---interim-report-7-Oct-10/pdf/hutton_pensionsinterim_071010.pdf

² <https://www.gov.uk/government/publications/independent-public-service-pensions-commission-final-report-by-lord-hutton>

³ In the 2008 Scheme, a member's normal pension age was known as their normal retirement age. However, for consistency, in this consultation document we refer to it as their normal pension age or their NPA.

provision compares favourably with pension provision in the private sector. In 2019 34% of all employees with workplace pensions in the public sector received contributions of at least 20% from their employer. This compares with just 3% of all employees with workplace pensions in the private sector who received at least 20% from their employer⁴.

Reform in the LGPS

15. In the LGPS, the final salary scheme that existed prior to these reforms was known as **'the 2008 Scheme'**. The reform package implemented from April 2014 (**'the 2014 Scheme'**) through the Local Government Pension Scheme Regulations 2013⁵ (**'the 2013 Regulations'**) consisted of the following main elements:

- fundamentally, and consistent with the approach taken across the public sector, a move to future benefit accrual based on a member's pay over their career (a 'career average' structure), from a structure where member's benefits were based on a member's pay at leaving the scheme (a 'final salary' structure). Importantly, where active members had membership of the LGPS prior to April 2014 and did not have a disqualifying break in service⁶, but had aggregated their membership, they retained a 'final salary link' that meant their pay at point of leaving the scheme would still be used in calculating their 2008 Scheme benefits, even where this is after April 2014.
- a move from a NPA of 65 to a NPA linked to a member's State Pension age, subject to a minimum of 65 (currently ranging from 65 to 68), but with members still able to retire as early as 55 or as late as 75, with actuarial reductions or increases applied, respectively.
- a move from a 1/60th accrual rate to a 1/49th accrual rate. A pension scheme's accrual rate is the proportion of a member's pay that they receive for each year of membership. The change in the LGPS accrual rate in the 2014 Scheme was a 22% improvement from that which applied in the 2008 Scheme.
- revisions to employee contribution bandings. From April 2014, employees' contributions to the LGPS were banded from 5.5% of earnings (for members earning less than £13,500 per year) up to 12.5% of earnings (for members earning over £150,000 per year). Contribution rates had also been banded in the 2008 Scheme, but the range had been narrower, from 5.5% to 7.5% of earnings.
- the introduction of a 50/50 section, giving scheme members the flexibility to pay half the contributions for half the pension accrual for a period of time, whilst still retaining full life cover and ill-health cover.

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<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/workplacepensions/bulletins/annualsurveyofhoursandearningspensionables/2019provisionaland2018finalresults#contributions-to-workplace-pensions>

⁵ <http://www.legislation.gov.uk/ukxi/2013/2356/contents>, as amended

⁶ Where referred to in this document, a 'disqualifying break in service' is a continuous break of more than five years in active membership of a public service pension scheme.

16. As a whole, the package was designed to achieve the Government's aims in making the LGPS more sustainable, affordable and fairer in the longer term. In particular, the combination of the move to a career average basis and the improvement to the LGPS's accrual rate should mean that many low and medium paid members will receive a pension from the 2014 Scheme at least as good as the pension they would have received from the 2008 Scheme. In addition, whilst LGPS employer contributions vary, members will benefit from significantly higher employer contributions than the average applicable in the private sector.

The statutory underpin

17. The LGPS provided transitional protection to its older workers via a statutory underpin (hereafter referred to as 'the underpin'). All members moved into the 2014 Scheme on the reform date of 1st April 2014, but 'protected members' (being the older group of members who met certain qualifying criteria and originally had underpin protection) were given an underpin that provides their retirement pension cannot be less than it would have been in the 2008 Scheme. In some public service pension schemes, tapered protections were provided to members who were between 10 and 14 years from their NPA on 1st April 2012, and so were not eligible for full protection (which was reserved for those within ten years of their NPA on 1st April 2012) However, in the LGPS, there were no tapered protections.

18. Underpin protection differs from the approach used in other main public service pension schemes⁷ where older workers who met the criteria for transitional protection stayed in their final salary schemes after separate, new career average schemes were introduced in April 2015. In those schemes, different rules may therefore apply to protected and unprotected members in relation to areas of scheme design including contribution rates, survivor benefits and ill health retirement.

19. By contrast, the existing underpin only has application in relation to the value of a protected member's pension at their 'underpin date' (see paragraph 20 for further details). All members have participated in the reformed career average scheme from April 2014 and the same rules in relation to contributions and benefits apply to all members in the same way.

20. Underpin protection in the LGPS was implemented through regulation 4 of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendments) Regulations 2014⁸ (**'the 2014 Regulations'**). At a high level, underpin protection under regulation 4 works in the following way:

- Underpin protection is granted to those who were active members in the LGPS on 31st March 2012 and who on 1st April 2012 were 10 years or less from the NPA

⁷ With the exception of the local government pension schemes in Scotland and Northern Ireland who took a similar approach to the LGPS in England and Wales.

⁸ <http://www.legislation.gov.uk/uksi/2014/525/contents/made>, as amended

applicable to the member under the 2008 Scheme (usually 65⁹)¹⁰ (regulation 4(1)(a)).

- Those who meet the basic criteria for underpin protection retain this so long as they are:
 - in active membership in the 2014 Scheme the day before their ‘underpin date’ (see below),
 - do not have a disqualifying break in service after 31st March 2012, and
 - have not drawn benefits from the 2014 Scheme before their underpin date (regulation 4(1)(b) to (d) and (3)).
- The underpin test is carried out on an individual’s ‘underpin date’ which is the earlier of:
 - the date the protected member reaches their NPA under the 2008 Scheme (usually 65), or
 - the date the protected member ceased to be an active member of the scheme with an immediate entitlement to a benefit (regulation 4(2)).
- The underpin test is carried out by comparing the ‘assumed benefits’ (i.e. the career average benefits the protected member has accrued) against the ‘underpin amount’ (i.e. the final salary benefits the protected member would have accrued if the scheme had not been reformed) (regulations 4(5) and (6)). These paragraphs contain detailed provisions which enable administrators to take into account a variety of factors in the comparison of benefits. For example, where the protected member is due to receive an enhancement to their 2014 Scheme benefits as a result of retiring on ill-health grounds, the difference between that enhancement and the enhancement they would have received under the 2008 Scheme would be considered.
- If the underpin amount is calculated to be higher than the assumed benefits on the underpin date, the protected member’s pension account is to be increased by the difference (regulation 4(4)).

The McCloud and Sargeant cases

21. Soon after the reformed scheme benefit structures were introduced in other public service pension schemes in April 2015, legal challenges were brought against the transitional protection arrangements in the judicial and firefighters’ pension schemes (‘McCloud’ and ‘Sargeant’, respectively) on various grounds including that the transitional protections offered to older members constituted unjustified direct age discrimination. In those cases, younger firefighters and judges argued that younger members were treated less favourably than older members who were given transitional protection. The Court of

⁹ By virtue of regulation 24(4) of the 2014 Regulations, some groups had a protected 2008 Scheme NPA of 60 in relation to their 2008 Scheme benefits.

¹⁰ By virtue of regulation 9(1) of the 2014 Regulations, members who were not active in the LGPS on 31st March 2012, but who were active in another public service pension scheme on that date and who meet certain qualifying criteria may also have underpin protection

Appeal ruled in December 2018¹¹ that transitional protection in the judicial and firefighters' pension schemes gave rise to unlawful age discrimination.

22. The Government sought permission to appeal to the Supreme Court. This application was refused on 27 June 2019. In a written ministerial statement on 15 July 2019¹², the Government explained that it accepted that the Court of Appeal's judgment had implications for all schemes established under the Public Service Pensions Act 2013, as all schemes had provided transitional protection arrangements for older members. The Government confirmed that it would take steps to address the difference in treatment across all schemes and for all members with relevant service, regardless of whether they had lodged a claim. The matter has been remitted to the Employment Tribunals to determine a remedy for claimants¹³. Since summer 2019, MHCLG have been considering the changes necessary to remove the unlawful discrimination from LGPS regulations, and in February 2020 held technical discussions with the Scheme Advisory Board on these proposals.

¹¹ <https://www.judiciary.uk/wp-content/uploads/2018/12/lord-chancellor-v-mcloud-and-ors-judgment.pdf>

¹² <https://www.parliament.uk/business/publications/written-questions-answers-statements/written-statement/Commons/2019-07-15/HCWS1725/>

¹³ The LGPS in England and Wales does not have any ongoing court cases relating to its underpin protection.

Addressing the discrimination

Our approach

23. In the McCloud and Sargeant cases, the Courts identified unjustified age discrimination in transitional protection arrangements in the Judicial and Firefighters' Pension Schemes. In relation to the LGPS, this difference in treatment exists between two groups of LGPS members:

- those who were in service on 31st March 2012 and were within ten years of NPA on 1st April 2012, therefore benefiting from underpin protection and 'better off' than the second group; and,
- those who were in service on 31st March 2012 and were more than ten years from NPA, were not eligible for underpin protection and therefore 'worse off' than the protected members (as they were not guaranteed a pension of at least the level they would have received in the final salary scheme).

24. At a high-level, our proposal for removing the difference in treatment from the LGPS is to extend underpin protection to the second group of members listed above – i.e. those who were not old enough to receive underpin protection when it was originally introduced. This should ensure that the two groups listed are treated equally for benefits accrued from April 2014 onwards. This proposal is described in more detail in the next section ('Detailed proposals'). The updated underpin is referred to here as 'the revised underpin'. The members who would be in scope of the revised underpin, both the group originally protected and those who would newly gain underpin protection under our proposals, are collectively referred to as 'qualifying members' in this document.

25. Consultees may be aware that Government has separately recently launched a consultation¹⁴ seeking views on this matter as it applies to most of the other main public service pension schemes¹⁵. As noted already, transitional protection arrangements were different in other public service pension schemes and therefore different issues arise in considering an appropriate remedy for the discrimination found in McCloud and Sargeant. That other Government consultation seeks views on two options for removing the discrimination in those schemes, both involving an element of member choice between the reformed career average schemes and the legacy final salary schemes.

26. Member choice is being considered in relation to other public service pension schemes because, in those schemes, the two groups of members have participated in different pension schemes since April 2015 with different benefits between reformed and legacy schemes and, potentially, different employee contribution rates. This is not the case in the LGPS because underpin protection is designed to ensure that a qualifying member is better off without needing to make a choice.

¹⁴ <https://www.gov.uk/government/consultations/public-service-pension-schemes-consultation-changes-to-the-transitional-arrangements-to-the-2015-schemes>

¹⁵ The LGPS is out of scope for the other Government consultation.

27. As set out in paragraphs 17 to 20, the underpin is principally an administrative test undertaken at the earlier of the date a qualifying member leaves active service and the date they reach their 2008 Scheme normal pension age. It is designed to guarantee that a qualifying member's pension calculation gives them the better of a) the pension they have built up in the career average 2014 Scheme and b) the pension they would have built up in the final salary 2008 Scheme, over the same time period.

Question 1 – Do you agree with our proposal to remove the discrimination found in the McCloud and Sargeant cases by extending the underpin to younger scheme members?

28. To achieve the full benefits of the career average reforms made in April 2014, it is the Government's view that the underpin period should end for all qualifying members at a specified point in time.

29. Under the rules governing the existing underpin, no further underpin dates will arise beyond 31st March 2022, as this is the last date a protected member can reach their 2008 Scheme NPA. In considering how to equalise treatment between the unprotected and protected groups, we propose that both groups will be given underpin protection from 1st April 2014 to 31st March 2022 (or to the members' underpin date, where this is earlier). We consider that this approach will mean there is a consistent period of protection for all qualifying members – i.e. those who were members of the scheme on 31st March 2012 and who went on to have 2014 Scheme membership without a disqualifying break in service (and who aggregated their membership), regardless of their age.

30. From 1st April 2022 it is our intention that all service in the LGPS will be on a career average basis, with no underpin. As set out in the Background section, we believe that the move from a final salary to a career average pension scheme design in April 2014 created a fairer structure for LGPS members. Under the 2014 Scheme, those public servants who see considerable increases in earnings over their career – and particularly towards the end of their career – are no longer likely to be relatively favoured compared with their colleagues who did not. Phasing out underpin protection is an important step to achieving the full benefits of a career average scheme design.

Question 2 – Do you agree that the underpin period should end in March 2022?

31. We are keen to ensure that the group of younger members who, under our proposals, would gain underpin protection have an equivalent level of protection to their older colleagues. It is therefore proposed that the underpin comparison would not, for most qualifying members, take place upon the underpin period ending in March 2022. Instead, the comparison of 2008 Scheme and 2014 Scheme benefits would take place at a qualifying member's underpin date (generally, the earlier of the member's date of leaving and age 65), even if this is after March 2022 – i.e. qualifying members will retain an ongoing 'final salary link', consistent with their pre-2014 pension accrual. For those who are currently at an earlier stage of their career, and who may have promotions and other salary increases later in their career, this ensures a fairer comparison of the two schemes' benefits. The final pay calculation would be based on a member's pay over their last 365

days of active membership, and would take into account the existing 'lookback' provisions where members have had a reduction in pay¹⁶.

32. As part of this project we have considered how the existing underpin regulations work and the following section contains details of changes we are proposing. Collectively, the changes mean that the revised underpin regulations will differ in a number of respects from the existing underpin provisions contained in regulation 4 of the 2014 Regulations. We consider that these amendments are essential to ensure that the underpin regulations are clear and consistent and provide a framework of protection that works more effectively for all stakeholders and which, at the same time, provides in essence the same level of protection to scheme members.

33. Nonetheless, to avoid creating new differences in treatment in the LGPS, we propose that the amended regulations will apply retrospectively from 1st April 2014, ensuring that all qualifying members are subject to the same detailed provisions. We believe this is the best approach and one which will allow us to be confident we are addressing the findings of the Courts, and removing differences in treatment between older and younger workers. We do not plan that members' accrued rights would be detrimentally affected as a result of this approach, but we welcome comments from stakeholders if there are specific concerns about potential accrued rights issues.

34. In proposing these changes, we have considered the legal principle of 'minimum interference'. The courts have found this principle generally applies to pensions changes following an equal pay issue. Whilst it has not been recognised outside the context of equal pay, it could be considered in other contexts too. 'Minimum interference' means that the scheme is obliged to make the minimum necessary interference to ensure the scheme operates lawfully. Whilst some of the changes outlined in this consultation paper are not a direct consequence of the Courts' findings in the McCloud and Sargeant cases, we believe that they are necessary for the effective and consistent application of underpin protection to members of the LGPS.

35. Retrospective application of the proposed regulations means that certain cases will need to be revisited by scheme administrators. Below are examples of such cases:

- Cases where a member had underpin protection originally and the revised underpin may have applied differently to them. In practice, this may be all cases where a member already has underpin protection and has since had their underpin date.
- Cases where a member does not currently have underpin protection, but would have under the revised underpin, and has since retired or left the LGPS with a deferred benefit.
- Cases where a member does not currently have underpin protection, but would have under the revised underpin, and has since transferred out of the LGPS or trivially commuted their benefits.

36. There will also be more difficult cases, for example, where members who may have benefitted from the proposals outlined in this consultation have died. In such cases, it is

¹⁶ Under the 2008 Scheme, members with pay reductions or restrictions in their last ten years of continuous employment may have the option to have their final pay calculated as the average of any 3 consecutive years' pay in their last 13 years.

our view that administrators should take all steps to ensure that any retrospective increase in a member's pension arising from the underpin is taken into account in respect of relevant survivor benefits that became payable at the time of the member's death.

37. We are aware that retrospective application of the proposed draft regulations will lead to significant administrative complexity. We do not anticipate any recalculations would result in members' benefits being detrimentally affected. Further consideration of the complexities arising from retrospection are considered in the Implementation and Impacts section.

Question 3 – Do you agree that the revised regulations should apply retrospectively to 1st April 2014?

38. This consultation sets out proposals which are principally about removing unlawful discrimination from the LGPS. Achieving this key aim, and minimising the risk of further issues arising, has therefore been our primary concern in coming forward with these proposals. However, in doing so, we have been conscious of the additional administrative burden these changes would create and have sought to minimise the impacts wherever possible. We consider that the proposed approach is the simplest way we can effectively ensure that the revised underpin works effectively and fairly for all. Further consideration of the potential administrative impacts of the proposals is outlined in paragraphs 134 to 136.

Detailed proposals

39. This section contains our detailed proposals on the proposed amendments to the underpin. Draft regulations have been prepared (**annex B**) and we would welcome general comments on those draft regulations, as well as specific comments on the below questions.

Question 4 – Do the draft regulations implement the revised underpin which we describe in this paper?

Question 5 – Do the draft regulations provide for a framework of protection which would work effectively for members, employers and administrators?

Question 6 – Do you have other comments on technical matters related to the draft regulations?

The revised underpin – basic elements

40. The approach we have taken to the revised underpin consists of a number of basic elements, as described here.

Qualification criteria

41. Fundamentally, under the revised underpin, members would no longer need to have been within ten years of their 2008 Scheme NPA to qualify for underpin protection. Members who were active in the 2008 Scheme on 31st March 2012 and who have accrued benefits under the 2014 Scheme without a disqualifying break in service (five or more years) would have underpin protection, subject to aggregation requirements.

42. An aspect of the existing underpin regulations that we are seeking to change is the requirement that a member must leave active service with an immediate entitlement to a pension for underpin protection to apply to them (regulation 4(1)(b) of the 2014 Regulations). We anticipate that when underpin protection is extended to younger workers, it is much more likely that members will leave the scheme before having an immediate entitlement to benefits, meaning they would not, as things stand, benefit from underpin protection. Under the revised underpin, we propose that underpin protection would apply where a member leaves with either a deferred or an immediate entitlement to a pension. This approach is also more likely to ensure that LGPS regulations are compliant with preservation requirements under the Pension Schemes Act 1993, which broadly require¹⁷ that schemes do not contain rules which mean that leavers prior to normal pension age are treated less favourably than leavers at normal pension age. The retrospective application of this change would also aim to ensure that any members protected under the

¹⁷ Section 72 of the Pension Schemes Act 1993

existing underpin who have suffered detriment due to the current wording would regain their underpin protection¹⁸.

43. As per existing requirements, members who leave the LGPS without an immediate or deferred entitlement to a pension¹⁹ would not have underpin protection, as they would only be eligible for a refund of their contributions, aggregation with another LGPS record or a transfer to another scheme

Question 7 – Do you agree that members should not need to have an immediate entitlement to a pension at the date they leave the scheme for underpin protection to apply?

Question 8 – Are there any other comments regarding the proposed underpin qualifying criteria you would like to make?

Aggregation

44. In reviewing the operation of the existing underpin, it has become clear that the current regulations do not implement our policy intent as clearly as we would like in one important respect, and the existing regulations could cause substantial new issues to arise. Whilst the LGPS is one pension scheme, with rules defined at the national level through scheme regulations, it is a locally administered scheme, with 87 administering authorities throughout England and Wales. It is an important principle for the effective and efficient administration of the scheme that administrators are generally able to calculate pension benefits independently and do not need to obtain data from other LGPS administrators to be able to undertake basic pension calculations. Such an approach also ensures that the scheme is run in accordance with the principle of 'data minimisation', where personal data is not shared between data controllers any more than is necessary for the effective administration of a member's pension.

45. To prevent such complications, the LGPS has aggregation provisions which mean that separate pension records can be joined together²⁰. This means that, in most cases, members can choose whether to have LGPS records aggregated (or 'joined up') or kept separate from one another. Since 1st April 2014, aggregation is usually automatic²¹ - where a member leaves an employment with a deferred benefit and then rejoins the LGPS

¹⁸ For example, members who, under regulation 24(1) of the 2014 Regulations, had a protected NPA of 60 in the 2008 Scheme. Some of these protected members would have been younger than 55 in April 2014 and may not have had an immediate entitlement to benefits at their underpin date.

¹⁹ This applies where members do not have a qualifying service for a period of two years (regulation 3(7) of the 2013 Regulations). Special provisions apply where members joined before 1st April 2014.

²⁰ This does also require data sharing between administering authorities. However, the transfer of a record from one authority to another following a structured aggregation process is likely to be simpler and less prone to error than ad hoc sharing necessary to undertake pension calculations from time-to-time over a member's career.

²¹ Where a member only has a deferred refund entitlement (i.e. has left with a refund entitlement which has not yet been paid) from a ceased period of LGPS membership, this must be aggregated with their subsequent LGPS membership and there is no choice (regulation 22(5) and (6) of the 2013 Regulations).

in another employment (potentially in another pension fund), they have 12 months to elect to their administrator for aggregation not to apply²².

46. Where a member takes a decision which means their LGPS benefits are unaggregated, these are generally administered as separate entitlements. Where a member takes a decision which means their LGPS benefits are aggregated, their combined record is generally administered as one period of membership. For example, where a member with 2008 Scheme membership has not had a disqualifying break in service and aggregates that record with another LGPS membership, they would retain their final salary link on the combined record. By contrast, if the same member decides not to aggregate their membership they would lose their final salary link²³ on the unaggregated record. These rules preserve the approach described above, through which local administrators are generally able to calculate separate benefits independently.

47. However, regulation 4 of the 2014 Regulation does not appear to include an aggregation requirement for underpin protection to apply. A strict interpretation of regulation 4(1)(a) therefore appears to suggest that where, for example, a member was:

- a) active in the LGPS on 31st March 2012,
- b) subsequently active in the 2014 Scheme in a separate employment without a disqualifying break in service, and
- c) the two records were not aggregated,

underpin protection would still apply. In our view, this would be extremely difficult for scheme administrators to effectively administer in the coming decades. It is also inconsistent with the general approach MHCLG has adopted in relation to the administration of the LGPS, as described in paragraph 45, and as has been applied in relation to the final salary link.

48. Where there is no requirement to aggregate benefits, administrative difficulties would not only arise in determining who has underpin protection (as a previous record may be held in another fund), but also in actually undertaking the underpin comparison. One scenario that may be likely to occur more frequently, as a result of the significant expansion of the underpin proposed in this document, would be situations like the following:

- A member has two, unaggregated LGPS records in separate funds:
 - Membership one – active from 2011 to 2016, and
 - Membership two – active from 2017 to 2022.
- As the member was in active service on 31st March 2012 and had 2014 Scheme membership, without a disqualifying break in service, they have underpin protection.
- Upon leaving membership one, the member would have an underpin date (calculated in the normal way).

²² By virtue of regulation 22(8) of the 2013 Regulations.

²³ By virtue of regulation 3(8) of the 2014 Regulations.

- The member would also have an underpin date upon leaving membership two for their active membership in the scheme over the underpin period (for this member, 2014 to 2016 and 2017 to 2022). This would require the second fund to undertake an underpin comparison for the whole period using data they hold and data they need to obtain from the other fund (in relation to membership one).
- In this situation, it may also need to be considered whether any underpin addition arising should be split between the two funds and the two employers, so as to ensure liabilities are appropriately held.

49. This would clearly be extremely administratively complex and potentially lead to an increased likelihood of errors being made. It is likely that other similar scenarios would also arise, and that the administrative complexities would continue for many years (as some members' underpin date may not take place for 30 or 40 years).

50. In light of this, we are proposing that regulation 4 of the 2014 Regulations is amended to make clear that members must meet the qualifying criteria in a single membership (a 'relevant Scheme membership' as defined in the proposed regulations) for underpin protection to apply. So, where a member has had a break in service, or a period of concurrent employment, their benefits must be aggregated for underpin protection to apply. The introduction of the concept of 'relevant scheme membership' has allowed us to define more clearly in the regulations the benefits administrators should be assessing when undertaking underpin calculations.

51. As our intention is for the revised underpin regulations to apply retrospectively, it is possible these changes will mean that some members of the LGPS who have underpin protection at the moment (across separate LGPS memberships) would lose this. To ensure that no member is worse off as a result of our proposed amendments, we are proposing that active and deferred members are given an additional 12 months to elect to aggregate previous periods of LGPS membership, where such a decision would mean they have 'relevant Scheme membership' and therefore would have underpin protection. It is not proposed that this decision would be required for pensioner members, whose existing pensions would be unaffected by the aggregation changes outlined here. Circumstances where current pensioner members have underpin protection which is based on unaggregated membership and they have received an addition to their pension as a result of their underpin protection are expected to be rare²⁴.

52. The additional 12 months would apply from the date the regulations come into force. This additional election period would not apply in respect of other periods of membership members may wish to aggregate, only to periods where a failure to aggregate would mean the member would not obtain underpin protection²⁵. Good communications with members

²⁴ Such situations are expected to be rare due to a combination of factors. Generally, we expect that most protected LGPS members currently retiring are better off under the career average scheme, due in part to its substantially better accrual rate. Moreover, LGPS administrators are unlikely to be aware that a member has underpin protection if a member has not aggregated their previous LGPS membership. We expect that situations where a member has been awarded an underpin on unaggregated membership by their administrator and that subsequent underpin calculation has shown the final salary pension to be better than the member's career average pension would be rare.

²⁵ However, it should be noted that LGPS employers generally have the ability to allow aggregation beyond the statutory limits set out in scheme regulations.

in this situation will be crucial so that they understand whether this election period applies to them and the implications of the decision they are being asked to consider. As set out in paragraphs 131 and 133, we would plan to work closely with the Scheme Advisory Board on member communications to support the changes proposed in this paper.

53. The Public Service Pensions Act 2013 applies certain requirements where a responsible authority²⁶ proposes to make scheme regulations containing retrospective provisions which appear to the authority to have 'significant adverse effects in relation to the pension payable to or in respect of members of the scheme' (section 23(1))²⁷. Specifically, where this is the case, the following applies:

- The authority must obtain the consent of persons (or representatives of the persons) who appear to the responsible authority to be likely to be affected by the provisions (sections 23(1) and (3)).
- The authority must lay a report before Parliament (section 23(4)).
- The regulations become subject to the affirmative procedure, meaning they have to be approved by a resolution of each House of Parliament (sections 24(1)(b) and 38).

54. We welcome stakeholders' views on whether the changes we describe in paragraphs 50 to 52 would have 'significant adverse effects' in relation to the pension payable to or in respect affected members. Whilst the changes would have retrospective application, the additional 12 month election period we are proposing would ensure that members have the opportunity to aggregate their pension records and obtain underpin protection if they wish. Members who wish to keep their records separate (perhaps as they have re-joined the LGPS in a lower paid post and do not want a final salary link) would also be able to retain this position by doing nothing.

Question 9 – Do you agree that members should meet the underpin qualifying criteria in a single scheme membership for underpin protection to apply?

Question 10 – Do you agree with our proposal that certain active and deferred members should have an additional 12 month period to decide to aggregate previous LGPS benefits as a consequence of the proposed changes?

Question 11 – Do you consider that the proposals outlined in paragraphs 50 to 52 would have 'significant adverse effects' in relation to the pension payable to or in respect of affected members, as described in section 23 of the Public Service Pensions Act 2013?

²⁶ Under section 2 and schedule 2 of the Public Service Pensions Act 2013, the Secretary of State is the responsible authority for the LGPS in England and Wales.

²⁷ Certain requirements also apply under section 23(2) of the Public Service Pensions Act 2013 where the responsible authority proposes to make scheme regulations that are retrospective in nature, but which have significant adverse effects in other ways (for example, in relation to injury or compensation benefits). We are content that these provisions would not apply in respect of these proposed changes.

Achieving a fair and consistent underpin

55. Alongside the changes necessary to remedy the discrimination found by the Courts, and the aggregation proposal above, we are also proposing some changes to underpin provisions to ensure that the underpin works effectively and consistently for all members.

56. **Breaks in service of less than five years** – the 2014 Regulations do not currently make clear whether it is permitted for the underpin to be re-calculated if a protected member leaves active service and returns without a disqualifying break in service (i.e. within five years). We propose that where a qualifying member leaves active service, rejoins within five years and aggregates their benefits, a further underpin comparison would be undertaken when they next reach their underpin date (i.e. leave active service or reach their 2008 Scheme NPA), using their final salary at the most recent date of leaving (and the results of the previous comparison disregarded). Taking this approach means that promotional pay increases that may apply where a qualifying member progresses in their career are taken into account in their underpin calculations. It also ensures younger members of the scheme have equivalent protection to their older colleagues (whose final salary benefit is based on their pay at the end of their career, after relevant promotions and pay rises). It may also benefit those qualifying members who are more likely to have a break in employment, such as women²⁸ or those who have a disability. However, it is proposed that qualifying members who re-join the LGPS after their 2008 Scheme NPA would not have a further underpin date, even if they aggregate their previous pension rights. This is consistent with our general approach that underpin protection only provides protection until a member's 2008 Scheme NPA.

57. **Early/late retirement factors** - When a protected member leaves the scheme, the current underpin calculation does not take into account the impact of early/late retirement factors, which may mean the calculation does not correctly identify the scheme in which the member would receive the higher benefits. This situation arises because of differences in NPAs in the 2008 and 2014 Schemes, which may mean early and late retirement factors apply at different rates. We therefore propose that the revised underpin should include a 'check' to ensure that, at the point a qualifying member takes their benefits from the scheme, they are still due to receive at least the pension they would have received under the 2008 Scheme, after the application of any early/late retirement factors. Further detail on how this will work is outlined in the next section regarding the two-stage process we intend to adopt.

58. **Death in service** – the existing definition of the underpin date set out in regulation 4(2) of the 2014 Regulation do not make clear what should happen where a member who has underpin protection dies in active service. On a strict interpretation, the 2014 Regulations would therefore appear to mean that there is no underpin comparison for such a member (which could reduce any survivor benefit that may be payable). We do not believe that was or should be the policy intent. In relation to the revised underpin, we therefore propose that there would be a clear requirement for an underpin comparison to be undertaken where a qualifying member dies in service.

59. **Survivor benefits** – it is not always clear how the survivor benefits provisions in the 2013 Regulations apply in relation to the underpin, and whether increases in benefits

²⁸ <http://www.parliament.uk/briefing-papers/sn06838.pdf>

arising from the underpin should be included in the calculation of survivor benefits following the death of a protected member (from any status). We intend that the amended regulations will make clearer how the underpin applies in relation to survivor benefits. In general terms, it is our policy that where a qualifying member has an addition to their pension arising from the underpin, this should be taken into account in determining the value of relevant survivor benefits, where such benefits are based on the value of the qualifying member's pension. The next section of this paper outlines our policy on the underpin and survivor benefits in more detail.

60. Together and individually, the changes we describe in paragraphs 56 to 59 are intended to be beneficial for scheme members, and are intended to ensure that the revised underpin works for all members with underpin protection in a consistent and effective way. As outlined in paragraph 34, we have considered the principle of minimum interference but believe that these changes are both appropriate and necessary.

Question 12 – Do you have any comments on the proposed amendments described in paragraphs 56 to 59?

A two-stage process

61. Under current provisions, the underpin calculation takes place at a single point in time – a member's underpin date, being the earlier of the date a member leaves active service with an immediate entitlement to a pension, and the date they reach their 2008 Scheme NPA. This has its advantages, such as in respect of administration. However, in the round, we now consider a two-stage underpin process would provide a more robust form of protection and the draft regulations attached propose such an approach. Under this, all qualifying members would have an 'underpin date' and an 'underpin crystallisation date':

- the purpose of the underpin date would be to provide for a provisional assessment of the underpin, broadly comparing the qualifying member's 2014 Scheme benefits in a relevant scheme membership against the 2008 Scheme benefits they would have accrued over the same period, in respect of the same membership. The underpin date would take place at the earliest of the date the qualifying member:
 - leaves active service in a relevant scheme membership,
 - reaches their 2008 Scheme NPA, or
 - dies.

Regardless of the outcome of this provisional comparison, there would be no adjustment to a member's pension at their underpin date. The purpose of the comparison at a member's underpin date would primarily be so that the member has early information on how the underpin may apply to them. This recognises that there may be many years between a qualifying member's underpin date and their underpin crystallisation date, when the final comparison is due to take place.

- The purpose of the underpin crystallisation date would be to provide for a final check at the point the qualifying member's benefits from the scheme are 'crystallised' (where the member takes their pension from the scheme). The check would be designed to ensure that qualifying members always receive at least the

higher of the pension they would have been due from the 2014 Scheme and the 2008 Scheme, taking into account the impact of factors like early/ late retirement adjustments.

62. We consider that the use of a two-stage process will achieve the following:

- Fundamentally, it should give qualifying members greater confidence that the underpin process has given them the benefit that is better for their own personal situation, even if they take their benefits many years after they leave the scheme.
- By undertaking an initial comparison at a member's underpin date, it would give qualifying members information about how the underpin may apply to them at the earliest possible date, even if such calculations would only be provisional.
- It is more compatible with the revised underpin where members can re-join, aggregate their membership and have a further underpin date at a subsequent point in time. Until the final underpin check at a member's underpin crystallisation date, there will be no change to a member's active or deferred pension arising from the underpin.
- It reflects the fact that for most members retiring on age grounds, early and/or late retirement factors will apply in calculating their 2008 and/or 2014 Scheme benefits. As these will not apply in the same way to a member's 2008 and 2014 Scheme entitlements (unless their 2008 Scheme NPA is the same as their State Pension age), a final check at the point benefits are paid is necessary to ensure the member is getting the higher benefit.

63. Further detail on the proposed two-stage process is contained in **annex C** and illustrative examples of a variety of scenarios are included in **annex D**.

Question 13 – Do you agree with the two-stage underpin process proposed?

Underpin period and final salary link

64. As discussed earlier in the consultation (paragraphs 28 to 31), we propose that:

- the revised underpin be extended to provide underpin protection to all qualifying members for service from 1st April 2014 up to and including 31st March 2022, except where a member's underpin date is sooner.
- from 1st April 2022, all LGPS membership accrues on a career average basis, with no underpin,
- but to ensure that there is an equivalent level of protection between older and younger members, the comparison of 2008 Scheme and 2014 Scheme benefits would take place at a qualifying member's underpin date, even if the underpin period ends sooner.

The revised underpin – application

65. This section describes how the revised underpin is intended to apply to qualifying members at different stages of their membership of the scheme, and at different life events.

Whilst in active membership

66. Whilst a qualifying member is in active service below their 2008 Scheme NPA, they will remain a member of the 2014 Scheme. For the period up to 31st March 2022, active qualifying members will accrue underpin protection. From 1st April 2022, accrual will be on a career average basis alone, but active qualifying members will retain a final salary link in relation to their underpin protection. Each year, a qualifying member's annual benefit statement will include an estimate of how the underpin would have applied to them if they had left the scheme at the end of the scheme year (i.e. as if their underpin date had been 31st March in that year). In these estimates, no account would be taken of actuarial adjustments relating to a member's age.

67. If a qualifying member remains in active service at their 2008 Scheme NPA (normally 65), their underpin date will be triggered in relation to their relevant scheme membership, meaning a comparison of their 2008 Scheme and 2014 Scheme pension (relating to the period from 1st April 2014 up to 31st March 2022, or their 2008 Scheme NPA if earlier) would be undertaken. This calculation would be based on the member's final pay as at their 2008 Scheme NPA (taking into account appropriate lookback provisions where appropriate). The member would be informed of the results of this comparison, but also informed that a check at their underpin crystallisation date would be undertaken at the point they take their benefits to ensure they are getting the higher benefit. Final salary increases or reductions beyond the member's 2008 Scheme NPA would not impact on the member's underpin protection.

Concurrent employments

68. Underpin protection may apply to qualifying members who hold two or more active memberships of the scheme at the same time ('concurrent employments'). Under our proposals, underpin protection would be linked to specific scheme memberships, with members who have 'relevant scheme membership' having underpin protection on that membership. Relevant scheme membership applies where:

- a member was an active member on 31st March 2012,
- a member has been an active member of the 2014 Scheme, and
- they did not have a disqualifying break in service.

69. Relevant scheme membership would apply in the normal way where a qualifying member has concurrent employments – for example, if a member has two posts and meets the criteria in one but not the other, they would have underpin protection in the former post, but not the latter. Where a qualifying member leaves a concurrent post in which they had relevant scheme membership before reaching their 2008 Scheme NPA their underpin date would apply in relation to that employment. If they were to then aggregate that membership with their ongoing post, the member would have a further

underpin date at the earlier of the date they leave that post or the date they reach their 2008 Scheme NPA.²⁹

At date of leaving (without taking scheme benefits)

70. Where an active qualifying member leaves the LGPS before their 2008 Scheme NPA with a deferred entitlement to benefits, their underpin date would apply at their date of leaving. A provisional underpin comparison would be undertaken for the period up to 31st March 2022, or to the member's date of leaving if earlier. The member would be informed of the results of this comparison, but also informed that a check at their underpin crystallisation date would be undertaken at the point they take their benefits to ensure they are getting the higher benefit.

Whilst a deferred member

71. For qualifying members who have had an underpin date after leaving active membership of the scheme with a deferred benefit, annual benefit statements sent to the member would include details of the provisional calculations undertaken at their underpin date. The results of these calculations would be adjusted to reflect cost of living changes between the member's underpin date and the date of their annual benefit statement.

Re-joiners

72. Where a qualifying member who has had an underpin date in respect of a relevant scheme membership re-joins the scheme without a disqualifying break in service and aggregates their previous scheme membership with their active pension account³⁰, they will retain continuing underpin protection for any service up to 31st March 2022. For service from April 2022 onwards, the member will retain a continuing final salary link in relation to their underpin protection (as well as in respect of their pre-2014 final salary membership). A further underpin date will occur at the date the member leaves active service or the date they reach their 2008 Scheme NPA.

Age retirement

73. When a qualifying member takes voluntary payment³¹ of their benefits in a relevant scheme membership at any age between 55 and 75, their underpin crystallisation date will apply. This means that the final comparison of their benefits will be undertaken to determine whether the 2014 Scheme or 2008 Scheme benefits would be better. For qualifying members who retire from active status and do so before their 2008 Scheme NPA, the member's underpin date will take place as at their date of leaving³². The underpin crystallisation date will take place upon their pension coming into payment.

²⁹ Under regulations 22(6) or (7) of the 2013 Regulations

³⁰ Under regulation 22 of the 2013 Regulations, all scheme members must have a pension account. Unless aggregated, members have multiple pension accounts for multiple periods of scheme membership.

³¹ Non-voluntary payment of benefits following redundancy and business efficiency are covered in paragraph 100.

³² As described in paragraph 67, where a qualifying member is in active service at their 2008 Scheme NPA, this would be their underpin date.

74. In the underpin crystallisation date calculation, the scheme administrator will take the provisional calculations from a qualifying member's underpin date and update these to take into account the effects of cost of living changes since the member's underpin date, as well as the impact of early/ late retirement factors. Where the final values show that the member would have been better off under the 2008 Scheme, an addition will be made to the member's 2014 pension account. The member's total pension in that relevant scheme membership for the period from 1st April 2014 to 31st March 2022 would also be payable without any further actuarial adjustment relating to the member's age.

Ill-health retirement

75. For most qualifying members retiring on ill-health grounds, their date of leaving will be their underpin date³³. As applies under the existing underpin provisions, the underpin calculation at a qualifying member's underpin date will take into account any enhancements that they may be due where they are receiving 'tier 1'³⁴ or 'tier 2'³⁵ benefits under regulation 39 of the 2013 Regulations, and compare these against the relevant enhancements that would have applied under the 2008 Scheme. This comparison of enhancements would apply up to the earlier of a qualifying member's 2008 Scheme NPA and 31st March 2022.

76. A qualifying member's ill-health retirement date will be their underpin crystallisation date, in all cases. This calculation will take into account cost of living adjustments between the member's underpin date and their underpin crystallisation date for members retiring from deferred or deferred pensioner status. No account will be taken of actuarial reductions relating to their age as these do not apply in relation to ill-health retirements, but where the qualifying member is over their 2008 Scheme or 2014 Scheme NPA, the impact of actuarial increases will be considered.

77. Whilst in most cases a member can only have one underpin crystallisation date, an exception applies in relation to members who have retired with 'tier 3'³⁶ benefits. As tier 3 pensions are temporary, a qualifying member would typically have an underpin crystallisation date at the point they begin receipt of their temporary pension and a subsequent one at the point they receive payment of their suspended pension from the scheme or the underpin otherwise crystallises (from deferred pensioner status). Whilst the

³³ With the exception of deferred or deferred pensioner members taking ill-health retirement under regulation 38 of the 2013 Regulations, and members who have previously reached their 2008 Scheme normal retirement age. Deferred pensioner members are members who were previously in receipt of a temporary tier 3 ill-health pension which has since ceased, and the member has not yet taken their main scheme benefits.

³⁴ Subject to other criteria that apply, tier 1 benefits apply to members retiring on ill-health grounds who are unlikely to be able to undertake gainful employment before their NPA (regulation 35(5)). Members receiving tier 1 benefits receive an adjustment to their pension equalling the full benefits they would have accrued between date of leaving and their 2014 Scheme NPA.

³⁵ Subject to other criteria that apply, tier 2 benefits apply to members retiring on ill-health grounds who are unlikely to be able to undertake gainful employment within three years of leaving the employment, but who are likely to be able to undertake gainful employment before reaching their NPA (regulation 35(6)). Members receiving tier 2 benefits receive an adjustment to their pension equalling 25% of the benefits they would have accrued between date of leaving and their 2014 Scheme NPA.

³⁶ Subject to other criteria that apply, tier 3 benefits apply to members who are likely to be capable of undertaking gainful employment within three years of their date of leaving (regulation 35(7)). Members receiving tier 3 benefits receive an unadjusted pension for a maximum of three years.

former calculation would not take into account actuarial reductions that may apply, the latter calculation would.

Death benefits

78. As noted earlier, under existing scheme regulations, it is sometimes unclear how scheme death benefits interact with the underpin. Our policy intent is set out in this section, and we have aimed to make these points clearer in the draft regulations. These clarifications are essential to ensuring that the underpin works effectively and consistently.

79. **Deaths in service** - For a qualifying member in active service, their date of death will be both their underpin date and their underpin crystallisation date. It is proposed that the underpin comparison would take into account the enhancements that apply under the 2008 and 2014 Scheme regulations in relation to deaths in service. This comparison of enhancements would apply up to the earlier of the qualifying member's 2008 Scheme NPA and 31st March 2022. This would be a new addition to the underpin regulations, and would be consistent with the approach taken in relation to ill-health retirements (outlined above in paragraph 75).

80. No adjustment relating to the underpin would apply to a qualifying member's death grant, as death grants for active members are based on a member's pay, not their pension.

81. Where survivor benefits are payable following a death in service of a qualifying member, the underpin comparison would be based on the provisional calculations and would not take into account the impact of early or late retirement factors which do not apply in relation to survivor benefits. Where there is an addition (i.e. the 2008 Scheme benefit is higher based on the unadjusted values), this addition would apply in the calculation of the survivor's benefit, at the appropriate accrual rate for each type of survivor.

82. **Deaths from deferred status** - Where a qualifying member dies from deferred status, their underpin date will have already taken place (on the date the member left active service, or on their 2008 Scheme NPA, if earlier). The day of the member's death would be their underpin crystallisation date.

83. Where survivor benefits are payable following a death from deferred status, the underpin comparison would be based on the provisional calculations and would not take into account the impact of early or late retirement factors which do not apply in relation to survivor benefits. Where there is an addition (i.e. the 2008 Scheme benefit is higher based on the unadjusted values), this addition would apply in the calculation of the survivor's benefit, at the appropriate accrual rate for each type of survivor.

84. Any addition arising from the provisional calculations undertaken at a member's underpin date will also apply in the calculation of the death grant. For deferred members, a death grant applies at 5 times the annual rate of pension, without actuarial adjustment relating to the age of the member.

85. **Deaths from pensioner status** – Where a qualifying member dies from pensioner status, the underpin date and the underpin crystallisation date will already have taken place.

86. Where survivor benefits are payable following the death of a pensioner, the underpin comparison will be based on the provisional calculations undertaken at a qualifying member's underpin date and will not take into account the impact of early or late retirement factors which do not apply in relation to survivor benefits. Where there is an addition (i.e. the 2008 Scheme benefit is higher based on the unadjusted values), this addition will apply in the calculation of the survivor's benefit, at the appropriate accrual rate for each type of survivor.

87. Any addition arising from the provisional underpin calculation will also apply in the calculation of the death grant, where applicable. For pensioner members, a death grant applies at 10 times the annual rate of pension, reduced by the actual amount of pension the member received prior to their death and by any lump sum commutation.

Public Sector Transfer Club transfers

88. The LGPS is a member of the Public Sector Transfer Club³⁷. The Club is an arrangement that facilitates the mobility of employment within the public sector by, for example, enabling employees to avoid the reduction in the value of their accrued pension that could otherwise occur as a result of changing employment. Final salary pension transferees are awarded a service credit that maintains the member's final salary link for the pension accrued in their previous scheme. CARE transferees are awarded a pension credit that continues the rate of in-service revaluation that was provided in the member's previous scheme. The intention of the Club is that a member should not lose out as a result of changing employment within the public sector. Equally, the member should not receive benefits that are higher in value than if they had not changed employment.

89. Separately, the Government is consulting³⁸ on proposals to remove the unlawful discrimination from the other main public service pension schemes. That consultation includes a section seeking views on how transfers under the Public Sector Transfer Club may work in relation to the remedy proposals outlined in that consultation. It sets out that one option would be for a member to make a choice between career average and final salary benefits at the date of transfer, so that only one set of scheme benefits for the remedy period needs to be considered for the transferred service.

90. The consultation also notes that considerations in the LGPS may be different, given the different nature of transitional protection in the LGPS and that we would consult on more detailed proposals in relation to Club transfers between the LGPS and the other public service pension schemes.

91. One approach, which would be consistent with the option outlined in the wider consultation, would be for the same principle to apply. This would mean the following:

- **For Club transfers of protected service (accrued between April 2015 and March 2022) into the LGPS** - the receiving LGPS fund would give the member the option of deciding whether they wanted to use the transfer to buy final salary

³⁷ <https://www.civilservicepensionscheme.org.uk/members/public-sector-transfer-club/>

³⁸ <https://www.gov.uk/government/consultations/public-service-pension-schemes-consultation-changes-to-the-transitional-arrangements-to-the-2015-schemes>

membership or career average pension in relation to the transferred service. Quotations would be provided to help members make an informed choice.

- **For Club transfers of protected service (accrued between April 2014 and March 2022) out of the LGPS** – the receiving scheme administrator would give the member the option of deciding whether they wanted to use the transfer to buy final salary membership or career average pension in relation to the transferred service (which in the LGPS would have provided them with underpin protection). Quotations would be provided to help members make an informed choice.

92. It should be noted that, in certain situations, a transferring member might be at an advantage if the transitional protection could continue in their new scheme (for example, if members transferring into the LGPS were to obtain underpin protection for protected service they transfer in, or LGPS members transferring out were to obtain a choice in their new schemes). However, such an approach would likely lead to significant administrative complexity across the public sector.

93. We propose that, consistent with existing LGPS regulations³⁹ that, where a member with final salary membership in another public service pension scheme transfers that membership into the LGPS, and they would have met the qualifying criteria for underpin protection in the LGPS had they been a member of the scheme, they would be granted underpin protection for their LGPS membership up to 31st March 2022. This would apply even if the initial transfer into the LGPS was not a Club transfer.

94. We welcome views from respondents on the options set out here. The final approach in relation to transfers within the Public Sector Transfer Club will be considered across Government, taking into account the responses to this consultation along with those to the wider consultation.

Non-Club transfers

95. Where a qualifying member transfers relevant scheme membership and the transfer is not a 'Club' transfer⁴⁰, a different approach is proposed. The date of transfer would be their underpin crystallisation date. In the draft regulations we propose the detailed requirements in relation to such cases will be contained in actuarial guidance issued by the Secretary of State. We propose that the actuarial guidance we issue will require the following approach:

- 1) Calculate Cash Equivalent Transfer Values (CETVs) of the following:
 - a) the member's accrued rights,
 - b) the member's 'provisional assumed benefits' (see **annex C**), and
 - c) the member's 'provisional underpin amount' (see **annex C**).

³⁹ Regulation 9(1) and (2) of the 2014 Regulations

⁴⁰ Either because it is not a transfer to a pension scheme in the Public Sector Transfer Club, or because it does not qualify as a Club transfer.

2) Where c) is greater than b), add the difference between the two amounts to a) and that is the total CETV.

3) Where c) is not greater than b), just pay the CETV based on the member's accrued rights (i.e. the CETV calculated at a)).

96. This approach would be consistent with the general approach taken to calculating pension benefits under the underpin, and should achieve a similar outcome.

97. Where a member with underpin protection has transferred in pension rights from another scheme that is not a public service pension scheme, the value of the transfer would not be taken into account for the purposes of the member's underpin calculations. This is the same as applies in relation to transfers under the existing underpin regulations.

Other ways of taking benefits

98. **Flexible retirement** – Where a qualifying member makes an election to reduce their working hours or grade in an employment, with their employer's consent, that would be their underpin date, even though they remain in active employment after this date. As applies under the existing underpin provisions, no further underpin protection would apply after a qualifying member's date of flexible retirement. The underpin crystallisation date calculation, also undertaken at the point of a member's flexible retirement, would take into account the impacts of early and late retirement factors to determine which scheme benefit is better for the individual.

99. Where a qualifying member takes 'partial' flexible retirement, i.e. they do not take all the benefits they accrued prior to their flexible retirement date straight away, there is a question about the appropriate treatment of the underpin. We propose that, in partial flexible retirement situations, where there is an addition to the member's pension arising from the underpin (i.e. because the 2008 Scheme benefit is higher), the amount of the addition given to the member at that point in time should be proportionate to the amount of the 2014 Scheme pension they are choosing to receive. For example, if a member is only receiving 20% of their 2014 Scheme pension upon flexibly retiring, they would only receive 20% of the underpin addition. The remainder would be payable at the point the member takes the rest of their benefits.

100. **Redundancy**⁴¹ – Redundancy below a qualifying member's 2008 Scheme NPA would trigger their underpin date. For members aged 55 or over, who have an immediate entitlement to their pension at point of redundancy, the date their redundancy pension commences would also be their underpin crystallisation date. As actuarial reductions do not apply in this situation, no account should be taken of these in the final underpin comparison. However, actuarial increases, where the member is made redundant after their 2008 Scheme or 2014 Scheme NPA, should be considered in the usual way.

101. **Trivial commutation**⁴² – Under regulation 34 of the 2013 Regulations, members with small total pension rights can extinguish their future right to a pension from the scheme

⁴¹ This paragraph also covers members leaving active membership of the LGPS on grounds of business efficiency.

⁴² This paragraph also covers members taking benefits via any of the other means referred to in regulation 34 of the 2013 Regulations. These payments are made at the discretion of administering authorities.

and receive a lump sum instead ('trivial commutation'). Under our proposals, qualifying members trivially commuting their pension will already have had their underpin date, as at their date of leaving the LGPS or reaching their 2008 Scheme NPA. If a qualifying member has not yet taken their pension, the date they trivially commute their benefits would be their underpin crystallisation date and the draft regulations propose the detailed requirements in relation to such cases will be contained in actuarial guidance issued by the Secretary of State. This is consistent with the general approach set out in the 2013 Regulations⁴³. We propose that the actuarial guidance we issue will require the following approach:

- 1) Calculate the trivial commutation sum due of the following:
 - a) the member's total accrued rights,
 - b) the member's 'provisional assumed benefits' (see **annex C**), and
 - c) the member's 'provisional underpin amount' (see **annex C**).
- 2) Where c) is greater than b), add the difference between the two amounts to a) and that is the total sum due.
- 3) Where c) is not greater than b), just pay the trivial commutation sum based on the member's accrued rights (i.e. the sum calculated at a)).

102. This approach would be consistent with the general approach taken to calculating pension benefits under the underpin, and should achieve a similar outcome. Where a qualifying member who trivially commutes their benefits has already taken their pension from the LGPS (and had an underpin crystallisation date in doing so), there would be no further underpin calculations due at the point of the trivial commutation.

Question 14 – Do you have any comments regarding the proposed approaches outlined above?

Question 15 – Do you consider there to be any notable omissions in our proposals on the changes to the underpin?

Supplementary matters

Annual benefit statements

103. Pension schemes are vitally important workplace benefits. For many people contributing to a pension scheme, the annual benefit statement (ABS) is the main way that they receive updates on the value of their pension and when they will be able to receive it. Whilst it is true that information presented on an ABS about the underpin cannot provide certainty to a qualifying member on their underpin protection (in most cases, there will not be certainty until a member's underpin crystallisation date), we believe it is important that estimates are provided on member ABSs if scheme regulations are amended in the

⁴³ Regulation 34(2) of the 2013 Regulations requires that payments of the description contained in regulation 34(1) are to be calculated in accordance with actuarial guidance issued by the Secretary of State.

manner outlined in this paper. Appropriate wording would need to be considered so that members have the information needed to understand how the underpin works and that the figures included in their statement are provisional, and may change. We would plan to ask the Scheme Advisory Board to lead on agreeing standardised wording that LGPS funds throughout England and Wales can include in ABSs regarding underpin protection.

104. Our draft regulations propose the following approach for members who meet the underpin qualifying criteria and have relevant scheme membership:

- That where a member is in active service below their 2008 Scheme NPA, their ABS should estimate the value of the underpin to the individual as if the end of the Scheme year⁴⁴ was their underpin date – including the provisional assumed benefits, the provisional underpin amount and any provisional guarantee amount.
- That where a member remains in active service beyond their 2008 Scheme NPA, their ABS should include the provisional estimates from the member's underpin date, as updated to reflect cost of living changes to the end of the Scheme year.
- For deferred and deferred pensioner members⁴⁵, their ABS should include the provisional estimates from the member's underpin date, as updated to reflect cost of living changes to the end of the Scheme year.

Question 16 – Do you agree that annual benefit statements should include information about a qualifying member's underpin protection?

Question 17 – Do you have any comments regarding how the underpin should be presented on annual benefit statements?

Annual allowance

105. The annual allowance is the maximum amount of tax-relieved pension savings that can be accrued by an individual in a year. The standard annual allowance is currently £40,000, but for those on the highest incomes, it tapers down to a minimum level of £10,000 (from April 2016 to March 2020) and to £4,000 (from April 2020). For defined benefit pension schemes like the LGPS, liability for tax charges above the annual allowance is calculated using the value of pension accrued in a particular year. Where an individual's pension accrual in a single year exceeds the annual allowance, then a tax charge may be due on the amount accrued above the member's annual allowance⁴⁶ to claw back the excess tax relief.

106. Whilst we would not expect a significant number of qualifying members to experience any change to their tax liability as a result of the proposals in this consultation document, it

⁴⁴ Under Schedule 1 of the 2013 Regulations, a period of one year beginning with 1st April and ending with 31st March.

⁴⁵ Deferred pensioner members are members who were previously in receipt of a temporary tier 3 ill-health pension which has since ceased, and the member has not yet taken their main scheme benefits.

⁴⁶ However, 'carry forward' provisions allow members to carry forward unused annual allowance for the previous three years.

is important that underpin protection is considered for the purposes of determining a qualifying member's annual allowance.

107. LGPS regulations do not contain detailed provisions regarding the application of pensions tax to scheme benefits. Scheme administrators must follow the pensions tax framework as set out in the Finance Act 2004 and secondary legislation, and as explained in HMRC's Pensions Tax Manual⁴⁷. Consistent with our approach generally, we do not plan to include in scheme regulations specific details regarding the tax treatment of the revised underpin.

108. We understand that, in accordance with guidance provided by the Local Government Association (LGA)⁴⁸, LGPS administrators have generally been taking the following approach in relation to the current underpin and the annual allowance:

- Whilst a protected member is in active service and their underpin date has not yet occurred, no account has been taken of a member's underpin protection for the purposes of determining a member's pension input amount in a given pension input period. This reflects that, under existing scheme regulations, a member may only receive an addition to their pension at the point of their underpin date.
- In the year of a protected member's underpin date, any addition in the member's pension arising from the comparison undertaken at the member's underpin date would be considered for the purposes of determining a member's pension input amount in that pension input period.

109. Whilst interpretation and application of the requirements of the Finance Act 2004 is a matter for individual administrators to consider, we believe that this approach is correct and would remain so if our proposals were to be implemented in scheme regulations. However, a change will be needed to reflect that, under our proposals, the point where an addition may arise from the underpin would be different. As described in paragraphs 61 and 62, our proposal is that the underpin moves to a 'two stage process'. Under this, a member's underpin protection can only result in a change to their pension entitlement at their 'underpin crystallisation date' and under our proposals it would be in this pension input period that the underpin should first be given consideration for the purposes of the annual allowance. As there would be no change to a member's pension entitlement at the point of a member's underpin date, the underpin should not be given consideration for annual allowance purposes in that pension input period⁴⁹.

110. However, we recognise that there may be circumstances where this approach means that a qualifying member has a higher pension input amount in the year of their underpin crystallisation date than an approach where the potential value of the underpin is considered on a year-by-year basis whilst a qualifying member remains in active membership. This may particularly be the case for qualifying members who have a relatively low career average pension for the years from 1st April 2014 to 31st March 2022, but a relatively high final salary pension over the same period. This may occur where a

⁴⁷ <https://www.gov.uk/hmrc-internal-manuals/pensions-tax-manual>

⁴⁸ 'The Underpin' technical guide, latest version v1.8 (dated 18/07/2018), <http://lgpsregs.org/resources/guidesetc.php>

⁴⁹ Except where the member's underpin crystallisation date occurs in the same pension input period.

qualifying member is at an early stage of their career now, but goes on to be a high-earner in the future. We would appreciate views from stakeholders on the potential likelihood of this issue arising, the scale of the issue and how any impacts might be mitigated, if appropriate.

Question 18 – Do you have any comments on the potential issue identified in paragraph 110?

Public sector equality duty

111. The Ministry of Housing, Communities and Local Government has analysed the proposals set out in this consultation document (MHCLG) to fulfil the requirements of the Public Sector Equality Duty (PSED) as set out in section 149 of the Equality Act 2010. This requires the department to pay due regard to the need to:

- 1) eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Act
- 2) advance equality of opportunity between people who share a protected characteristic and those who do not
- 3) foster good relations between people who share a protected characteristic and those who do not.

Data

112. In undertaking our assessment of the equalities impacts of our proposals, we have drawn upon analysis provided to us by GAD. The analysis particularly looks at the protected characteristics of age and sex and is based on membership data supplied to GAD by LGPS administrators as at 31st March 2019. The following points should be borne in mind when considering the analysis:

- GAD's analysis has principally considered those who would benefit from the proposals outlined in this consultation. Members who already have underpin protection under existing provisions (being those aged 62 and older on 31st March 2019, who were aged at least 55 on 1st April 2012) have not been considered directly.
- GAD's analysis is based on active membership records totalling 1.68mn. The analysis has been conducted on a per-member basis, meaning additional records where members have more than one active employment have been removed.
- The proportion of the qualifying membership which is eventually likely to be better off as a result of underpin protection is heavily influenced by the rate of future pay growth in the LGPS. Consistent with the assumption used for the 2016 valuations of public service pension schemes, the long-term annual future pay growth assumption used is CPI + 2.2%.
- The analysis is based on the LGPS's active membership as at 31st March 2019. Under our proposals, the proposed changes to the underpin would be backdated to 1st April 2014. We would therefore expect that a number of additional members not

included in the analysis would benefit from our proposals. However, we do not anticipate this limitation would significantly change the results of the analysis.

- The analysis is based on an “average” member at each particular age. Allowing for variations in individual members’ future service or salary progression could produce different figures.

113. Limited data specific to the LGPS in England and Wales is available in relation to other protected characteristics. However, we have considered wider data from the Labour Force Survey (LFS) (Q1 2020)⁵⁰ and the Annual Population Survey (APS) (2019)⁵¹ in looking at the potential impacts of the following characteristics.

Age

114. The proposals outlined here are intended to remove age discrimination, which had been found to be unlawful in the firefighters’ and judicial pension schemes, from the LGPS rules governing the underpin. We consider that the changes proposed will significantly reduce differential impacts in how the underpin applies based on a member’s age, by removing the age-related qualifying criteria found to be unlawful by the Courts.

115. Based on analysis undertaken by GAD on active membership data for the LGPS as at 31st March 2019, we anticipate that some differences in how the revised underpin would apply to members of different age groups would remain. These are described below, along with our assessment of these differences.

116. **Qualification for the underpin** – GAD’s analysis shows that older active members on 31st March 2019 would be more likely to qualify for the revised underpin than younger active members. This is principally because of our proposal that the 31st March 2012 qualifying date for underpin protection is retained. The proportion of members active in the scheme as at 31st March 2019 who had been members of the scheme on 31st March 2012 is lower for younger members, as experience shows they have a higher withdrawal rate from active scheme membership. We consider that members joining the LGPS after 31st March 2012 do not need to be provided with underpin protection. Members joining the LGPS after 31st March 2012 fall into two groups:

a) members who joined after 1st April 2014 when the LGPS had already reformed to a career average structure, and

b) members who joined between 1st April 2012 and 31st March 2014, who joined the LGPS when it was still a final salary scheme, but when a well-publicised reform process was already underway.

117. In relation to both groups, it is the Government’s view that providing them underpin protection would not be appropriate. Transitional protection, as applied across public

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<https://www.ons.gov.uk/surveys/informationforhouseholdsandindividuals/householdandindividualsurveys/labourforcesurvey>

51

[https://www.nomisweb.co.uk/articles/1167.aspx#:~:text=The%20Annual%20Population%20Survey%20\(APS,regional%20\(local%20authority\)%20areas.](https://www.nomisweb.co.uk/articles/1167.aspx#:~:text=The%20Annual%20Population%20Survey%20(APS,regional%20(local%20authority)%20areas.)

service pension schemes, was always designed to help members with the transition from the old scheme designs to the new (in the LGPS, mainly in relation to the move from a final salary to a career average structure). Members who joined after 31st March 2012 will have joined the LGPS when either it had already transitioned to the career average structure, or when it was well publicised that the LGPS benefits were reforming.

118. Members who benefit from the underpin – GAD’s analysis shows that active members between the ages of 41 and 55 would be more likely to benefit from the revised underpin (i.e. where the calculated final salary benefit is higher than the calculated career average benefit) than both their younger and older colleagues. This reflects previous experience and future expectation that:

- this group are more likely than older colleagues to experience the pay progression that would make the final salary benefit higher over the underpin period (bearing in mind that the career average accrual rate (1/49ths) is better than the final salary accrual rate (1/60ths) so above inflation pay increases are needed for the underpin to lead to an increase in pension), and
- this group are more likely than younger colleagues to remain in active membership until they receive the pay progression necessary for the underpin to result in an addition to their pension. Younger members are estimated to have a higher voluntary withdrawal rate than older members, and so would be less likely to remain in the LGPS until such time as they have the pay increases for the final salary benefit to be higher.

119. These differential impacts reflect the fact that final salary schemes typically benefit members with particular career paths (for example, they usually favour high-earners with long service). The Government proposes to move all local government pensions accrual to a career average basis, without underpin protection, from April 2022 to apply a fairer system to all future service.

Sex

120. In relation to sex, GAD’s analysis shows that broadly the proportion of men and women who would qualify for the revised underpin protection and benefit from that protection matches the profile of the scheme. As at 31st March 2019:

- 74% of scheme members were female, and 26% male
- 73% of the scheme members who were estimated to qualify for the revised underpin protection were female, and 27% male
- 73% of the scheme members who were estimated to benefit from the revised underpin were female, and 27% male

121. Proportionally, GAD’s assessment is that men would be marginally more likely to qualify for the revised underpin and to benefit to a greater extent from underpin protection than women. This reflects the fact that, in line with previous scheme experience, the average male LGPS member would be expected to have higher salary progression than the average woman and that women are generally expected to have higher voluntary withdrawal rates than men. Members with longer scheme membership and with higher

salary progression would be more likely to receive an addition to their pension through the underpin (i.e. where the final salary benefit is higher).

122. These small differential impacts also demonstrate some of the effects that can arise under a final salary design. The Government proposes to move all local government pensions accrual to a career average basis, without underpin protection, from April 2022 to apply a fairer system to all future service.

Other protected characteristics

123. As noted in paragraph 113, limited data specific to the LGPS in England and Wales is available in relation to other protected characteristics. However, we have considered wider data from the LFS (Q1 2020) and the APS (2019) in looking at these characteristics. The LFS breaks down results to public sector level, which we have used as a proxy for LGPS membership for ethnicity, disability and marital status. For religion, the APS has been used as a proxy for the public service pension schemes as it also includes a public sector breakdown.

124. Whilst these data sets show some differences in the demographic make-up of the UK population generally and the public sector workforce, we do not consider that the changes to underpin protection proposed in the consultation will result in any differential impact to LGPS members with the following protected characteristics: disability, ethnicity, religion or belief, pregnancy and maternity, sexual orientation and marriage/civil partnership.

125. Data on sexual orientation, gender reassignment, pregnancy and maternity is not available. However, we expect there to be no differential impacts in relation to these groups as they won't be explicitly affected by any changes to transitional arrangements.

Next steps

126. Whilst we have detailed data on the protected characteristics of age and sex in relation to the LGPS membership, we are aware that our analysis of the impacts on other protected characteristics may be limited as it has not been based on local government specific data. We welcome suggestions from stakeholders of other data sets that may be available that may help us better understand the impacts on the LGPS membership more specifically.

127. We welcome views from stakeholders on our analysis, which is set out in more detail in the equalities impact assessment published alongside this consultation. These views will be considered in determining how to proceed following the consultation exercise. The potential equalities impacts of our proposals will be kept under review. A further equalities impact assessment will be undertaken following the consultation at the appropriate juncture.

Question 19 – Do the proposals contained in this consultation adequately address the discrimination found in the ‘McCloud’ and ‘Sargeant’ cases?

Question 20 – Do you agree with our equalities impact assessment?

Question 21 - Are you aware of additional data sets that would help assess the potential impacts of the proposed changes on the LGPS membership, in particular for the protected characteristics not covered by the GAD analysis (age and sex)?

Question 22 – Are there other comments or observations on equalities impacts you would wish to make?

Implementation and impacts

128. Following the closure of the consultation, we will consider the consultation responses received in detail to determine the best approach for removing the unlawful age discrimination from LGPS regulations.

129. The draft regulations at **annex B** have been prepared based on existing powers under the Public Service Pensions Act 2013. However, as noted in the wider Government consultation⁵² on removing the unlawful age discrimination from public service pension schemes, the Government intends to bring forward new primary legislation regarding public service pensions. When proposals for removing the unlawful discrimination are finalised, further consideration will be given to the appropriate powers for the changes, based on the legislation in force at the time.

130. We recognise that in the period between now and scheme regulations being amended, some members of the scheme who would be due to benefit from the changes outlined in this paper will crystallise scheme benefits. This will include voluntary age retirements, as well as ill-health retirements, redundancies and transfers. There will also be dependants of those qualifying members who sadly die before changes are implemented. In respect of all such cases, we would expect the retrospective application of our proposed amending regulations to ensure that, overall, members and their dependents would get the full benefit of the revised underpin.

Communications

131. As noted in paragraphs 103 and 104, member communications in relation to the proposals outlined here will be vitally important to ensure members understand what underpin protection is and how it may or may not apply to them. This is particularly important due to the complexities of the underpin. The two-stage process we describe in paragraphs 61 and 62 is designed to protect members and to provide clarity, but it is important its purpose is well explained, so that qualifying members understand that they may have an addition to their pension arising from the underpin, even if there was not an addition at their underpin date. Equally, qualifying members should be aware that the benefits payable from the 2014 Scheme are very good, and, for many, underpin protection will not result in an increase to their pension entitlement.

132. Communications aimed at scheme employers will also be important so that they understand the proposed changes, particularly bearing in mind the number and variety of LGPS employers (just over 18,000 in 2018/19). The changes outlined in this paper would lead to an upward pressure on scheme liabilities and, potentially, to future increases in employer contributions. It is vital that employers understand the potential changes and

⁵² <https://www.gov.uk/government/consultations/public-service-pension-schemes-consultation-changes-to-the-transitional-arrangements-to-the-2015-schemes>

how they may impact their funding position. More generally, employers would have a practical role in providing the data necessary for scheme administrators to deliver the changes outlined in this document, and should understand how these changes may impact upon them.

133. Achieving good communications, and deciding on the appropriate medium for those communications, will require input from stakeholders across the LGPS, including administering authorities, employers and trade unions. We are aware that the Scheme Advisory Board has already commenced discussions with the sector on communications and we are strongly supportive of this continuing. We will continue working with the Scheme Advisory Board on this in the coming months.

Question 23 – What principles should be adopted to help members and employers understand the implications of the proposals outlined in this paper?

Administration impacts

134. We are conscious that the proposals outlined in this consultation paper would require significant changes to administration practices and systems. Amongst other matters, local administrators would need to consider the appropriate prioritisation of cases after amendments to regulations are made. Recognising that the LGPS is a single scheme, albeit locally administered, we are supportive of there being consistency across the scheme in respect of prioritisation and hope to work with the sector and the Scheme Advisory Board to agree a standard approach.

135. Prioritisation decisions will be influenced by the fact that the revised underpin would have retrospective effect to April 2014, meaning that some members would already be in receipt of pensions that would need to be re-calculated, and retrospectively applied, in line with the new regulations.

136. A major challenge of implementing the changes proposed would apply in respect of obtaining additional data from employers for members who are newly benefitting from underpin protection – estimated to be around 1.2 million individuals. Under the 2014 Scheme, certain member data which was required for administering the 2008 Scheme (such as details of members' working hours and breaks in service) are not required for calculating member benefits. To administer the revised underpin, administrators would need to obtain this data for qualifying members for the period back to April 2014. This would be a highly significant exercise for the scheme's 87 administering authorities and its 18,000 employers. Particular challenges are likely to arise where employers have changed their payroll provider, and the data isn't stored in current systems.

Question 24 – Do you have any comments to make on the administrative impacts of the proposals outlined in this paper?

Question 25 – What principles should be adopted in determining how to prioritise cases?

Question 26 – Are there material ways in which the proposals could be simplified to ease the impacts on employers, software systems and scheme administrators?

137. We are grateful to the Scheme Advisory Board for their work on this project so far, in particular for their input on the remedy proposals outlined in this paper and for their establishment of working groups to consider some of the complex issues associated with this project.

138. We will continue working closely with the Scheme Advisory Board after the closure of the consultation as the sector prepares for the potential changes to scheme regulations. In particular, we intend to ask that the Scheme Advisory Board consider what guidance may be necessary to help administrators implement the proposed changes, and we are grateful for respondents' views on this.

139. Guidance would help support a consistent approach across the LGPS which would be desirable, in particular on matters like prioritisation. It would also potentially help on the complex issues connected with the fact that scheme employers would need to provide administrators with membership data going back to April 2014.

Question 27 – What issues should be covered in administrative guidance issued by the Scheme Advisory Board, in particular regarding the potential additional data requirements that would apply to employers?

Question 28 – On what matters should there be a consistent approach to implementation of the changes proposed?

Costs

140. The LGPS is a locally administered, funded scheme with three-yearly funding valuations to determine employer contribution rates. The next funding valuation is due on 31st March 2022⁵³. Employer contribution rates are, in most cases, determined on an individual employer basis, and take into account a number of factors, some related to the individual employer (such as membership demographics) and some related to the fund more broadly (such as the performance of fund investments since the previous valuation).

141. As a result of this backdrop, it is not possible to say how these changes would impact employer contribution rates at future valuations. However, the proposals in this paper can only lead to improvements in scheme benefits for qualifying members and, by necessity, there will be an upward pressure on liabilities. Because a variety of factors influence LGPS employer contribution rates, this upward pressure does not necessarily mean any particular employer's contributions will go up as a result of these changes, and administering authorities are required to smooth employer contributions as far as possible over the long term. Where any fund or employer would like to understand how these proposals may affect their own position, they should speak to their fund actuary. As scheme liabilities predominantly sit with local authorities and other public bodies, which are

⁵³ Under regulation 64 of the 2013 Regulations. In 2019, we consulted on potential changes to the funding valuation cycle - <https://www.gov.uk/government/consultations/local-government-pension-scheme-changes-to-the-local-valuation-cycle-and-management-of-employer-risk>. The Government has not yet responded to the proposal on the LGPS valuation cycle.

largely taxpayer funded, any employer contribution increases that do arise would need to be met, for the most part, by the taxpayer.

142. At a scheme level, costing estimates have been provided by the scheme actuary⁵⁴, the Government Actuary's Department, based on data provided by LGPS funds for the 2016 valuation. Assuming future member experience replicates the 2016 scheme valuation assumptions⁵⁵ the future cost to LGPS employers could be around £2.5bn in the coming decades. This is between 4% and 5% of the expected cost of benefits earned over the proposed underpin period, April 2014 to March 2022. However, if, for example, long-term real earnings growth were around a third lower than assumed for the 2016 valuation, we estimate the cost would roughly halve.

143. The costs are sensitive to both individual member experience and future pay. Predicting whether the underpin becomes valuable in the future depends heavily on assumptions on long-term future pay growth trends. In this estimate, we have used the 2016 valuation assumption that annual long-term pay growth is CPI + 2.2%. However, if long-term pay growth in the LGPS is lower than this, the costs may be lower (and vice versa).

144. The Government cost control mechanism was paused in February 2019 given the uncertainty arising from the McCloud judgment. The Government has made a separate announcement on the cost control mechanism⁵⁶. In addition to the main Government cost control mechanism for the LGPS, the LGPS has a separate cost control process run by the Scheme Advisory Board⁵⁷ which was also paused as a result of the uncertainty arising. We expect the Scheme Advisory Board will also take the decision to unpause their process following the Government's announcement.

Question 29 – Do you have any comments regarding the potential costs of McCloud remedy, and steps that should be taken to prevent increased costs being passed to local taxpayers?

⁵⁴ As appointed under regulation 114 of the 2013 Regulations

⁵⁵ Based on directions issued by HM Treasury and LGPS experience

⁵⁶ <https://www.gov.uk/government/consultations/public-service-pension-schemes-consultation-changes-to-the-transitional-arrangements-to-the-2015-schemes>

⁵⁷ Regulation 116 of the 2013 Regulations

About this consultation

This consultation document and consultation process have been planned to adhere to the Consultation Principles issued by the Cabinet Office.

Representative groups are asked to give a summary of the people and organisations they represent, and where relevant who else they have consulted in reaching their conclusions when they respond.

Information provided in response to this consultation, including personal data, may be published or disclosed in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 2018 (DPA), the General Data Protection Regulation, and the Environmental Information Regulations 2004).

If you want the information that you provide to be treated as confidential, please be aware that, as a public authority, the Department is bound by the Freedom of Information Act and may therefore be obliged to disclose all or some of the information you provide. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the Department.

The Ministry of Housing, Communities and Local Government will process your personal data in accordance with the law and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties. A full privacy notice is included at annex A.

Individual responses will not be acknowledged unless specifically requested.

Your opinions are valuable to us. Thank you for taking the time to read this document and respond.

Are you satisfied that this consultation has followed the Consultation Principles? If not or you have any other observations about how we can improve the process please contact us via the [complaints procedure](#).

Annex A

Personal data

The following is to explain your rights and give you the information you are be entitled to under the Data Protection Act 2018.

Note that this section only refers to your personal data (your name address and anything that could be used to identify you personally) not the content of your response to the consultation.

1. The identity of the data controller and contact details of our Data Protection Officer

The Ministry of Housing, Communities and Local Government (MHCLG) is the data controller. The Data Protection Officer can be contacted at dataprotection@communities.gov.uk

2. Why we are collecting your personal data

Your personal data is being collected as an essential part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

3. Our legal basis for processing your personal data

Section 21(1) of the Public Service Pension Act 2013 states:

'Before making scheme regulations the responsible authority must consult such persons (or representatives of such persons) as appear to the authority likely to be affected by them'.

MHCLG will process personal data only as necessary for the effective performance of this duty. In this case, the Secretary of State is the responsible authority for the LGPS in England and Wales.

The Data Protection Act 2018 states that, as a government department, MHCLG may process personal data as necessary for the effective performance of a task carried out in the public interest. i.e. a consultation.

3. With whom we will be sharing your personal data

We do not anticipate sharing personal data with any third party.

4. For how long we will keep your personal data, or criteria used to determine the retention period.

Your personal data will be held for two years from the closure of the consultation.

5. Your rights, e.g. access, rectification, erasure

The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right:

a. to see what data we have about you

- b. to ask us to stop using your data, but keep it on record
- c. to ask to have all or some of your data deleted or corrected
- d. to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact the ICO at <https://ico.org.uk/>, or telephone 0303 123 1113.

- 6. Your personal data will not be sent overseas**
- 7. Your personal data will not be used for any automated decision making.**
- 8. Your personal data will be stored in a secure government IT system.**

Annex B – Draft regulations

STATUTORY INSTRUMENTS

2020 No.

PUBLIC SERVICE PENSIONS, ENGLAND AND WALES

The Local Government Pension Scheme (Amendment) Regulations 2020

<i>Made</i>	- - - - -	***
<i>Laid before Parliament</i>		***
<i>Coming into force</i>	- -	***

The Secretary of State makes the following Regulations:

Citation, commencement and extent

- 1.—(1) These Regulations may be cited as the Local Government Pension Scheme (Amendment) Regulations 2020.
(2) These Regulations come into force on [XXXXXX] but regulations 2, 4, 5 and 6 have effect from 1st April 2014.
(3) These Regulations extend to England and Wales.

Amendment of the Local Government Pension Scheme Regulations 2013

2. The Local Government Pension Scheme Regulations 2013⁽⁵⁸⁾ are amended in accordance with regulations 3 and 4.
3. In regulation 89 (annual benefit statement) after paragraph (4) insert—
 - “(5) Where regulation 4 of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 applies the statement in respect of a relevant scheme membership must include the following additional information for active members who had not reached their 2008 Scheme normal retirement age at the end of the scheme year to which it relates—
 - (a) the provisional guarantee amount;
 - (b) the provisional assumed benefits; and
 - (c) the provisional underpin amountwhich would apply if the member’s underpin date was the closing date of the Scheme year to which the statement relates.

⁽⁵⁸⁾ S.I. 2013/2356; those Regulations have been amended by S.I. 2014/44, S.I. 2014/525, S.I. 2014/1146, S.I. 2015/57, S.I. 2015/755, S.I. 2018/493, S.I. 2019/1449.

(6) Where regulation 4 of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 applies the statement in respect of a relevant scheme membership must include the following additional information for deferred and deferred pensioner members—

- (a) the provisional guarantee amount;
- (b) the provisional assumed benefits; and
- (c) the provisional underpin amount

calculated as at their underpin date and adjusted by the appropriate index rate adjustment to the end of the Scheme year to which the statement relates.

(7) Where regulation 4 of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 applies the statement in respect of a relevant scheme membership must include the following additional information for active members who had reached their 2008 Scheme normal retirement age at the end of the relevant Scheme year—

- (a) the provisional guarantee amount;
- (b) the provisional assumed benefits; and
- (c) the provisional underpin amount

calculated as at their underpin date revalued to the end of the Scheme year to which the statement relates.

(8) The provisional guarantee amount is calculated in accordance with regulation 4(4) of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014.

(9) The provisional assumed benefits are calculated in accordance with regulation 4(5) of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014.

(10) The provisional underpin amount is calculated in accordance with regulation 4(6) of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014.

4.—(1) In Schedule 1 (interpretation) after the definition of “registered pension scheme” insert—

“relevant scheme membership” has the meaning given by regulation 4(1A) of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014;”

Amendment of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014

5. The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014⁽⁵⁹⁾ are amended in accordance with regulation 6.

6. In regulation 4 (statutory underpin)—

- (a) in paragraph (1)(a) omit the words from “and who on 1st April 2012” to the end;
- (b) for paragraph (1)(b) substitute—

“(b) is or has been an active member of the 2014 Scheme; and”

- (c) in paragraph (1)(c) substitute “; and” with “.”;
- (d) omit paragraph (1)(d);
- (e) at the end insert—

“(1A) For the purpose of this regulation a member’s relevant scheme membership is a single Scheme membership which meets the requirements of paragraph (1)(a), (1)(b) and (1)(c).

(1B) Where a member has had periods of concurrent employment, or a break in service that is not a disqualifying break in service, a member only has a relevant scheme membership if the member’s scheme membership including the period referred to in paragraph (1)(a) has been aggregated with their 2014 Scheme pension account, following a decision taken under—

⁽⁵⁹⁾ S.I. 2014/525.

- (a) regulations 16 or 17 of the Administration Regulations, where the member has subsequently joined the 2014 Scheme by virtue of regulation 5(1),
- (b) regulations 10(5) or (6) of these Regulations, or
- (c) regulations 22(5), 22(6), 22(7) or (8) of the 2013 Regulations.

(1C) Paragraph (1D) applies where;

- (a) an active or deferred member would otherwise have relevant Scheme membership;
- (b) but prior to [XXXXXXXXXX] previous Scheme membership including the period referred to in paragraph (1)(a) had not been aggregated with the member's 2014 Scheme pension account under paragraphs (1B)(a), (1B)(b) or (1B)(c).

(1D) Where this paragraph applies, an active or deferred member has a twelve month period commencing from [XXXXXXXXXX] to elect to aggregate the previous Scheme membership that would give the member relevant Scheme membership.

- (f) in paragraph (2) for "The underpin date" substitute "Subject to paragraphs (2A) and (2B) a member's underpin date in a relevant Scheme membership";

- (g) for paragraph (2)(b) substitute—

“(b) the date the member ceased to be an active member of the 2014 Scheme in an employment with a deferred or immediate entitlement to a pension; or”;

- (h) after paragraph 2(b) insert—

“(c) the date a member elects with their Scheme employer's consent to receive immediate payment under regulation 30(6) of the 2013 Regulations.”

- (i) after paragraph 2 insert—

“(2A) A member's date of death shall be their underpin date in a relevant Scheme membership where that date is earlier than the date provided for by paragraphs (2)(a) or (2)(b).

(2B) A member to whom paragraph (2)(b) has applied may have further underpin dates under paragraphs (2) or (2A) where they have either—

- (a) become an active member of the 2014 Scheme again before reaching their 2008 Scheme normal retirement age without a disqualifying break in service and aggregated their previous relevant scheme membership with their active member's pension account under regulation 22(8) of the 2013 Regulations, or

- (b) continued in active membership of the 2014 Scheme in an employment which had been concurrent with the employment through which they had an underpin date under paragraph (2)(b) and aggregated their previous relevant scheme membership with their active member's pension account under regulation 22(7) of the 2013 Regulations.”

- (j) for paragraph (3) substitute—

“(3) For the purpose of this regulation a disqualifying break in service is a continuous break after 31st March 2012 of more than 5 years in active membership of a public service pension scheme.”

- (k) for paragraph (4) substitute—

“(4) A member's provisional guarantee amount in a relevant scheme membership is the amount by which a member's provisional underpin amount exceeds the provisional assumed benefits on their underpin date.”

- (l) after paragraph (4) insert—

“(4A) Where paragraph (2B) applies, the value of the member's provisional assumed benefits, provisional underpin amount and provisional guarantee amount as calculated at their latest underpin date must be used for the purpose of this regulation.”

- (m) for paragraph (5) substitute—

“(5) The provisional assumed benefits are calculated by assessing the benefits the member would have been entitled to under the 2014 Scheme in a relevant Scheme membership if—”;

- (n) in paragraph (5)(a) substitute “the underpin date” with “31st March 2022 or the member’s underpin date, whichever date is the earlier”;
- (o) in paragraph (5)(b) substitute “the underpin date” with “31st March 2022 or the member’s underpin date, whichever date is the earlier”;
- (p) after paragraph (5) insert—
- “(5A) Where the member’s pension has come into payment under regulation 35 of the 2013 Regulations, the provisional assumed benefits calculated in accordance with paragraph (5) must include any adjustment under regulation 39 of the 2013 Regulations for the period up to the earlier of the member’s 2008 Scheme normal retirement age and 31st March 2022.
- (5B) Where a member’s underpin date has arisen under paragraph (2A), the provisional assumed benefits calculated in accordance with paragraph (5) must include the amount calculated under regulation 41(4)(b) of the 2013 Regulations for the period up to the earlier of the member’s 2008 Scheme normal retirement age and 31st March 2022.”
- (q) for paragraph (6) substitute—
- “(6) The provisional underpin amount is calculated by assessing the benefits the member would have had an immediate entitlement to payment of under the 2008 Scheme in a relevant Scheme membership if—”
- (r) in paragraph (6)(a) substitute “the underpin date” with “31st March 2022 or the member’s underpin date, whichever date is the earlier”;
- (s) in paragraph (6)(b)(iii)—
- (i) substitute “the member’s assumed benefits” with “the member’s provisional assumed benefits”;
- (ii) at the end add “but limited to the earlier of the member’s 2008 Scheme normal retirement age and 31st March 2022”
- (t) after paragraph (6) insert—
- “(6A) Where a member’s underpin date has arisen under paragraph (2A), the provisional underpin amount calculated in accordance with paragraph (6) must include an amount equivalent to the enhancement that would apply under regulation 24(2) of the Benefits Regulations, for the period up to the earlier of the member’s 2008 Scheme normal retirement age and 31st March 2022.”
- “(7) Subject to paragraph (8) a member’s underpin crystallisation date in a relevant Scheme membership is the earliest of the following dates—
- (a) the date from which the member elects to receive payment of a retirement pension under regulations 30(1), 30(5) or 30(6) of the 2013 Regulations;
- (b) the date from which the member becomes entitled to receive payment of a retirement pension under regulation 30(7) of the 2013 Regulations;
- (c) the date from which the member becomes entitled to an ill-health retirement pension under regulation 35(1) or regulation 38(1) of the 2013 Regulations;
- (d) the date the member receives payment under regulation 34 of the 2013 Regulations;
- (e) the date the member transfers their benefits out of the 2013 Regulations following;
- (i) an application made under regulation 96 of the 2013 Regulations; or
- (ii) by virtue of regulation 98 of the 2013 Regulations.
- (f) the date a member dies.
- (8) A deferred pensioner member who has had an underpin crystallisation date in a relevant Scheme membership pursuant to paragraph (7) following receipt of Tier 3 benefits has an additional underpin crystallisation date which is the earliest of the subsequent events referred to in paragraphs (7)(a) to (f).

- (9) Where paragraphs 7(a), (b) or (c) apply to a member, the member's pension account must be increased by the final guarantee amount at the underpin crystallisation date.
- (10) The final guarantee amount is the amount by which the final underpin amount exceeds the final assumed benefits on the underpin crystallisation date.
- (11) Where a member who elects to receive payment of a retirement pension under regulation 30(6) of the 2013 Regulations has a final guarantee amount at their underpin crystallisation date, a proportion of that final guarantee amount equal to the proportion of the member's 2014 Scheme benefits that the member has elected to take under regulation 30(6) must be transferred to the member's flexible retirement pension account.
- (12) A final guarantee amount payable to a member pursuant to paragraph (7)(a) and the remainder of the member's final underpin amount are payable to the member without further actuarial adjustment relating to the age at which the benefits are taken.
- (13) When paragraph (7)(a) applies to a member the final assumed benefits for the member are the value of provisional assumed benefits calculated in accordance with paragraph (5) with the following adjustment—
- (a) any revaluation adjustment or index rate adjustment that would have applied to the member's pension under the 2013 Regulations between the member's underpin date and their underpin crystallisation date; and
 - (b) any actuarial adjustment which would have applied under the 2013 Regulations, relating to the age at which the pension was taken.
- (14) When paragraph (7)(a) applies to a member the final underpin amount is the value of the provisional underpin amount calculated in accordance with paragraph (6) but—
- (a) updated to the underpin crystallisation date to include increases which would have applied under the Benefits Regulations by virtue of the Pension (Increase) Act 1971⁽⁶⁰⁾ between a member's underpin date and their underpin crystallisation date; and
 - (b) including any actuarial adjustment which would have applied under the Benefits Regulations relating to the age at which the pension was taken.
- (15) When paragraph (7)(b) or (c) applies to a member the final assumed benefits for the member are the value of provisional assumed benefits calculated in accordance with paragraph (5) with the following adjustment—
- (a) any revaluation adjustment or index rate adjustment that would have applied to the member's pension under the 2013 Regulations between the member's underpin date and their underpin crystallisation date; and
 - (b) any actuarial increase which would have applied under the 2013 Regulations, relating to the age at which the pension was taken.
- (16) When paragraph (7)(b) or (c) applies to a member the final underpin amount is the value of the provisional underpin amount calculated in accordance with paragraph (6) but—
- (a) updated to the underpin crystallisation date to include increases which would have applied under the Benefits Regulations by virtue of the Pension (Increase) Act 1971 between a member's underpin date and their underpin crystallisation date; or
 - (b) including any actuarial increase which would have applied under the Benefits Regulations relating to the age at which the pension was taken.
- (17) When paragraphs (7) (d), (e) (i) or (e)(ii) apply to a member the value of the payment due at a member's underpin crystallisation date must be calculated in accordance with actuarial guidance issued by the Secretary of State.

⁽⁶⁰⁾ 1971 c. 56.

- (18) A request for a cash equivalent value of a member's pension rights under Regulation 4 of the Pension Sharing (Valuation) Regulation 2000⁽⁶¹⁾ is not to be treated as a member's underpin date or underpin crystallisation date.
- (19) A request made pursuant to paragraph (18) is to be calculated in accordance with actuarial guidance issued by the Secretary of State.
- (20) Following the death of a person to whom this regulation applies, any provisional guarantee amount applicable at the member's underpin date must be updated to include any revaluation adjustment or index rate adjustment that would have applied to the member's pension under the 2013 Regulations between the member's underpin date and their date of death, and shall be known as the member's adjusted provisional guarantee amount.
- (21) Where, pursuant to paragraph (20), a provisional guarantee amount applied at a deceased member's underpin date, the rate listed in column two of the below table must be applied to the adjusted provisional guarantee amount, to determine the addition to the relevant survivor benefit.

<i>2013 Regulation</i>	<i>Rate</i>
41(4)	49/160
42(4)	49/320
42(5)	49/160
42(9)	49/240
42(10)	49/120
44(4)	49/160
45(4)	49/320
45(5)	49/160
45(9)	49/240
45(10)	49/120
47(4)	49/160
48(4)	49/320
48(5)	49/160
48(9)	49/240
48(10)	49/120

(22) Where, pursuant to paragraph (20), a provisional guarantee amount applied at a deceased member's underpin date, the adjusted provisional guarantee amount must be used in determining the annual amount of pension the member would have been entitled to under regulations 43(3) and 46(3) of the 2013 Regulations.

We consent to the making of these Regulations

Names
Two of the Lords Commissioners of Her Majesty's Treasury

Signed by authority of the Secretary of State for Housing, Communities and Local Government

Name
Parliamentary Under Secretary of State
Ministry of Housing, Communities and Local Government

Date _____

⁽⁶¹⁾ S.I. 2000/1052.

EXPLANATORY NOTE

(This note is not part of the Regulations)

These Regulations amend the Local Government Pension Scheme Regulations 2013 and the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (“the Transitional Regulations”). Both sets of regulations came substantively into effect on 1st April 2014 and certain provisions listed in regulation 1 take effect from that date.

Regulations 2 to 4 amend the Local Government Pension Scheme Regulations 2013.

Regulations 5 and 6 amend the Transitional Regulations in regards to the operation of the underpin.

An impact assessment has not been produced for this instrument as no impact is anticipated on the private or voluntary sectors.

Annex C – The two-stage process

As outlined in paragraphs 61 and 62, we are proposing the introduction of a two-stage process for calculating a qualifying member's entitlement from the underpin. Under this, calculations would take place at a qualifying member's underpin date and their underpin crystallisation date. This annex contains further details on the proposals we set out in our draft regulations.

The underpin date – proposed approach

- A qualifying member's underpin date would be the earlier of:
 - the date they leave active service with an immediate or deferred entitlement to a pension,
 - the date they reach their 2008 Scheme NPA, or
 - the date they die.
- The underpin date would relate to a specific 'relevant scheme membership' – i.e. a single, aggregated (where appropriate), scheme membership in which the member:
 - was active in the LGPS on 31st March 2012,
 - had membership of the 2014 Scheme, and
 - did not have a disqualifying break in service.
- It is possible a qualifying member may have two (or more) relevant scheme memberships. Where this applies, they may have different underpin dates in respect of each one.
- At a qualifying member's underpin date, an initial comparison of the member's 2014 Scheme and 2008 Scheme benefits would be undertaken based on:
 - the member's 'provisional assumed benefits' in a relevant scheme membership – broadly⁶², the career average benefits they have accrued in the 2014 Scheme over the underpin period⁶³, and
 - the member's 'provisional underpin amount' in a relevant scheme membership – broadly, the final salary benefits the member would have built up in the 2008 Scheme over the same period⁶⁴.

⁶² For members who have had a period in the 50/50 section of the 2014 Scheme, the underpin calculation assumes the member remained in the full section of the 2014 Scheme.

⁶³ The underpin period runs from 1st April 2014 to 31st March 2022, or to the member's underpin date where that is earlier than 31st March 2022.

⁶⁴ If the underpin date is after 31st March 2022, the member's final salary for the year up to their underpin date would be used for the purposes of calculating their provisional underpin amount.

- If the provisional underpin amount is higher than the provisional assumed benefits at a qualifying member's underpin date, the member would be awarded a 'provisional guarantee amount' in respect of that relevant scheme membership.
- A provisional guarantee amount is a provisional assessment that the 2008 Scheme benefits would have been better for the member. At a qualifying member's underpin date, there would be no change to their pension entitlement arising from the provisional guarantee amount⁶⁵. However, annual benefit statements sent to the member after their underpin date would confirm if a provisional guarantee amount has applied.
- Qualifying members may have multiple underpin dates in respect of a relevant scheme membership. This may occur where:
 - The member has concurrent employments and ceases to be an active member in one before their 2008 Scheme NPA (in which they have relevant scheme membership). An underpin date would apply at the point the member leaves the LGPS in that post. If the member then aggregates their relevant scheme membership with their ongoing post, a further underpin date would apply at the earlier of the following:
 - the date they leave active service,
 - the date they reach their 2008 Scheme NPA, or
 - the date they die.
 - The member leaves an employment in which they have relevant scheme membership with an immediate or deferred entitlement to a pension. An underpin date would apply at their date of leaving. If the member then re-joins the LGPS and aggregates their membership (without a disqualifying break in service), a further underpin date would apply at the earlier of the following:
 - the date they leave active service,
 - the date they reach their 2008 Scheme NPA, or
 - the date they die.
- Where a qualifying member has multiple underpin dates, it would be their provisional amounts from their latest underpin date that would be used for the purposes of the calculations at their underpin crystallisation date.

⁶⁵ Unless their underpin crystallisation date immediately follows their underpin date – for example, if a member takes immediate payment of their benefits upon leaving the scheme.

The underpin crystallisation date – proposed approach

- As the period between a qualifying member’s underpin date and the date they take their benefits from the LGPS could be as much as 30 or 40 years, we propose that all qualifying members have an underpin crystallisation date in respect of a relevant scheme membership. This would ensure the comparison can be made when there is certainty on the final actuarial adjustments that might be applied, and in respect of the member’s State Pension age.
- A variety of circumstances would give rise to a qualifying member’s underpin crystallisation date and, in general⁶⁶, a qualifying member can only have one underpin crystallisation date in respect of a relevant scheme membership. A qualifying member’s underpin crystallisation date would be the earliest of the following in respect of a relevant scheme membership:
 - the date a member takes voluntary payment of their pension, at any age between 55 and 75,
 - the date a member takes flexible retirement,
 - the date a member aged 55 or over leaves active membership as a result of redundancy, or due to business efficiency,
 - the date a member retires on ill-health grounds,
 - the date a member transfers out or trivially commutes their benefits, or
 - the date a member dies.
- What happens at a qualifying member’s underpin crystallisation date would vary, and is described in more detail for each circumstance in ‘the revised underpin – application’ section in the body of this document. In most cases, however, it would involve a member’s provisional underpin amount and their provisional assumed benefits being updated to give a member’s ‘final underpin amount’ and their ‘final assumed benefits’. How the provisional figures are updated to become final figures would vary depending on the circumstance. The below table summarises what is proposed to apply under the draft regulations.

Circumstance giving rise to a member’s underpin crystallisation date	How provisional underpin amount and provisional assumed benefits calculated at a qualifying member’s underpin date are updated at a member’s underpin crystallisation date

⁶⁶ An exception applies in relation to members who receive a temporary (tier 3) ill-health pension. For such members, they will have an underpin crystallisation date upon receiving their temporary ill-health pension and then a subsequent one when their underpin crystallises from ‘deferred pensioner’ status.

Voluntary age retirement or flexible retirement	<ul style="list-style-type: none"> • To include any cost of living increases that would have applied to the member's pension under the 2008 or 2014 Schemes between the member's underpin date and their underpin crystallisation date, and • To include any actuarial adjustments relating to the member's age, that would have applied under the 2008 or the 2014 Schemes.
Redundancy ⁶⁷ and ill-health pension being paid (from active or deferred status)	<ul style="list-style-type: none"> • To include any cost of living increases that would have applied to the member's pension under the 2008 or 2014 Schemes between the member's underpin date and their underpin crystallisation date, and • To include any actuarial increases relating to the member's age, that would have applied under the 2008 Scheme and 2014 Scheme.

- Where a qualifying member's final underpin amount is higher than their final assumed benefits at their underpin crystallisation date, the member would be awarded a 'final guarantee amount' in respect of that relevant scheme membership. An addition would be made to their pension account in respect of that final guarantee amount.
- For certain types of underpin crystallisation, the draft regulations do not prescribe that members' provisional underpin amount and provisional assumed benefits are updated to give 'final' amounts. This applies in the following cases:
 - Transfers out – instead, administrators would need to comply with actuarial guidance issued by the Secretary of State, and the Public Sector Transfer Club memorandum, where appropriate
 - Trivial commutations – instead, administrators would need to comply with actuarial guidance issued by the Secretary of State
 - Deaths – instead, the regulations prescribe what should apply in relation to any survivor benefits that may be payable.

⁶⁷ Including termination on grounds of business efficiency

Annex D – Illustrative examples

This annex provides examples to illustrate how the proposed underpin would operate in different situations. These examples illustrate some (but not all) of the factors which may impact whether or not an underpin addition may apply in different situations.

The examples shown are:

1. Retirement from active service at age 65
2. Retirement from active service at State Pension age ('SPa')
3. Early retirement from active service at age 60
4. Deferred retirement with no underpin at underpin date
5. Deferred retirement with an underpin at underpin date

All the examples are based on a member aged 47 in 2012, who did not receive underpin protection originally. This member has a 2014 Scheme normal pension age equivalent to their SPa under the current timetable, 67.

The examples rely on the following assumptions:

- The pension calculated is the pension accrued over the underpin period (1st April 2014 to 31st March 2022), as payable at retirement. In practice, such members will also have pension relating to pre-2014 and post-2022 periods which is not considered here.
- Inflation reflects actual experience up to 2020, with 2% pa assumed thereafter; increases are applied on 1 April.
- Salary increases, promotions and retirements occur on 31st March in the relevant year.
- The current State Pension age timetable is followed.
- The pension amounts are in nominal terms at retirement.
- The amounts are shown rounded to the nearest £10.

Please note that these examples are for illustrative purposes only. Generally, they only consider one of the key variables which may impact how the proposed underpin would apply to a member, in practice other variables may also be significant. The comparisons are based on the pension payable at retirement.

Example 1 (retirement at age 65)

In 2012 the member was aged 47, and so did not receive underpin protection originally. However, under our proposals, an underpin check would be undertaken to ensure that their benefits in the eight year underpin period are the greater of either:

2014 Scheme	2008 Scheme
1/49 ^h of revalued salary each year Payable unreduced from State Pension age	1/60 th of final salary each year Payable unreduced from age 65

In this example the member's underpin date will be the same as the underpin crystallisation date and, practically, only one check will be required.

As the member is taking their benefits immediately upon leaving, we can adjust the 2014 Scheme pension to allow for this being paid two years earlier than their 2014 Scheme normal pension age (age 67). No adjustment would be required in this example for the calculation of the 2008 Scheme benefit (as this would be paid without adjustment from age 65).

If the member had a **salary of £30,000 in 2014**, experiences future annual **salary increases of 1% above inflation** and **retires at age 65**, their pensions over the underpin period would be as follows:

2014 Scheme (age 65): £6,100 pa	2008 Scheme (age 65): £6,060 pa
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In this example the member's 2014 Scheme benefits are higher and there would be **no underpin addition required**.

Alternatively

If the member was promoted twice, receiving **an additional 5% salary increase** at the end of the underpin period **and an additional 5% salary increase** five years later, the underpin is now more than the age-adjusted 2014 Scheme pension at age 65:

2014 Scheme (age 65): £6,100 pa	2008 Scheme (age 65): £6,670 pa
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The **final guarantee amount** is the difference between these two amounts which equals £570. Following high salary increases the 2008 Scheme benefit structure becomes relatively more valuable and hence an **underpin addition** would be required. The 2014 Scheme benefit would be increased by the underpin addition of £570 per year.

Example 2 (retirement at SPa)

In 2012 the member was aged 47, and so **did not receive underpin protection originally**. However, under our proposals, an underpin check would be undertaken to ensure that their benefits in the eight year underpin period are the greater of either:

2014 Scheme

1/49^h of revalued salary each year
Payable unreduced from State Pension age

2008 Scheme

1/60th of final salary each year
Payable unreduced from age 65

In this example the member's underpin date will be when the member reaches age 65. At the underpin date the 2014 Scheme and 2008 Scheme benefits will be compared (with no allowance for actuarial adjustment).

If the member has the same **salary of £30,000 in 2014**, experiences future annual **salary increases of 1% above inflation** and **retires at Spa** (67, in this case), the comparison at the underpin date is as follows:

2014 Scheme (age 65):
£6,770 pa

2008 Scheme (age 65):
£6,060 pa

The check at the underpin date shows the 2014 Scheme benefits are greater than the 2008 Scheme benefits and therefore **no 'provisional guarantee amount'** is required.

A subsequent test will be carried out at the member's underpin crystallisation date, their retirement age, SPa (age 67), when the revalued pension amounts and correct actuarial adjustment factors are known. In both cases the provisional assumed benefits and provisional underpin amount will be revalued in line with cost of living between age 65 and retirement. No actuarial adjustment will be required for the 2014 Scheme benefit, however the 2008 Scheme benefit is increased by two years late retirement factors:

2014 Scheme (SPa):
£7,040 pa

2008 Scheme (SPa):
£6,770 pa

For this member **no underpin addition** would be required.

Alternatively

However, if the member was promoted twice, receiving **an additional 5% salary increase** at the end of the underpin period **and an additional 5% salary increase** five years later, the comparison at the underpin date (age 65) is now:

2014 Scheme (age 65):
£6,770 pa

2008 Scheme (age 65):
£6,670 pa

The check at the underpin date shows **no 'provisional guarantee amount'** is required.

A further check would be undertaken when the member takes their pension at their underpin crystallisation date, SPa (age 67). This check shows that once revaluation and different actuarial adjustments are allowed for the 2008 Scheme benefits are higher and the difference or **final guarantee amount** would be £400. The member's 2014 Scheme benefit would be increased by an **underpin addition** of £400 per year.

2014 Scheme (SPa):
£7,040 pa

2008 Scheme (SPa):
£7,440 pa

Example 3 (early retirement)

In **2012 the member was aged 47**, and so **did not receive underpin protection originally**. However, under our proposals, an underpin check would be undertaken to ensure that their benefits in the eight year underpin period are the greater of either:

2014 Scheme

1/49^h of revalued salary each year
Payable unreduced from State Pension age

2008 Scheme

1/60th of final salary each year
Payable unreduced from age 65

In this example the member's underpin date will be the same as the underpin crystallisation date and, practically, only one check will be required.

As the member is taking their benefits immediately upon leaving, we can adjust the 2014 Scheme pension to allow for this being paid seven years earlier than the 2014 Scheme normal pension age (SPa, age 67); and the 2008 Scheme benefits are also reduced to reflect that this is being paid five years earlier.

If the member had a **salary of £30,000 in 2014**, experiences future annual **salary increases of 1% above inflation** and **retires at age 60**, their pensions over the underpin period would be as follows:

2014 Scheme (age 60):
£4,350 pa

2008 Scheme (age 60):
£4,070 pa

In this example the member's 2014 Scheme benefits are higher and there would be **no underpin addition** required.

Alternatively

If the member was promoted twice, receiving **an additional 10% salary increase** at the end of the underpin period **and an additional 5% salary increase** five years later, the 2008 Scheme benefit is now more than the 2014 Scheme pension at age 60:

2014 Scheme (age 60):
£4,350 pa

2008 Scheme (age 60):
£4,460 pa

Following high salary increases the 2008 Scheme benefit structure becomes relatively higher and hence an **underpin addition** would now be required. The 2014 Scheme benefit would be increased by £110 pa.

Example 4 (retirement from deferment #1)

In 2012 the member was aged 47, and so did not receive underpin protection originally. However, under our proposals, an underpin check would be undertaken to ensure that their benefits in the eight year underpin period are the greater of either:

2014 Scheme	2008 Scheme
1/49 ^h of revalued salary each year Payable unreduced from State Pension age	1/60 th of final salary each year Payable unreduced from age 65

The example shows how the underpin check would work where the member leaves service at age 58 (with a deferred pension) which they subsequently draw at age 67. Under our proposals, an initial underpin check would be undertaken at the date of leaving active service (their underpin date) which would compare the 2014 Scheme benefits with the 2008 Scheme benefits over the underpin period. This comparison would not consider the effect of actuarial adjustments for age, as these would not be known at the member's underpin date.

If they had a **salary of £30,000 in 2014**, experience future annual **salary increases of 1% above inflation until leaving the scheme at age 58**, the pensions over the underpin period would be as follows:

2014 Scheme: £5,890 pa	2008 Scheme: £4,930 pa
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The check at the underpin date shows the 2014 Scheme benefits are greater than the 2008 Scheme benefits and **no 'provisional guarantee amount'** is required.

A subsequent underpin crystallisation test will be carried out when the member takes their pension at SPa (age 67), when the final revalued amounts and correct actuarial adjustment factors are known. In both cases the pension amounts will be revalued in line with cost of living between age 58 and retirement. No further actuarial adjustment will be required for the 2014 Scheme benefit, however the 2008 Scheme benefit is increased by two years' late retirement factors:

2014 Scheme (SPa): £7,040 pa	2008 Scheme (SPa): £6,320 pa
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In this example the member's 2014 Scheme benefits are higher and there would be **no underpin addition** required.

Alternatively

If the member was promoted twice, receiving **an additional 5% salary increase** halfway through the underpin period and **an additional 10% salary increase** at the end of the underpin period, the calculations at the underpin date would show the 2014 Scheme benefits are higher:

2014 Scheme:
£6,040 pa

2008 Scheme:
£5,670 pa

A further test would be undertaken at the underpin crystallisation date; when the member retires (SPa, age 67). This check shows that once revaluation and different actuarial adjustments are allowed for the 2008 Scheme benefits are higher and the difference or **'final guarantee amount'** would be £50.

2014 Scheme (SPa):
£7,220 pa

2008 Scheme (SPa):
£7,270 pa

Following high salary increases the 2008 Scheme benefit structure becomes relatively more valuable and hence an underpin addition would now be required. The 2014 Scheme benefit would be increased by £50 pa.

Example 5 (retirement from deferment #2)

In 2012 the member was aged 47, and so **did not receive underpin protection originally**. However, under our proposals, an underpin check would be undertaken to ensure that their benefits in the eight year underpin period are the greater of either:

2014 Scheme	2008 Scheme
1/49 ^h of revalued salary each year Payable unreduced from State Pension age	1/60 th of final salary each year Payable unreduced from age 65

This example shows how the underpin check would work where the member leaves service at age 63 (with a deferred pension) which they subsequently draw at age 67. Under our proposals, an initial underpin check would be undertaken at the date of leaving active service (their underpin date) which would compare the 2014 Scheme benefits with the 2008 Scheme benefits over the underpin period. This comparison would not consider the effect of actuarial adjustments for age, as these would not be known at the member's underpin date.

If the member has a **salary of £30,000 in 2014**, experiences future annual **salary increases of 1% above inflation**, an **additional 10% salary increase** halfway through the underpin period and an **additional 10% salary increase** at the end of the underpin period until **leaving the scheme at age 63**, the relative pensions over the underpin period would be as follows:

2014 Scheme: £6,830 pa	2008 Scheme: £6,870 pa
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In this example there is a '**provisional guarantee amount**' of £40 pa.

A subsequent test will be carried out at the member's underpin crystallisation date, their retirement age, SPa (age 67), when the final revalued amounts and correct actuarial adjustment factors are known. In both cases the pension amounts will be revalued in line with cost of living between age 63 and retirement. No further actuarial adjustment will be required for the 2014 Scheme benefit, however the 2008 Scheme benefit is increased by two years' late retirement factors:

2014 Scheme (SPa): £7,390 pa	2008 Scheme (SPa): £7,980 pa
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This check shows that once revaluation and different actuarial adjustments are allowed for, the 2008 Scheme benefits are higher and the difference or **final guarantee amount**

would be £490. The member's 2014 Scheme benefit would be increased by an **underpin addition** of £490pa.

This again illustrates that following high salary increases the 2008 Scheme benefit structure can become relatively more valuable than the 2014 Scheme benefit, and also how the required underpin addition can change between a member's underpin date and their underpin crystallisation date.

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