

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Panel:	Pension Fund Panel and Board
Date:	27 September 2019
Title:	Governance: Pension administration issues
Report From:	Director of Corporate Resources

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Purpose of this Report

1. The purpose of this report is to seek the Panel and Board's approval for the approach taken to address two separate administration issues.

Recommendation(s)

2. It is recommended that the Panel and Board:
 - Approve the inclusion of an amount to cover the expected costs of the McCloud remedy and impact of GMP equalisation in the calculation of exit positions for employers leaving the Fund, as outlined in paragraph 12.
 - Approve the approach taken to determining the administering authority's vote on the proposed Equitable Life transfer, and
 - delegate to the Director of Corporate Resources the authority to vote on the proposed Equitable Life transfer in accordance with the preferences indicated by scheme members.

Executive Summary

McCloud and GMP equalisation

3. Following the Treasury announcement in July that remedies relating to the McCloud judgement will need to be made in relation to all public service pension schemes, LGPS funds have to consider whether to include an amount for the cost of implementing the remedy in calculation of employer contributions at the 2019 valuation. An amount also could be included to cover the costs of GMP equalisation, which are also unknown at this point.

4. The Fund Actuary has advised that in advance of the valuation, an amount for both McCloud and GMP equalisation should be taken into consideration in the calculation of the exit position for any employers who leave the Fund. Until a remedy is agreed, this amount will need to reflect a prudent estimate of the likely additional costs as once an employer has left the Fund, no further contributions can be certified for them.
5. The Funding Strategy Statement (FSS) will be updated to reflect the inclusion of an amount to cover both the McCloud remedy and the likely costs of GMP equalisation in the calculation of employer exits. However as the FSS will not be finalised until December (in line with the valuation timetable) in the interim, the Pension Fund Panel and Board are asked to approve the inclusion of an amount to cover the McCloud remedy and GMP equalisation for any employer exit calculated from 27 September.

Equitable Life transfer

6. Equitable Life is one of the Fund's AVC providers, and has proposed a transfer of its business to Utmost Life and Pensions Ltd. As part of the proposal, with-profits AVC funds will receive a one off uplift but will lose their guaranteed amount. The transfer will only go ahead if a majority of policy holders vote in favour of the transfer, and the administering authority needs to cast its vote on behalf of its scheme members.
7. It is proposed that the Fund splits its vote in proportion to the preferences of scheme members who hold a with-profits AVC with Equitable Life.

McCloud and GMP equalisation

8. LGPS funds are facing uncertain costs in relation to both the McCloud remedy and the impact of GMP equalisation. It is therefore prudent for the Fund Actuary to include an amount for these costs when setting employer contributions and when calculating the exit positions for any employers leaving the Fund before the actual impact is known.
9. As part of the triennial valuation, the Funding Strategy Statement (FSS) is being updated to allow for the changes in assumptions, as well as the changes to the way in which employers are grouped for funding purposes. The FSS will also be drafted to include a section on the way in which McCloud and GMP equalisation will be taken into account in the calculation of employer exit positions.
10. The draft updated FSS will be ready to be issued to employers for consultation following the Annual Employer Meeting on 18 October, prior to the Pension Fund Panel and Board approving the final version at their meeting in December. This is in line with the normal valuation timetable.

11. In the interim before the FSS is approved in December, the Panel and Board are asked to approve the Fund Actuary including an amount in the calculation of employer exits which take place before the revised FSS is in place. This would impact on any exit calculated after 27 September.
12. The actuary has advised that the impact of the McCloud and GMP equalisation will increase the liabilities, although the amount of any increase will not be known until a remedy has been agreed (in the case of McCloud) and the Government has finalised the approach to GMP equalisation and indexation. In order to provide some protection for the employers remaining in the Fund, future exit payments will be calculated assuming that McCloud will lead to a 0.4% increase in the liabilities, and GMP indexation will be provided for in full for all of the employer's members whose State Pension Age is on or after 1 April 2016. This is equivalent to 0.3% of liabilities on average, but could be in excess of 1% of the employer's total liabilities on exit in extreme cases.
13. The approach and allowance will be subject to review on an annual basis or earlier if further information which may affect the additional liabilities becomes available and may be varied on the advice of the Actuary if the employer's membership profile suggests this allowance could materially understate the additional liabilities.

Equitable Life transfer - background

14. Hampshire County Council as the Administering Authority for the Hampshire Pension Fund is the group policy holder for the Equitable Life in-house AVC plan. Within the plan, there are 175 scheme members with an AVC, of which 98 have a with-profits policy that provides a guaranteed amount.
15. On 15 June 2018, Equitable Life announced that it has entered into an agreement to transfer its business to Utmost Life and Pensions (previously Reliance Mutual).
16. The proposal will mean the withdrawal of the guaranteed amount for with-profits policy holders. Under the proposal, Equitable Life will:
 - Increase With-Profits Policy Values with an immediate, one-off Uplift
 - Remove any Investment Guarantees, (including any guaranteed annual increases) and any With-Profits Switching Rights
 - Convert all With-Profits Policies to Unit-Linked Policies

The business will then transfer to Utmost Life and Pensions Ltd, who would then hold the AVC plans on behalf of affected scheme members. The proposal does not impact on the LGPS benefits for scheme members, or on how they can use their in-house AVC fund at retirement.

17. The proposal will only go ahead if a majority of policy holders vote in favour at the Annual General Meeting on 1 November 2019. The deadline for the receipt of postal and online votes is 10am on 30 October 2019.
18. Equitable Life have provided information at scheme member level to show the likely impact of its proposal. These illustrations show that all scheme members would be better off under the proposal under a high or medium projection of likely investment returns, but most would be worse off under the low return projection. Scheme members without a with-profits policy would not be better or worse off under the proposal, and would simply see a change in provider.
19. As the policy holder, it is the Administering Authority who has to vote in favour of or against the proposal, but the vote can be split to reflect the preferences of scheme members. Affected scheme members have been contacted to provide them with information about the proposal including how it might affect the value of their AVC funds. Members who have a with-profits AVC are being asked to indicate how they wish the Fund to cast its vote.
20. The Pension Fund Panel and Board are asked to approve this approach of using scheme member preference to determine the use of the Fund's vote, and to delegate to the Director of Corporate Resources the authority to cast the Fund's vote in line with the responses received from scheme members.

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

Hampshire maintains strong and sustainable economic growth and prosperity:	yes/no
People in Hampshire live safe, healthy and independent lives:	yes/no
People in Hampshire enjoy a rich and diverse environment:	yes/no
People in Hampshire enjoy being part of strong, inclusive communities:	yes/no
OR	
This proposal does not link to the Strategic Plan but, nevertheless, requires the Pension Fund Panel and Board to approve an approach on behalf of the administering authority.	

Section 100 D - Local Government Act 1972 - background documents

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

Document

Location

None

EQUALITIES IMPACT ASSESSMENT:

1. Equality Duty

The County Council has a duty under Section 149 of the Equality Act 2010 ('the Act') to have due regard in the exercise of its functions to the need to:

- Eliminate discrimination, harassment and victimisation and any other conduct prohibited by or under the Act with regard to the protected characteristics as set out in section 4 of the Act (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation);
- Advance equality of opportunity between persons who share a relevant protected characteristic within section 149(7) of the Act (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic within section 149(7) of the Act (see above) and persons who do not share it.

Due regard in this context involves having due regard in particular to:

- The need to remove or minimise disadvantages suffered by persons sharing a relevant protected characteristic that are connected to that characteristic;
- Take steps to meet the needs of persons sharing a relevant protected characteristic that are different from the needs of persons who do not share it;
- Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.

2. Equalities Impact Assessment:

Equality objectives are not considered to be adversely affected by the information in this report as it affects all scheme members.