

LGPS Update

Report of the County Treasurer

Please note that the following recommendations are subject to consideration and determination by the Board before taking effect.

Recommendation: that the Board be asked to note the developments in the LGPS

~~~~~

### **1. Summary**

- 1.1 This report is brought to the Pension Board to provide an update on the latest developments affecting the LGPS.

### **2. £95k Exit cap removed**

- 2.1 Legislation implementing the £95K exit cap was put in place and effective from 4<sup>th</sup> November 2020 despite consultations on making changes to the LGPS regulations still being active. This resulted in the impossible position of the LGPS regulations being in conflict with the new legislation.
- 2.2 On 12<sup>th</sup> February 2021 the Government revoked parts of the new legislation citing that 'after extensive review of the application of the cap, the government has concluded that the cap may have had unintended consequences.' The exit cap was effectively removed and unreduced pension benefits should now be paid and full strain costs requested from employers for retirements from 4<sup>th</sup> November 2020.
- 2.3 The Government has stated that it plans to legislate again to tackle unjustified exit payments. We expect that next time legislation implementing the cap and amended LGPS regulations will be effective from the same date.

### **3. Guaranteed Minimum Pension Indexation**

- 3.1 The old state pension scheme that ran between 1978 and 2016 was made up of a basic pension plus an additional pension which was based on your earnings.
- 3.2 Employers which offered defined benefit occupational pension schemes could "contract-out" their employees from the Additional Pension (AP), as long as the scheme provided a Guaranteed Minimum Pension (GMP). In doing this, the employees effectively gave up their right to most elements of the AP. In

return, both the employee and employer paid reduced National Insurance contributions. However, a contracted-out member still had an entitlement to receive indexation of their AP as part of their State Pension, to the extent that the indexed AP was equal to or greater than their GMP (allowing for indexation up to 3% payable by the scheme on any GMP earned between 1988-1997).

- 3.3 Pensions accrued in respect of pensionable service rendered after 16 May 1990 have to be equal regardless of sex. However, GMPs give rise to inequalities between men and women for a number of reasons, including different GMP ages and accrual rates for men and women. Under the old State Pension system, public service pensions and the AP operated together to provide a mechanism that equalised public service pension payments.
- 3.4 In April 2016 the new state pension scheme came into effect in an attempt to simplify the state pension system. The new scheme has done away with any earnings related additional pensions and is now based on just a basic state pension allowance. The mechanism for paying any indexation of GMP through the state pension system was lost. An interim solution was put in place for members of public sector schemes reaching state pension age between 1<sup>st</sup> April 2016 and 31<sup>st</sup> March 2021 that the public sector schemes would pay the full indexation on any GMP elements.
- 3.4 Following a consultation on GMP indexation held last year, the government has now decided to make the full indexation arrangement permanent. This will negate the need for the public sector funds to undertake a GMP equalisation/conversion project.

#### **4. Increase to the minimum retirement age**

- 4.1 On 11<sup>th</sup> February 2021 the HM Treasury published a consultation on increasing the minimum retirement age from 55 to 57 in April 2028. The government consulted on this back in 2014 as part of the Freedom and Choice changes and stated their intention to link the minimum retirement age to 10 years lower than the state pension age which will rise to 67 in April 2028.
- 4.2 The consultation therefore re affirms the government intention, though there appears to be some protection for those members who already have a right to retire at 55. We will await the developments with this and how it is implemented in the LGPS regulations but potentially we could see differing minimum retirement ages for members depending on when they joined the LGPS.

## **5. Conclusion**

- 5.1 The Pension Board is asked to note the issues and developments of the LGPS outlined in the report.

Mary Davis  
County Treasurer

Electoral Divisions: All

Local Government Act 1972:  
List of Background Papers: Nil  
Contact for Enquiries: **Charlotte Thompson**  
Tel No: **01392 381933** Room: **G99**