DF/23/48
Devon Pension Board
18th April 2023

LGPS Update

Report of the Director of Finance and Public Value

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

---

1) Recommendation

That the Board be asked to:

(a) Note the developments affecting the LGPS

2) Introduction

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

3) Annual Revaluation

3.1 On 9 March 2023, the Department for Levelling Up, Housing and Communities (DLUHC) laid the LGPS (Amendment) Regulations 2023 ('the regulations'). The regulations move the annual revaluation date from 1 April to 6 April. The regulations are effective from 31 March 2023.

3.2 The regulations remove the impact of inflation on the annual allowance calculation. They do so by changing the annual revaluation date from 1 to 6 April 2023, and thereafter on each 6 April, for all members.

3.3 From the tax year 2023/24 onwards, the inflationary increase used in the AA calculation and the annual revaluation will both use the same CPI figure. For the tax year 2023/24 this will be 10.1 per cent. Without changes to scheme regulations, there would be a significant increase in the number of LGPS members breaching the annual allowance and potentially incurring a tax charge

4) The Spring Budget

4.1 It was announced in the recent Spring Budget that important changes to the Annual Allowance (AA) and the Lifetime Allowance (LTA) would take affect from April 2023.

4.2 The AA and LTA were introduced in 2006 as mechanisms for limiting tax-favoured pension savings in registered pension schemes. There is no limit on the tax relief provided but it is recouped by charges when the AA and LTA are exceeded. The limits have changed many times but for the 2022/23 tax year they stood at £40k for the Annual Allowance (with tapering starting with earnings over £240k) and £1,073,100 for the Lifetime Allowance.

4.3 Legislation will be introduced in Spring Finance Bill 2023 to:

- Increase the annual allowance (AA) from £40,000 to £60,000
- Increase the Money Purchase AA from £4,000 to £10,000
- Increase the income level for the tapered AA to apply from £240,000 to £260,000
- Ensure that nobody will face an Lifetime allowance (LTA) charge from April 2023
- Limit the maximum an individual can claim as a PCLS to 25% of the current LTA (£268,275), except where protections apply
- Change the taxation of the LTA excess lump sum, serious ill-health lump sum (SIHLS), defined benefits lump sum death benefit (DBLSDB), and uncrystallised funds lump sum death benefit (UFLSDB), where they are currently subject to a 55% tax charge above the LTA, to taxation at an individual's marginal rate;

4.4 Legislation will be introduced in a future Finance Bill to remove the LTA from pensions tax legislation.

5) The SCAPE discount rate

5.1 The SCAPE discount rate is used to set the employer contribution rates in the unfunded public service pension schemes (PSPS) and determine the actuarial factors across all Public Sector pension schemes including the LGPS

5.2 The scape discount rate reduced on 30 March 2023 to the consumer price index (CPI) plus 1.7 per cent. This is a change from CPI plus 2.4 per cent. This will have the effect of increasing non club transfer values out of the fund whilst also reducing the benefits purchased by any incoming non club transfers in.

5.3 DLUHC have confirmed the following calculations should be immediately suspended until new factors are issued:

• certain non-club transfers and interfund / intrafund calculations

• certain non-club cash transfer sums

• all cash equivalent values (CEV) for divorce.

5.4 DLUHC will issue new transfer factors in April / May. They have also confirmed the remainder of the Scheme's actuarial factors will be amended in due course. Their intention is to introduce revised factors over a four-month period starting in April 2023.

6) State Pension Age review

6.1 The Government is required to undertake a regular review of the State Pension age in accordance with the Pensions Act 2014 and on 30th March 2023 the DWP published its latest review.

6.2 The State Pension age (SPa) is currently age 66 and will rise to age 67 between 2026 and 2028 before rising again to age 68 between 2044 and 2046. At the first review in 2017, the Government accepted the recommendation that the State Pension age should rise to age 68 over the period 2037 to 2039; however, it outlined this would be subject to further review.

6.3 The 2023 review confirms the rise to age 67 between 2026 and 2028 is still appropriate. However, the Government does not intend to change existing legislation to implement any changes to the timetable for the rise to age 68 at the current time. It plans to have a further review within two years of the next Parliament to consider whether the rise to age 68 should occur earlier. The Government must publish the report no later than 29 March 2029.

5) Conclusion

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

Angie Sinclair
Director of Finance and Public Value

Electoral Divisions: All

Local Government Act 1972: List of background papers

Nil

Contact for enquiries:
Name: Charlotte Thompson
Telephone: 01392 381933
Address: Room 180 County Hall