

**PENSIONS COMMITTEE**  
**14 DECEMBER 2015****PENSION ADMINISTRATION UPDATE**

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**Recommendation**

- 1. The Head of Human Resources and Organisational Development recommends that the general update from the Administering Authority be noted.**

**Ceasing of contracting Out from April 2016**

2. From 6 April 2016 the Government will introduce a new state pension which will replace the current multi-tier arrangements for new pensioners.
3. Currently the basic state pension is supplemented either by additional state pension (ASP) paid for by national insurance (NI) contributions or by occupational contracted out pension schemes (OCOPS) like the LGPS.
4. In return for the employer providing an OCOPS in place of ASP, both employers and employees receive a rebate on their NI contributions. The current employer NI rebate of 3.4% and 1.4% for employees will cease.
5. The result of the introduction of the new state pension means there is no requirement for an alternative to ASP so contracting out status ceases and the NI rebate stops.

**Tax changes from April 2016**

6. Announcements in the Summer 2015 budget will potentially impact on the tax paid by LGPS members.

**Annual Allowance (AA)**

7. The AA is currently set at £40k a year and is the maximum amount of taxed-relieved pension savings an individual can make in one year before receiving a tax charge. From April 2016 an AA taper will come into force.
8. Tapered reduction in AA down to a minimum £10K for those earning over £150K for the tax year 2016/17 onwards.
9. Alignment of pension input period (PIP) to tax year for 2016/17 onwards. (Currently 1 April to 31 March).
10. Transitional rules for aligning PIP to protect pre budget pension savings from the impact of changes.

### Lifetime Allowance (LTA)

11. LTA reduces from £1.25m to £1m from April 2016. There will be two new transitional protections introduced alongside the reduction for members with pension savings close to or exceeding £1m.
12. Full details will be delivered in the Finance Bill and will not be known until after April 2016.

### **Negative Pensions Increase**

13. The September Consumer Prices Index (CPI) is used for the LGPS for calculating increases in pension benefits the following April. The September 2015 CPI was -0.1%. For those who have already retired/left service, there will be no increases to benefits from April 2016.
14. For members in service, post 2014 CARE benefits could be reduced if HM Treasury chose to use their powers under legislation. Treasury have referred the matter to the House of Lords for a decision.
15. The very low CPI figure will also have an effect on the 2016/17 AA calculations.

### **Current Government Consultations**

#### Exit payments and potential clawback

16. The Government intends to introduce an "exit cap" on the total amount a public sector worker could receive on redundancy. This is to include costs related to early access to pension benefits including actuarial strain for the LGPS.

#### Pensions Tax

17. The Government also announced a consultation on future pension taxation. Please find attached Mercer papers on taxation and current issues.

### **Pensions Administration Forum**

18. The Forum met at County Hall on 24 November 2015, with 46 attendees from 40 employers. The Agenda included:

#### Open Debate for Employers:

- a) Theme: Affordability (inc. future viability, determination of rates, deficit and funding strategy to reduce).
- b) Any other areas for discussion? (time permitting)

#### Administration Update:

- c) Ceasing of Contracting Out from April 2016
- d) Tax changes wef April 2016
- e) End of Year Workshop – 2016
- f) Investment Update
- g) Committee Update

19. Mercers, our Actuary led the open debate and employers had the opportunity to ask questions regarding the forthcoming triennial valuation with Mercers and Sean Pearce the Chief Financial Officer.

20. Feedback at the meeting was positive and we are seeking more 'themes' for future debates. Copies of the slides have been sent to the employers and the 2016 dates will be issued before Christmas.

### **Admissions to the Fund**

21. Following outsourcing of Worcestershire County Council services Place Partnership were admitted to the Fund on 1 September 2015 and Babcock on 1 October 2015. Work is currently underway on the admission for Liberata UK in respect of HR/Finance services.

### **Contact Points**

#### County Council Contact Points

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#### Specific Contact Points for this report

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### **Supporting Information**

- Appendix - Mercer papers on taxation and current issues

### **Background Papers**

In the opinion of the proper officer (in this case the Head of Human Resources and Organisational Development) there are no background papers relating to the subject matter of this report.