

FALKIRK COUNCIL

Subject: PENSION FUND – GENERAL GOVERNANCE MATTERS
Meeting: PENSIONS COMMITTEE
Date: 7 MARCH 2013
Author: CHIEF FINANCE OFFICER

1. INTRODUCTION

1.1 This report updates the Pensions Committee on various matters associated with the business of Falkirk Council Pension Fund.

2. AUTO ENROLMENT

2.1 The Government's Workplace Pensions Initiative – Auto-enrolment – came into effect on 1st October, 2012. The legislation requires Fund employers to enrol certain employees into the pension scheme when certain trigger points are met.

2.2 Auto enrolment is being introduced on a phased basis with larger employers being the first to be subject to the new rules. Falkirk Council, with a staging date of 1st April, 2013, will be the first employer in the Fund to have to apply the new rules.

2.3 A training event was hosted by the Fund on 1st February, 2013. This was aimed at smaller Fund employers who have auto enrolment staging dates in late 2013 and beyond. The event was well received and complemented an earlier event on 21st September, 2012 which provided training for employers with staging dates in early 2013.

2.4 In preparing for implementation, employers attention is likely to focus on:

- Deciding whether to invoke any transitional measures
- Ensuring that HR/Payroll software is fit for purpose
- Reviewing communication links between Employee/HR/Payroll/Pensions

3. LGPS REGULATIONS MADE

3.1 The Local Government Pension Scheme (Miscellaneous Amendments) (Scotland) Regulations 2012 have been made with effect from 1st February, 2013.

3.2 The regulations make a number of technical changes including amendments to align the scheme with auto enrolment and taxation developments.

3.3 The main amendments are as follows:

- Employees with contracts of less than 3 months can again opt to join the scheme
- The right to aggregate current and former LGPS rights where more than one year has elapsed has been extended to 31/1/2014
- Funds have been given the power to reduce a member's future benefit where that member has asked the scheme to pay an Annual Allowance tax charge on his or her behalf.

4. SINGLE TIER STATE PENSION

4.1 The UK Government has recently published a White Paper - *The Single-Tier Pension: A Simple Foundation for Saving* – which proposes to combine the basic and additional state pensions into a single tier benefit of £144 pw. A review of the proposals by Hymans Robertson is attached at Appendix A.

4.2 The arrangements are to be introduced not earlier than April, 2017. Entitlement to the full pension will require 35 years contributions compared with 30 years at present.

4.3 The national insurance rebate currently enjoyed by employees and employers of contracted-out pension schemes, such as the LGPS, will be discontinued. Broadly speaking, under current national insurance thresholds, this will mean an increase of 3.4% of an individual's earnings between £7,600 and £40,000. It is estimated that for an employer such as Falkirk Council, the cost of abolishing the rebate will be around £4m p.a. This additional cost may now have to be factored in to the LGPS reform negotiations currently taking place between COSLA and the Unions.

4.4 An employee's pre-2017 National Insurance record will be converted into a single-tier starting amount – called the 'foundation amount'. Where the individual has previously been contracted out (i.e. as members of the LGPS will have been), a deduction will be applied to the foundation amount, reflecting the fact that during the period of contracting out lower National Insurance contributions would have been paid.

4.5 As all public sector schemes are contracted out, the proposals will also affect schemes such as the Teachers, Police and Fire Schemes.

5. PRICE INDEXATION

5.1 It was noted at the last Committee meeting that the Office of National Statistics (ONS) was consulting about the way the Retail Price Index (RPI) was being calculated - the concern being that the gap between RPI and CPI was unjustifiably great. As index linked gilts are based on the rate of RPI, then any reduction in RPI could have led to a fall in value of these securities.

5.2 The National Statistician has now announced that RPI will not be changed. This has come as a surprise to the market with index linked gilt prices rising following the news. The National Statistician decided to retain the current RPI formula since, although it would not have been chosen were the ONS constructing a new price index, there was "significant value" in maintaining the continuity of the index.

6. COUNCILLORS PENSIONS

- 6.1 The UK Government has indicated that as far as England and Wales is concerned it intends to remove the option for Councillors to participate in the Local Government Pension Scheme in England and Wales from April, 2014. Councillors who have accrued rights will be allowed to retain these, but no further accrual will be allowed after April, 2014.
- 6.2 A spokesman for the Scottish Public Pensions Agency has stated that there are no plans to exclude Councillors from the LGPS in Scotland.

7. PENSION FUND WEBSITE

- 7.1 A new website has been launched for the Falkirk Council Pension Fund and can be found at www.falkirkpensionfund.org. The site has been developed in conjunction with Hymans Robertson, the Fund's actuaries and is entirely focused on the Local Government Pension Scheme.

8. LOCAL AUTHORITY PENSION FUND FORUM (LAPFF)

- 8.1 Falkirk Council Pension Fund is a member of the LAPFF which is a lobbying group made up of 55 local authority pension funds. The group exists to promote good corporate practices within the companies in which Funds invest.
- 8.2 At the recent business meeting, Councillor Kieran Quinn, chair of Greater Manchester Pension Fund, was appointed chair of LAPFF. Ian Greenwood, who had been LAPFF chair since 2008, was appointed joint vice-chair with Councillor Cameron Rose of City of Edinburgh Council.

9. PARTNERS' PENSIONS

- 9.1 The LGPS was amended in 2009 to enable a pension to be paid to a surviving (unmarried) partner. This was on the condition that the two parties had been in a committed long term relationship of at least two years duration and that a partner's nomination form had been completed in writing.
- 9.2 A recent claim for a partner's pension against the LGPS for Northern Ireland was refused on the grounds that the partner's nomination form had not been completed.
- 9.3 It was contended that the decision breached the rights of the surviving partner under Article 14 of the European Convention on Human Rights (ECHR). The judge agreed and stated that "*It is irrational and disproportionate to impose a disqualifying burden of this kind on the applicant who was indisputably in a qualifying relationship.....In this case the means defeated the aim.*"
- 9.4 The LGPS in Northern Ireland has decided to appeal the decision. If the original judgement stands, there will be repercussions for the way in which the provision of pensions for cohabiting partners operates within the LGPS as well as other public sector schemes.

10. INVESTMENT IN TOBACCO

- 10.1 The practice of local authority pension funds investing in tobacco was the subject of a prominent article in “The Herald” recently.
- 10.2 Falkirk Council Pension Fund has around £21m worth of assets in tobacco stocks held with companies such as British American Tobacco and Japan Tobacco. These companies have been strong performers for the Fund in recent years.
- 10.3 Funds have a duty to act in the best interests of their members. Generally this has been taken to mean that funds should pursue the best financial interest for their members and, traditionally, the best way of achieving this has been to allow Fund Managers to invest in all sectors of the market.
- 10.4 The development of case law, allowing Funds to give greater weight to ethical matters than ever before, means that it may now be possible for Funds to adopt a strategy which excludes investment in tobacco.
- 10.5 The publicity surrounding the tobacco article in The Herald and the resulting political comment is likely to see the issue of Socially Responsible Investment (SRI) remaining in the public eye. In view of this, and allied to the opportunity for review offered by the Fund’s new governance regime, it is suggested that the Pensions Committee at its next meeting, considers a review of the relevant section of the Statement of Investment Principles. To support this review, it is suggested that PIRC, the Fund’s advisers in this field, be invited to deliver a presentation.

11. RECOMMENDATIONS

11.1 The Committee is asked to:

- (i) note the contents of this report; and**
- (ii) to instruct the Chief Finance Officer to provide a report in terms of Paragraph 10.5 to the next meetings of the Panel and Committee.**

Chief Finance Officer

Date: 6 February 2013

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LIST OF BACKGROUND PAPERS

NIL