Pensions

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Pensions Bulletin

McCloud

The Cabinet Office has consulted on the draft regulations needed for the Public Sector Pension Schemes to implement the second phase of the McCloud Remedy.

Most responses agreed to the proposed regulatory and legislative changes that will give affected members a choice of their benefits from 1 April 2015 to 31 March 2022. Members will be able to select either legacy (Pre 2015*) or reformed (After 2015) benefits for this period.

The choice will be given when benefits become payable or, for those with remedy period benefits in payment before 1 October 2023, as soon as is practical once the legislation is in place.

Responses also emphasised ensuring members had sufficient information to understand what the remedy meant, especially in relation to making their choice.

The Cabinet Office will therefore continue with the proposed regulations. These are expected to be laid in Parliament early in September to become effective from 1 October 2023.

*2014 in Local Government

The UK State Pension Triple Lock

The UK state pension triple lock is a policy that guarantees the state pension will increase annually by the *highest* of the following three factors:

Earnings Growth: The state pension rises along with the average increase in wages across the UK.

Price Inflation (CPI): It also adjusts based on the Consumer Price Index, reflecting the cost of living and inflation.

Minimum Increase of 2.5%: Even if the above factors are lower, the state pension will increase by at least 2.5% per year.

This policy aims to provide pensioners with a secure and predictable increase in their state pension, maintaining their purchasing power over time.

The has been criticised because during periods of low wage growth pensions may increase higher than earnings: however GMB thinks that is a good thing as it will help restore the lost purchasing power of UK state Pensions which is one of the lowest in the OECD.

Critics have described the policy as expensive but as far as GMB is concerned its worth every penny, not only to ensure dignity in retirement but also to ensure money circulates in local economies.

Climate Change

Since October 2021, trustees of schemes with assets of £5bn or more have had to comply with climate change governance and reporting requirements, which include producing climate scenario analysis for annual climate reports.

In October 2022, this requirement was extended to include schemes with assets of £1bn or more.

Recent research has criticised some of this climate scenario analysis, suggesting that many models used in financial services significantly underestimate climate change risk.

The Pensions Regulator (TPR) has noted that scientific consensus suggests an increase in global temperatures of 4°C would result in catastrophic biodiversity loss and the collapse of the insurance sector.

While TPR maintains that trustees do not need to be climate experts, it suggests that they should:

- have an appropriate level of knowledge and understanding of climate issues

- undertake regular training and ask for additional training if they do not feel comfortable making decisions based on the information provided
- regularly review the climate-related capabilities of service providers and consider the need for additional advisers or specialist input
- be able to understand the narratives underlying their climate scenarios, the limitations of those scenarios and the assumptions made in their construction
- broadly rationalise the outputs from those scenarios for their scheme
- consider with advisers the use of stress testing and risk analysis to complement their climate scenario input to investment strategy decision making

The GMB adds to this list

- An appreciation of the concept of a **Just Transition***

*The **Just transition** is a framework developed by the trade union to encompass the range of interventions needed to ensure workers' rights and livelihoods when shifting to sustainable production.

The Intergovernmental Panel on Climate Change (IPCC) defines just transition as "A set of principles, processes and practices that aim to ensure that no people, workers, places, sectors, countries or regions are left behind in the transition from a high carbon to a low carbon economy".

We ask all our trustees to be mindful of the above.

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Pensions Bulletin July 2023: Local Govt Pension Scheme

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Many of you may have seen the recent announcement about the West Midlands pension fund making its first investment in a private company through an innovative £25 million fund. The West Midlands Pension Fund has backed the Birmingham-based healthcare company Medmin, which is providing private elective surgery for people with savings and has raised £1.45 million in total. The pension fund has teamed up with the West Midlands Combined Authority to create the £25 million fund and the pair are jointly investing £250,000 in Medmin via their fund manager Midven. The new fund, called the West Midlands Co-Investment Fund, was set up in March and will invest up to £1 million a time in companies based in the region over the next ten years.

The deal comes days after Chancellor Jeremy Hunt announced plans to release as much as £75 billion from UK pension plans for investment into unlisted companies to drive economic growth. As part of the reforms he is consulting on a proposal to set local government schemes an "ambition" of doubling their existing investments in private equity to 10 per cent.

Such cooperations between Local Government Pension Funds and private Bodies are not so unusual. For example, in 2012 Manchester City Council struck a ground-breaking deal in 2012 with the Greater Manchester Pension Fund (GMPF) to build family homes for market rent and sale.

The council provided the land and GMPF funded the house building. This was the first time a council pension scheme had used its finances to support a key council aim of building homes and a string of other council pension funds – including Lancashire, Islington and the West Midlands – followed Manchester's lead.

However, whilst new regulations (introduced in 2016) allow councils to invest more of their pension funds in partnership vehicles (which are traditionally used to deliver infrastructure projects) pension fund trustees still have to make sure their investments generate good returns (although they can accept lower rates for ESG projects that are consistent with their overall investment strategy).

We should bear in mind though that it is the failure of government housing policy rather than potential pension finance, which is holding back affordable housing schemes. Also, social landlords can borrow money at better rates than from pension funds e.g. through banks or bonds and pension funds in any case may prefer to seek greater returns elsewhere. So pension fund investment into such capital scheme is not the panacea it is painted out to be and has not been universally adopted for these reasons.

Further, although we could ask Trustees to support the policy, Pension Funds remain autonomous and are subject to much regulation including those that relate to transparency, openness and accountability as well as compliance with the fiduciary duty to protect members assets and seek returns on

investments in the interest of pension fund (and GMB members). Any such investments would need to bear this in mind.

Jeremy Hunt speech also expressed a desire to release more monies from UK pension schemes to drive economic growth following the former Chancellor George Osborne who introduced a change to Pension Fund regulations to allow them to invest in government infrastructure in 2015.

At the time we welcomed the additional freedoms but we reminded Trustees that, as stated, Pension fund investments remain guided by returns on investments (RoI) rather than a desire to fund government infrastructure which often offered low returns over a longer term despite their security.

The latest proposals are more worrying as the proposed carrot and stick approach simply seems to be a way to use Local Government Pension Scheme funds to fund government policy - the levelling up agenda in particular - without regard for the funds fiduciary duties nor the regulations that demand transparency and accountability. As they stand, we believe they pose a threat to the democratic running of funds and to members pension assets.

Finally the Chancellor is also consulting on a proposal to set local government schemes an “ambition” of doubling their existing investments in private equity to 10 per cent. The short answer is NO! Not unless you show us the evidence that this guarantees a return on our investment.

Pension funds are rightly prudent and cautious with their members monies, we do not follow whims, investors in Thames Water will tell you why!

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Changes to the Annual Allowance (AA) and Lifetime Allowance (LTA)

In March the Chancellor of the Exchequer announced changes to the above; Abolishing the LTA means that you can now put as much money as you like into your pension fund over the course of your working life without it being liable to tax (the previous limit was £1,073,100). Although this seems a high figure an

increasing number of (generally higher paid and long serving) workers were being caught out by it and this incentivised them to either leave the service or retire earlier. This especially impacted on higher paid NHS workers (e.g. Doctors and Consultants) and Local Government Workers (Chief Executives) who often left their employment as a consequence. However, given the small number of people involved this has been described as a giveaway to the rich.

The second move was to increase the AA (the amount you can put into your pension fund tax free each year) from £40,000 to £60,000.

Although the LTA has been abolished the limit on how much you can take from your pension pot as a tax-free lump sum remains the same. Previously it was 25% of the £1,073,100 LTA. This will now be limited to £268,275.

Plug Your State Pension Gap

Under the new State Pension system introduced in April 2016 one typically needs a 35yr National Insurance contribution to qualify for the full state pension (currently £203.85 per week in the new system). Deductions are made for any missing years in your record, but you can remedy the gaps* by paying the missing amounts. Under normal rules it is only possible to plug gaps in your NI Record up to 6 years after the year in question. However, under a special government scheme that expires in April 2025, you can fill them in for any year from 2006.

Bearing in mind that one year's NI contributions (approximately £825) adds an extra 1/35th to your state pension (approximately £303 p.a.) it is certainly worth considering filling any gaps.

You can check your state pension forecast at Check your State Pension forecast - GOV.UK (www.gov.uk)

* Gaps can be caused by for example career breaks (for childcare etc), working abroad or earning a low income

Climate Change

As climate change intensifies investors are paying increasing attention to the environmental, social and governance criteria of pension funds and seeking to make pension fund investment a force for good. The business case for switching is straightforward especially as climate change creates huge financial risk.

The Gender Pensions Gap

The income gap between men and women in retirement varies in each sector; it is between 32% and 44% in the private sector and between 29% and 63% in the 4 big public sector schemes (Civil Service, NHS, Teachers and Local Government). This is unacceptably high and represents an average shortfall of

over £7,000 in annual pension income for women, impacting on women's finances, quality of life and health.

Pensions are overwhelmingly a derivative of pay making this a Trade Union issue. So along with other Trade Unions the GMB is campaigning to:

- Seek a standard definition of the gender pensions gap and publish time series estimates of its size. This would increase the attention given to the issue and encourage action to tackle it.

- Address its causes such as: Lower Salaries, Career Breaks, Unavoidable Child (and other) Care responsibilities, Part Time Work, Auto Enrolment, Menopause, Divorce, State Benefits, Financial Confidence

- Outline Solutions such as: Recognition of caring in the pensions system, better childcare and shared parental leave responsibilities, increased provision of partner pensions, abolish arbitrary financial thresholds that debar entry to the government auto enrolment (AE) scheme and increase employer contributions in the AE scheme.

We will never stop campaigning on this issue!

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