Scheme Advisory Board

HYBRID MEETING – 24 March 2025

ITEM 4 – PAPER B

LGPC update

Background

1. The Local Government Pension Committee (LGPC) is a committee of councillors constituted by the LGA. It represents local authority interests in dealing with Government and others on local government pension issues. Its work is carried out by the LGPC secretariat at the LGA.

2. The LGPC secretariat also provides an advisory and training service to LGPS administering authorities across the UK. The service is funded by a subscription on LGPS authorities and training income.

Consultation on inheritance tax and pensions

3. At the Autumn Budget 2024 the Chancellor announced that from 6 April 2027 most unused pension funds and death benefits will be included within the value of a person's estate for inheritance tax (IHT) purposes.

4. The Government launched a technical consultation on Inheritance tax on pensions: liability, reporting and payment on the same day.

5. Under the current rules, unused pension funds and death benefits are not liable for IHT where the trustees/scheme managers have a discretion in deciding who will receive them.

6. From 6 April 2027, the distinction between discretionary and non-discretionary payments will be removed. For the LGPS, this means LGPS death grants will be subject to IHT from 6 April 2027. If the death grant is paid to a spouse or civil partner no IHT will be payable.

7. The Government is proposing to make pension scheme administrators responsible for paying and reporting to HMRC any Inheritance Tax deducted from an LGPS death grant. Personal representatives will still be responsible for calculating whether any IHT is due and passing on the relevant information to the pension scheme administrator.

Local Government Association, 18 Smith Square, Westminster, London SW1P 3HZ
E SABSecretariat@local.gov.uk W www.lgpsboard.org

8. The consultation closed on 22 January 2025. The response on behalf of the LGA and LGPC was shared with administering authorities in January. Our response concentrated on:

    - the unfairness of active member death grants being scope of inheritance tax when insurance-based products will be out of scope
    - concerns about delays in payment and the financial impact on vulnerable individuals and families, particularly single parent families who would be disproportionately affected
    - how the potential tax implications should be taken into account by administering authorities when they are deciding how to distribute a death grant
    - concerns about interest charges that are likely to apply in complex cases where the administering authority must gather a large amount of information before making their decision
    - the challenge of communicating the changes to members
    - recommending an increase in the limit set out in the Administration of Estates (Small Payments) Act 1965 from £5,000 to £20,000, a change that has already been made in Northern Ireland
    - the increased complexity and the tax knowledge that will be required of pension administrators
    - practical issues, particularly relating to deaths where no personal representatives have been appointed, those that have been appointed are not responsive or multiple representatives providing conflicting information.

McCloud update

9. LGPS administrators continue to implement the McCloud remedy. The McCloud implementation period set out in the statutory guidance runs to 31 August 2025; however, it is expected that work will continue beyond this date.

McCloud webinars

10. With the support of the Communications Working Group, we have worked with Affinity Connect to develop McCloud webinars for LGPS members. Affinity Connect deliver pre-retirement courses to employees of many LGPS employers, and McCloud webinars for members of other public service pension schemes.

11. The webinars are aimed at active and deferred LGPS members who are protected by the McCloud remedy and would like to learn more about how they might be affected. We are particularly keen for deferred members to be informed

Local Government Association, 18 Smith Square, Westminster, London SW1P 3HZ

E SABSecretariat@local.gov.uk **W** www.lgpsboard.org

about the webinars, as they do not have access to pension events or resources offered by their former employer. The webinars will also provide an opportunity for members to gain a better understanding of how the LGPS works and the options open to them as Scheme members.

12. The webinars started in March and will continue on a rolling three-month programme while there is demand. They can be booked on the McCloud remedy page of the national member website.

McCloud and Annual Benefit Statements

13. The LGPS regulations provide a discretion for administering authorities not to include estimated underpin information in the 2024/25 statements for a particular member or class of members. Authorities using this discretion will need to decide before 31 August 2025 and tell affected members.

14. MHCLG has confirmed that, in its view, no specific guidance on when it is appropriate to use the discretion is necessary. It stated that “the legislation makes it clear that administering authorities have the flexibility not to include estimates relating to the McCloud remedy in 2025 Annual Benefit Statements, if they consider it reasonable to do so. Since this change was about giving local flexibility to reflect local circumstances and progress with the remedy, it expects decisions to also be taken locally”.

Pensions Dashboards

15. In October 2024, the Department for Work and Pensions (DWP) issued a written ministerial statement confirming the Government’s commitment to pensions dashboards.

16. The Minister for Pensions also announced that the MoneyHelper dashboard will be made publicly available before commercial dashboards are launched. This is to obtain better insights into customer behaviour and ensure greater confidence in a range of areas, including operational delivery, security and consumer protection.

17. The Pensions Regulator (TPR) is responsible for ensuring workplace pension schemes comply with pensions dashboards duties. It has published a policy for compliance and enforcement of these duties. It continues to engage with the sector using surveys and regular updates.

Local Government Association, 18 Smith Square, Westminster, London SW1P 3HZ
E SABSecretariat@local.gov.uk **W** www.lgpsboard.org

Qualifications

18. We are launching an LGPS specific qualification from April 2025. The Certificate in LGPS administration is a level 3 qualification that will be awarded by the Pensions Management Institute (PMI). The LGPC training team has developed the materials and will be responsible for delivering tutorials, as well as setting and invigilating the examinations.

19. We also facilitate a level 2 generic pensions qualification. The Award in Pensions Essentials (APE) is aimed at staff that are new to pensions. The APE is delivered by Barnett Waddingham and awarded by PMI. The third cohort of students has just started, and we have two more cohorts ready to go.

Changes to member benefits

20. MHCLG has confirmed it will shortly consult on a raft of changes to member benefits. These include changes to:

- equalise survivor benefits
- remove the age 75 limit for death grants
- update forfeiture rules
- make buying pension to cover absences easier and fairer
- introduce new Fair Deal into the LGPS regulations.

Increase to the normal minimum pension age

Background to normal minimum pension age increase

21. The Finance Act 2004 sets the normal minimum pension age (NMPA). Registered pension schemes, such as the LGPS, must not normally pay any benefits to members until they reach NMPA, except in ill health. Significant tax charges apply to the member and the scheme if benefits are paid before the NMPA on normal health grounds.

22. The Finance Act 2022 has legislated to increase the NMPA from 55 to 57, effective from 6 April 2028. It also provides transitional protection to certain members through a protected pension age (PPA).

23. Generally, members qualify for a PPA for their benefits in a pension scheme if they had an unqualified actual or prospective right to any benefit under the scheme before age 57 immediately before 4 November 2021. An unqualified right

Local Government Association, 18 Smith Square, Westminster, London SW1P 3HZ
E SABSecretariat@local.gov.uk W www.lgpsboard.org

means the member does not require the consent of anyone, such as the employer or administrator, to receive their benefits.

24. Members who qualify for a PPA for their benefits in a scheme retain the PPA if they transfer the benefits to a different pension scheme. Other than for bulk transfers, the PPA will only apply to those transferred-in benefits in the new scheme.

25. LGPS members will generally fall into one of the following three groups:

- **Group 1**: does not qualify for a PPA on their LGPS benefits
- **Group 2**: qualifies for a PPA of age 55 on their LGPS benefits
- **Group 3**: qualifies for a PPA on certain transferred-in benefits only (the PPA could be 55 or any date between 55 and 57).

26. Qualifying for a PPA does not provide members with an overriding right to take benefits from their PPA; it simply determines whether benefits paid under the pension scheme rules before the NMPA will incur significant tax charges. For example, a group 2 member will only be allowed to receive their LGPS benefits before age 57 after 5 April 2028 if the LGPS regulations allow it (which they may not).

Decisions for MHCLG

27. MHCLG need to review and amend the LGPS regulations to align with the NMPA increase in April 2028.

28. This will involve amending the regulations so that the earliest age LGPS benefits can be received on normal health grounds increases to, at least 57 for members who do not qualify for a PPA on their LGPS benefits.

29. They will need to decide whether to also increase the earliest age to 57 for members that qualify for a PPA (ie group 2 members and for group 3 members for their transferred-in benefits), or whether they wish to allow for these benefits to be taken before age 57. For group 3 members, it should be noted that it is not currently possible for members to only take payment of transferred-in benefits.

30. A different approach could be taken for different types of retirement. For example, the earliest age could be 57 for normal health and flexible retirements, but age 55 for redundancy retirements.

Local Government Association, 18 Smith Square, Westminster, London SW1P 3HZ

E SABSecretariat@local.gov.uk **W** www.lgpsboard.org

Considerations

31. When deciding whether, and in what circumstances, members with a PPA can receive benefits before age 57 after 5 April 2028, MHCLG may wish to consider:

- **Members' preference** – members who qualify for a PPA are likely to prefer retaining the right to receive their LGPS benefits earlier than age 57. The Government has introduced PPAs in overriding legislation to allow for this, so members may expect to have a right under the LGPS. If a member takes voluntary retirement, their pension benefits are actuarially reduced for early payment, so there is no cost to the employer.
- **Cost implications for the employer** – currently if a member age 55 or older is made redundant or terminated on efficiency grounds the LGPS rules provide for their pension benefits to be paid immediately without reduction for early payment. The employer must fund the early payment of benefits, which can be very costly. If the earliest age were to increase to 57 for all members, this would be a cost saving to employers and align with the general increase in retirement ages. While redundancy pay is generally more generous in other public sector workforce, the LGPS is an outlier in the public sector by providing immediate access to unreduced pension benefits.
- **Member communications** - the LGPS is already a complex scheme, and there are existing challenges in communication and member understanding. The simplest outcome to communicate and for members to understand would be to set the same earliest age for all groups.
- **Administration challenge** – the LGPS is already a very complex to administer. Introducing additional complexity by allowing different earliest retirement ages or members to take only transferred-in benefits will only add to the burden. Administering authorities struggle to recruit and retain staff, partly due to the complexity of the job, and this may exacerbate the issue.
- **Discrimination** – whether there is any risk of unlawful discrimination related to each potential change. For example, if the earliest age depends on PPAs, older members are more likely to have a PPA as they are more likely to have joined the LGPS before 4 November 2021.
- **Two-tier workforce** – where the earliest age depends on a PPA, whether there is a risk of creating a two-tier workforce. For example, an employer will have employees who joined before 4 November 2021 and others who joined on or after that date and do not have a PPA. Employees with a PPA will be able to take payment of their LGPS benefits from age 55, while other colleagues will have to wait to age 57.

Local Government Association, 18 Smith Square, Westminster, London SW1P 3HZ

E SABSecretariat@local.gov.uk **W** www.lgpsboard.org

- **Workforce planning** – if members who qualify for a PPA are unable to receive their LGPS benefits before age 57 after 5 April 2028, there may be an impact on workforce planning. For example:
  - employees aged between 55 and 57 with a PPA may be less likely to take voluntary redundancy
  - employees aged between 55 and 57 with a PPA who would have taken flexible retirement may be less likely to take a phased approach to leaving.

  Any impacts on workforce planning will naturally occur over time, as fewer employees will qualify for a PPA.

- **Data** – when considering the above, it will be important to understand how many members currently take payment of their benefits between age 55 and 57, and on what grounds. MHCLG may also wish to take account of the impact Local Government Reorganisation may have on those figures in the coming years.

Sufficient notice

32. Whatever is decided, members, employers and administrators need sufficient notice before the changes come into effect. For example:

    - if an employer is planning a voluntary redundancy scheme for after 5 April 2028, they will need to know as part of the planning stage whether members aged between 55 and 57 with a PPA will be entitled to immediate payment of unreduced benefits

    - if a member is considering retirement after 5 April 2028 and will be under age 57, they will need to know whether they will be able to do so; if not, they will need time to reconsider their plans, such as bring forward their retirement to before 6 April 2028.

33. The current uncertainty regarding how the LGPS regulations might change for the 2028 NMPA increase is already causing complaints from members who cannot make fully informed decisions when deciding to transfer previous pensions to the LGPS and those who feel unable to plan for retirement.

Recommendation

34. The Board is asked to note the contents of this report and provide recommendations on whether the LGPS should provide for protected pension ages.

Local Government Association, 18 Smith Square, Westminster, London SW1P 3HZ

E SABSecretariat@local.gov.uk **W** www.lgpsboard.org