



**DORSET & WILTSHIRE
FIRE AND RESCUE
AUTHORITY**

Item 07

MEETING	Dorset & Wiltshire Fire and Rescue Authority
DATE OF MEETING	9 March 2017
SUBJECT OF THE REPORT	Local Government Pension Scheme administration
STATUS OF REPORT	For open publication.
PURPOSE OF REPORT	For consideration and approval.
EXECUTIVE SUMMARY	This paper outlines the current position regarding the provision of administration of the Local Government Pension Scheme (LGPS) and provides recommendations for the future.
RISK ASSESSMENT	Continuation of current LGPS provision under two scheme providers is inefficient and costly.
COMMUNITY IMPACT ASSESSMENT	None for the purposes of this report.
BUDGET IMPLICATIONS	Where there are budget implications these are included within the body of the report.
RECOMMENDATIONS	It is recommended that Members: <ol style="list-style-type: none"> 1. Approve the transfer of the LGPS administration to one of the current administrators under a full 'Clear-out' option and application to the Secretary of State for this to go ahead. 2. Grant the Treasurer delegated authority, after consultation with the Chairman, Chief Fire Officer and the Clerk & Monitoring Officer to determine the LGPS administrator from April 2018.
BACKGROUND PAPERS	Shadow Policy and Resources Paper, 17 September

	2015 - Item 7 Pensions Administration.
APPENDICES	None
REPORT ORIGINATOR AND CONTACT	Phil Chow Director of Finance & Treasurer Email phil.chow@dwfire.org.uk Telephone 01722 691071

1 Introduction

- 1.1 The Local Government Pension Scheme (LGPS), applicable to corporate staff, is administered under two separate administrations. Staff that were previously employed by Wiltshire and Swindon Fire Authority are included in the Wiltshire Pension Fund administered by Wiltshire Council. Staff that were previously employed by Dorset Fire Authority are included in the Dorset County Pension Fund administered by Dorset County Council.
- 1.2 All new corporate staff employed since combination have been included in the Dorset scheme.
- 1.3 Numbers of members in each scheme as at 31 March 2016 were:

	Dorset County Pension Fund	Wiltshire Pension Fund	Total
Active	170	148	318
Deferred	90	60	150
Pensioner	77	50	127
Total	337	258	595

- 1.4 In the interests of value for money, ie effectiveness, efficiency and economy, this paper looks at the impact of bringing pensions administration under one administrator. The pension payable to a member of staff or pensioner and any associated benefits will remain unaltered by any change of administrator.

2 Employers (Er's) contribution rates

- 2.1 The cost of pensions to the DWFRA, is established through the employers (Er's) contribution rates within both the Dorset LGPS and the Wiltshire LGPS. Currently, each scheme has different employer contribution rates which are established under advice from the fund actuaries on a triennial basis as shown below:

	2016/17	2017/18	2018/19	2019/20
Dorset LGPS				
- Er's Rate	13.2%	17.1%	17.1%	17.1%
- Lump Sum	£137k	£188k	£192k	£197k
- Equivalent Er's Rate	16.8%	22.0%	22.1%	22.3%
Wiltshire LGPS				
- Er's Rate	17.5%	18.8%	18.8%	18.8%
- Lump Sum	£198k	£123k	£100k	£81k
- Equivalent Er's Rate	22.6%	22.0%	21.4%	20.9%

- 2.2 It is important to note here that the costs of administering the respective funds are included in the contribution rates. This is approximately 0.5% of pensionable pay in the Wiltshire LGPS, and 0.4% in the Dorset LGPS.

3 Options

- 3.1 The Service has requested that the two fund administrators, Dorset County Pension Fund and Wiltshire Pension Fund, outline the potential scope of work, and costs of, amalgamating the members of the two separate LGPS' into one scheme. This report provides a summary of the information provided to enable a decision to be reached on the future administration of the LGPS provision.
- 3.2 Under the LGPS regulations the scheme can only be administered for DWFRA by either the Dorset County Pension Fund or Wiltshire Pension Fund.
- 3.3 There are three options considered for the future administration of the LGPS for DWFRA, with the following advantages and disadvantages:
- a) Option 1: Maintain two LGPS schemes
 - b) Option 2: A non 'clear-out' transfer of members and associated funds
 - c) Option 3: A full 'clear-out' transfer of members and associated funds

4 Option 1: Maintain two LGPS schemes

- 4.1 The current providers would continue to administer the membership of the two separate LGPS's and any new eligible starters would be given the option to take up a pension in the LGPS within the Dorset County Pension Fund (as included in the Dorset payroll). The pros and cons of this option are shown below:

Advantages	Disadvantages
<ul style="list-style-type: none"> • No transfer work required • Staff remain in their current funds so no consultation/communication is required • Lowest short term cost option as no implementation/change costs need to be considered 	<ul style="list-style-type: none"> • No change in current administration burden a) Still have to maintain two sets of differing processes within HR and Finance b) Require two sets of actuarial costs and complete two sets of financial reporting (IAS 19) which may then need to be consolidated for the accounts

	<ul style="list-style-type: none"> • Will potentially have two different Er contribution rates for staff employed by the same employer although staff contribution levels will be the same. • May result in higher Er's contributions costs that using a single provider i.e. higher long term costs • If one fund closes to new entrants, it is likely there will be an immediate increase in the Er's contribution rate in the scheme closed to new entrants • When the last active member (in the scheme closed to new entrants) retires or leaves the employer a significant cessation payment is likely to be triggered
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4.2 Cessation payments cannot be accurately forecast due to timing and other factors, and are therefore unknown at this time, but are expected to be significant.

4.3 **Costs of Option 1** - there will be a continuation of work required in HR and Finance to administer both schemes. This is estimated to be circa 12 working days per annum (i.e. one day per month).

5 Option 2: Non 'clear-out' transfer

5.1 Only active members of one scheme (i.e. those currently in the employment of DWFRS and who have not opted out of the pension arrangements within either Dorset or Wiltshire LGPS) will be transferred to the other LGPS. All deferred members (employees and ex-employees, who have deferred their pension arrangements and will receive a pension at a future date) and pensioners (those in receipt of a pension) would remain within their current LGPS. The pros and cons are:

Advantages	Disadvantages
<ul style="list-style-type: none"> • Would be a bulk transfer process, no requirement for Secretary of State approval 	<ul style="list-style-type: none"> • Little change in current administration burden a) Still have to maintain two sets of

<ul style="list-style-type: none"> • Slightly reduced administration in HR and Finance 	<p>differing processes within HR and Finance</p> <p>b) Require two sets of actuarial costs and complete two sets of financial reporting (IAS 19) which may then need to be consolidated for the accounts</p> <ul style="list-style-type: none"> • Actives would move, therefore consultation/communication required • When the active members transfer out of one of the schemes there will be an immediate cessation event in that scheme that would trigger a significant cessation payment • Implementation costs incurred • Most expensive option short term option
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5.2 **Costs of Option 2** - As per Option 1, there will be an ongoing cost of administration with HR and Finance of both schemes. This is estimated to be circa 9 working days per annum (75% work still being maintained).

5.3 There would also be an estimated actuarial cost of £25k to negotiate the split of the fund and approximately £17.5k bulk transfer costs to move the active members from one scheme to the other.

5.4 A cessation payment will be due to the scheme that is closed to new members at the point the active members transfer. This amount is unknown at this time, but is expected to be significant.

5.5 There will be a requirement of in-house project management to oversee and manage the implementation.

6 Option 3: Full 'clear-out' transfer

6.1 The full 'clear-out' option would result in all active, deferred members and pensioners transferring from one LGPS to the other LGPS, ie all members in Dorset Fire LGPS moving to the Wiltshire LGPS or vice-versa. This would require approval by the Secretary of State and would avoid any cessation payments.

Advantages	Disadvantages
<ul style="list-style-type: none"> • All active, deferred members and pensioners in one fund so a simpler structure • Only one set of accounts and financial reporting required (IAS19) • Consistent valuation of fund • One employer contribution rate, i.e. potential significant savings • Reduction in administration costs in HR and Finance as only one set of financial reporting required (estimated 6 days per annum) • No cessation payments required • Least expensive long term option 	<ul style="list-style-type: none"> • Implementation costs incurred • Most expensive short term option • Scheme member consultation/ communication required • Secretary of State approval required

- 6.2 Should Option 3 be adopted there will be requirement to give Heywoods, the software provider, 6 month's notice of our intention to move contracts. As both schemes use the same provider this will be the same regardless of which future administrator is adopted.
- 6.3 **Costs of Option 3** - The costs of a full transfer to a single fund are estimated in the region of £24k for the bulk transfer and movement of funds.
- 6.4 There will also be a requirement of in-house project management to oversee and manage the implementation.

7 Summary of costs of the different options

Option 1 – no change	Option 2 – non ‘clear-out’ transfer	Option 3 full ‘clear-out’ transfer
Estimated 12 working days p.a. finance and HR administration	Estimated nine working days p.a. finance and HR administration	Estimated six working days p.a. finance and HR administration
Continuation of two actuarial valuations and accounting costs each year	Continuation of two actuarial valuations and accounting costs each year albeit less than Option 1	One actuarial valuation and accounting costs each year.
Two different Er’s contribution rates likely resulting in higher total Er’s costs (Likely increase in employer rate of fund not accepting new members)	Single Er’s contribution rate likely but higher than Option 3	Single Er’s contribution rate resulting in lower total Er’s costs, with potential efficiency savings
Cessation payment when last active member leaves employer or retires from scheme closed to new entrants	Cessation payment when active members transfer to other scheme	No cessation payments
No implementation cost of change, but highest long term costs	£25k actuarial costs £17.5k bulk transfer cost Implementation cost of change required, and most expensive option short term	£24k bulk transfer cost Implementation cost of change required, and least expensive option long term

7.1 All costs of the project will be funded through set aside reserves for transformation.

8 Summary & key points

- 8.1 Whilst it would be possible to continue to participate in both schemes, the recommendation is that participation in a single LGPS would provide for a simpler structure, reduce ongoing administrative costs and have more efficient and effective single procedures.
- 8.2 It is recommended that Option 3: a full 'clear-out' is adopted. This option is supported by both the current Pensions Fund administrators. This will enable:
- a single employer contribution rate to be established for all corporate staff in the scheme, that dependent of the scheme adopted could reduce the total 'Er's costs
 - a single actuarial evaluation to be provided annually for reporting in the accounts, rather than two and a single triennial evaluation of the full fund, rather than two
 - no cessation costs at the point of transfer or in the future, albeit there will be one-off costs of implementation
 - reduced administration in both Finance and HR due to single systems
- 8.3 Based on current numbers of actives, deferred and pensioners, the recommendation could be that the pension fund administration be moved from the Wiltshire LGPS to the Dorset LGPS, so minimising the number of staff and pensioners affected by the change. However, if a decision was based on the current contributions and rates of the respective funds going forward, the recommendation could be that the pension fund administration be moved from the Dorset LGPS to the Wiltshire LGPS.
- 8.4 Further actuarial work has been requested from both actuaries to determine future Er's contribution rates and lumps sum values based on the total LGPS workforce, applying their actuarial evaluations. This is expected to take about 4-6 weeks, will be based on year-end figures and therefore the outcome of the work is likely to be available around mid-May. Once the outcome of their work is known and performance of the funds have been assessed, a decision can be made on which LGPS offers best value to DWFRA. It is recommended that if Members agree to the full 'Clear-out' option, the decision be delegated to the Treasurer in consultation with the Chair, Clerk and CFO, on which LGPS to take forward for DWFRA, so as to start the implementation as soon as possible.
- 8.5 Once a decision has been made, the administrators and the Actuaries will be required to agree the project. It is anticipated that it will take 9 to 12 months to implement the change.
- 8.6 Approval by the Secretary of State is required for the full 'Clear-out' transfer

(Option 3). Given their experience in making such applications, the application to the Secretary of State will be made by the Actuaries.

- 8.7 It is anticipated that the single LGPS provider if approved, subject to the administrators and actuaries agreeing the project timetable above, will go live in April 2018.

PHIL CHOW

Treasurer

March 2017