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60-second summary

Very sunny... but with a chance of (Mc)Clouds on the Horizon



Kate Dickson Senior Project Consultant



Ian Colvin Head of LGPS Benefit Consulting

As we bask in some glorious sunshine across the whole of the UK, will the Government's latest McCloud consultation cause thunder and lightning? Ian Colvin and Kate Dickson forecast the next steps.

Background

The Government has launched a further <u>consultation</u> asking key stakeholders for their views on changes to the Local Government Pension Scheme (LGPS) in England and Wales relating to the McCloud remedy. The consultation is due to conclude on 30 June 2023.

The consultation

The policy matters on which the Government is seeking views are:

- Aggregation
 - Whether to remove the requirement for records to be aggregated in order to benefit from the underpin.
 - If removed, having an active record on 31 March 2012 would lead to the underpin applying to all records regardless of aggregation, without the need for a new aggregation window in the majority of cases
- Club transfers
 - Changing the approach so that a member having active service on or prior to 31 March 2012 in another public service pension scheme will have underpin protection, regardless of whether this service was transferred into the LGPS.
- Flexible retirement
 - Extending the underpin protection date from 31 March 2014 (proposed in previous consultations) to 31 March 2022, for those taking flexible retirement.
 - There is also consideration of partial flexible retirement.
- Divorce
 - How the scheme's divorce and underpin calculations interact. The consultation states that the Secretary of State guidance for divorce cases will be updated to include McCloud.
 - The consultation proposes some tweaks to the method for calculating a cash equivalent value of benefits.

- Interest payments
 - The interest terms that will apply where payments are made later than would otherwise have been the case, due to the McCloud discrimination.

The Government is also seeking technical comments and comments on implementation in respect of excess teacher service, compensation, and injury allowances.

In the consultation, the Department for Levelling Up, Housing and Communities (DLUHC), have announced that they hope to establish a guidance working group with the Scheme Advisory Board (SAB) to consider which elements of the McCloud remedy may require central guidance from the Secretary of State or Board.

Next steps

The key issue is now one of timing. The consultation states that the final regulations will come into force on 1 October. This leaves little time, once the consultation is complete, for a final response to be published, the draft regulations to be finalised, and crucially for administrators to become familiar with the detail of when the underpin applies across a vast range of circumstances. The key to this is going to be a detailed understanding of all of these cases.

Funds have so far been wrestling with the data collection and cleansing in order to be ready for McCloud. These proposals move things on to the next stage which involves implementing the underpin for these complex cases.

We know funds are not underestimating the amount of work involved. Indeed the consultation acknowledges that there will be "additional administrative complexities" and some "exceptionally challenging" cases. Having a clear project plan is absolutely essential to successful implementation. If you haven't already, you should consider your core project team, including external suppliers and the project governance structure you will need in place to ensure decisions are made quickly, tasks allocated and recorded, and how any risks to delivery are monitored.

How can we help?

We appreciate the complexity and level of work involved in the McCloud remedy and the pressures this will place on fund operations. We also appreciate that any support required by funds will vary from 'very little' to 'more significant'. Therefore, we will be producing a comprehensive project management solution which will range from template documents for funds to use to support delivery (a 'toolkit'), up to a fully bespoke service and everything in between.

Please get in touch with Kate Dickson or Susan McKenzie to discuss any support you may require.

We will also be sharing our full consultation response before 30 June.

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T 020 7082 6000 | www.hymans.co.uk

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