

Local Government Newsletter

May 2021

As we look forward to some warmer weather this bank holiday weekend, this newsletter brings you updates on McCloud, the pensions dashboard, and pension scams

People News

We are delighted that Aon has a number of nominees for the [Woman In Pensions Awards](#) including our own Karen McWilliam and Jennifer O'Neill.

Industry developments

Pensions Dashboard

The Pensions Dashboards Programme (PDP) has [published](#) a progress update and its priorities for the next six months. The PDP has also updated its programme timeline and published a data providers timeline and steps to connection (for schemes) – which indicates that, rather than being decided centrally, schemes will be expected to determine which personal data fields, such as name, date of birth and NI number, they will use to validate a positive match.

Other milestones that the PDP has achieved in the last few months have been building their team, carrying out further research and insight to work further with the pensions industry and strengthening the governance of the PDP which bring increased government oversight. The PDP have updated their [indicative programme timeline](#) to show a clear breakdown of the key milestones for the programme phases – this sets out the view that the compulsory staged onboarding for schemes will begin in 2023!

Data quality will be integral to making the PDP a success and schemes are advised to get their data 'dashboard ready'. The PDP sets out an [introduction to data standards](#) which includes a short video, a brief and

a full guide outlining how it all works. Data is split into two definitions – Find data and View data. The Find data is the data that will be passed to schemes via an identity service following a request from an individual. There is still some work to be done to determine which elements are used to match members but the PDP sets out that full first names will be used. LGPS Funds may wish to start cleansing and updating any instances where they hold an initial instead of the full name for members who are not receiving a pension (given that initials are accepted as part of TPR's 'common data' test).

A key makeup of the View data will be the ability for members to see their estimated retirement income (ERI). PDP sets out mandatory requirements for items to be viewed on the dashboard that are already stated on a member's Annual Benefit Statement. These items include the normal retirement date and the estimated value of pension at that point along with the basis to show how the benefits were calculated. LGPS Funds will need to ensure that this information is digitally held within their administration system to enable the member to view this within the dashboard.

PDP issued a [call for input](#) on 27 May which seeks feedback from pension stakeholders on a number of items, including the proposal for Public Sector Pension schemes to be onboarded during the first wave (i.e. within 2 years of April 2023). The call for input is open until **9 July**. The PDP will also run two webinars on **8 June** and **9 June** to provide support and information around staging to pension dashboards. If you have any

concerns about the quality of your data then please contact your usual Aon contact.

Pension scams

There has been a focus on pension scams recently, with a number of news items on this topic.

Firstly, a [consultation](#) has been issued by Department for Work and Pensions on draft regulations supporting the Pension Schemes Act 2021 to try and combat pension scams. The proposal is for there to be additional requirements which administrators must work through:

- If the transfer is to a type of receiving scheme which presents a low scams risk (public service schemes, authorised Master Trusts and personal pensions), then the transfer may proceed;
- If not, then the transfer may proceed if certain evidence is provided, eg an employment link between the member and the occupational pension scheme, or residency in the same financial jurisdiction as the scheme for QROPS;
- If neither of the above apply, the presence of any "red flags" will allow the transfer to be prevented, while if there are any "amber flags" the transfer may be paused whilst the member takes guidance about the possibility of scams.

The consultation closes on 9 June, and the government intends to introduce the regulations in Autumn 2021.

Secondly, the Work and Pensions Committee (WPC) published its report on the first part of their inquiry, [Protecting pension savers — five years on from the pension freedoms: Pension scams](#). The WPC calls on the Government and regulators "to act quickly and decisively to protect pension savers". It warns that commonly cited figures of the scale of pension scamming are likely to substantially underestimate the problem, and says that the move online by pension scammers has been a recurring theme of its inquiry. It makes over 30 individual recommendations, under four main headings (recording and reporting, prevention, enforcement, and supporting pension scam victims).

Finally, the Pension Scams Industry Group (PSIG) has produced an update to their voluntary [code of good practice](#) on combating pension scams. The code is based around three principles:

1. they should raise awareness of pension scams for members and beneficiaries.
2. they should have robust, proportionate and compliant processes for assessing whether a

receiving scheme may be operating as part of a pension scam, and for responding to that risk.

3. they should generally be aware of the known current strategies of the perpetrators of pension scams in order to inform the due diligence they need to undertake and should refer to the warning flags set out in TPR guidance, FCA alerts and by Action Fraud.

The code now comprises a framework document, practitioner guide (setting out the due diligence steps when schemes assess the scam risk of a requested transfer), resources pack and technical guide, plus a summary of the changes since the last version. The changes reflect developments from the Pensions Regulator (including its letter for members considering transferring from DB to DC schemes, and its guidance for trustees to highlight Pension Wise and encourage members to take regulated advice) and recent initiatives from the Financial Conduct Authority, along with Pensions Ombudsman determinations and court rulings. The code suggests that scheme administrators consider using the phone to better engage with the member during the due diligence process, and reminds them to maintain appropriate records and management information. PSIG expects to produce a further update later in the year when the new regulations are published.

FCA consultation on long term asset fund

The FCA has [launched a consultation](#) on a new category of fund - the long-term asset fund (LTAF) - designed to invest efficiently in long-term, illiquid assets. The LTAF is aimed at experienced retail investors, and DC schemes - so the consultation also proposes amending the [permitted links rules](#) to enable pension schemes to consider the proportion of illiquid assets across their investment portfolios, rather than restricting the proportion of illiquid assets in each underlying fund in which they invest. The consultation closes on 25 June 2021.

Debt respite scheme

There is a [debt respite scheme](#) in place, and someone who registers for this has a 60 day 'breathing space' during which creditors can't make any attempt to recover the debt. This scheme may apply to overpayment recovery by pension schemes (except overpayments due to fraud by the debtor which are excluded and can therefore continue to be chased). It's not clear how this would apply where arrangements are already in place to recover a debt through regular deductions from pension payments. Funds should consider getting legal advice on this.

SAB annual report

The latest [annual report](#) has been released, with information on membership, assets and cashflows of LGPS funds.

What we've been talking to our clients about McCloud

The [Written Ministerial Statement](#) (WMS) for McCloud was issued on 13 May 2021.

The WMS confirms key policy points set out in last year's consultation, although we note that MHCLG is having to wait for the Public Service Pensions Bill amendments to be passed before LGPS Regulations implementing McCloud can be made. However, we believe the WMS provides sufficient high level policy direction to give administering authorities and software providers the confidence to plan and start to implement changes to administrative processes and software, along with member communications, in readiness for the effective date of 1 April 2023. Whilst the effective date is welcome in terms of allowing more time to implement the changes, it only adds to the amount of retrospective leaver calculations that need to be reviewed, i.e. all qualifying leavers from 1 April 2014 to 31 March 2023.

Administering authorities should continue to make progress with their data collection and verification programmes and plan resourcing to minimise disruption to business as usual. Our experience is that data collection for McCloud is often a lengthy and resource-intensive process and so we advise getting this underway as soon as possible, if not already started.

Here is a reminder of the key elements of the changes that will be made to the LGPS Regulations:

- Underpin protection will apply to LGPS members who meet the revised qualifying criteria, principally that they were active in the scheme on 31st March 2012 and subsequently had membership of the career average scheme without a continuous break in service of more than five years.
- The period of protection will apply from 1st April 2014 to 31st March 2022 but will cease earlier where a member leaves active membership or reaches their final salary scheme normal retirement age (normally 65) before 31st March 2022.
- Where a member stays in active membership beyond 31st March 2022, the comparison of their benefits will be based on their final salary when they leave the LGPS, or when they reach their final salary scheme normal retirement age, if earlier.
- Underpin protection will apply to qualifying members who leave active membership of the LGPS with an immediate or deferred entitlement to a pension.
- A 'two stage process' will apply for assessing the underpin so that, where there is a gap between a member's last day of active membership and the date they take their pension, members can be assured they are getting the higher benefit.
- Scheme regulations giving effect to the above changes will be retrospective to 1st April 2014.

A full Government response, containing further detail on the matters addressed above, and on other issues which were covered in the consultation, will be published later this year. This will include the Government's decision on whether members will be expected to meet the underpin qualifying criteria in a single period of scheme membership for the underpin to apply. Many administering authorities have expressed concern about this particular proposal and the effectiveness of the proposed 12 month aggregation window, and it will be interesting to see what MHCLG decides to do.

A poll taken during the PLSA Local Authority Conference found that 54% of LGPS administrators see addressing the implications of the McCloud decision as their biggest worry from a resourcing perspective. If you are concerned about how to resource your McCloud project, we'd be happy to help. To date we have helped administering authorities in the following areas:

- Identifying in-scope members and employers
- McCloud workshops - to allow your team to understand the impact on members and employers and explore the work that will be required across various workstreams to implement McCloud
- Project initiation – establishing success criteria, high level plan, key roles and responsibilities, risks/actions logs, decision making protocols - allowing the project to commence on the best possible footing
- Establishing and supporting workstreams, particularly data collection and communications at this stage
- Project management
- Technical assurance
- Oversight/assessment of in-house or external providers
- Data collection and validation – advice or outsource.

If you would like a chat please contact [Virginia Burke](#) or your usual Aon contact.

Committee and Board training

Aon's summer 2021 training series, which comprises of seven 2 hourly sessions running fortnightly from 1 July to 22 September, provides:

- newly appointed Pension Committee and Local Pension Board members with a high - level introduction to the management of the LGPS and the requirements of their new roles;
- newly appointed members with subject specific training; and
- existing members with refresher training

LGPS Officers who are new to the role should also find the training a useful introduction.

The training is focussed on the new areas in the CIPFA knowledge and skills competencies framework, which is expected to be published imminently. As soon as it is published, an email setting out the topics for each of the 7 sessions in the series will be sent to all of our LGPS clients and contacts, which will include a link to the booking form.

For more information on our full range of training services please click [here](#).

Responsible investment

Our third Global Responsible investment Survey is still open. As you will no doubt be aware, LGPS Funds are among the largest pension fund investors in the UK, so your views in this area will be invaluable to this research. We want to find out:

- Where are you on your journey?
- What's driving your interest?
- Do you expect ESG considerations to drive your future investment decisions? If not – and you're not alone – we're keen to understand why.

[Take the survey](#)

The survey is open to all institutional investors and **should only take about 10 minutes to complete**. All responses are confidential, and the results and analysis will be published and shared with you this summer.

Recent events and meetings

PLSA Local Authority Conference 18-19 May

Alison Murray and Jonathan Teasdale presented "Covid-19: a legacy for the LGPS" earlier this month, indicating that the impact of Covid-19 may not have been as great as feared for LGPS funding, as well as cyber risk, business continuity and wellbeing of staff and members.

Upcoming events

View Aon's full list of [virtual events](#) and [on demand webinars](#).

Research and Publications

The latest research and publications by Aon: -

- [A Big and Bold White House: What is the economic and market impact?](#)
- [Week in markets](#)
- [Covid-19 monthly market update](#)
- [Spotlight on TPR code of practice](#)



Becky Durran
Senior Consultant
0117 900 4426
becky.durran@aon.com



Alison Murray
Head of Public Sector
Actuarial
0117 900 4219
alison.murray@aon.com



Karen McWilliam
Head of Public Sector
Governance and Benefits
07711 016707
karen.mcwilliam@aon.com

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