Local Government Newsletter

February 2020

Hello and welcome to the latest edition of our newsletter.

It's the end of February already (where did the time go?), and administering authorities will now be busy working with their actuaries to finalise the actuarial valuations and preparing for the scheme year end, including preparations for accounts and annual benefits statements.

This month's topics include cyber security, an update on GMP equalisation, and the new annual benefit guidance, all of which should be useful in the coming months.

If you would like any further information on the above or anything else covered in this month's Local Government Newsletter, please get in touch.

Chris

People news

The team has now settled into our new office in 1 Redcliff Street, Bristol, and there is certainly a lot going on!

Our more musically talented neighbours recently competed in a battle of the bands competition run by the BBC's the One Show. This was a head to head competition with guest judges the (local-ish) Indie/Rock band Reef – probably best known for their song "Place Your Hands" released way back in 1996.

It turned out that the music was high quality and we are hoping this will inspire the formation of an Aon Public Sector Team band - please send in any suggestions you have for band names!

Talking points

Cyber Security

Earlier this month a story emerged of a suspected ransomware attack at a local authority. It provides a stark reminder of the cyber risks facing local authorities. The Pensions Regulator released guidance in April 2018 on the issues it expects trustees and scheme managers to consider in order to increase their cyber resilience. While many schemes have already taken some action, those actions are often taken in isolation with no longer term plan. In recent years the Regulator has also asked a number of questions in their Public Service Pension Scheme Annual Survey on the topic of cyber resilience to assess progress being made by schemes.

As cyber risk management requirements for pension schemes matures, so does the approach that needs to be taken. For schemes to deal with cyber risk adequately, cyber risks need to sit alongside other scheme risks; with ongoing internal controls and other checks to ensure security of members' benefits along with scheme assets. This is particularly important given the pace at which cyber threats change. For more information about potential cyber resilience components administering authorities can consider please read our new leaflet "Pensions: Cyber Risk in the Public Sector". If you'd like to know more about how our experts can help with your cyber security or cyber resilience please get in touch with a member of the team.

GMP Equalisation

HMRC has published its long awaited guidance on GMP Equalisation.

The guidance is quite technical. The headlines are:

- As expected, HMRC have tackled many of the questions surrounding dual record equalisation.
- The guidance should help avoid situations where members receive disproportionate tax charges (with minimal impact on most members).
- However, the proposals could further increase the calculation and administrative burden on schemes, as historic retirements will need to be reassessed for lifetime allowance purposes.
- They acknowledge that there are separate challenges to consider on GMP conversion. It is not clear from this note whether HMRC will publish further guidance on this but a major change in tax regulations now seems extremely unlikely.

From an LGPS viewpoint it is still not certain what action will be taken to resolve GMP equalisation beyond full indexation of GMPs for those reaching State Pension Age after 6 April 2016 (currently applying to those who reach State Pension Age on or before 5 April 2021). We suspect that it is too simplistic to assume that extending full indexation or converting GMPs on a 1:1 basis going forward will resolve all equalisation issues. There will undoubtedly be some cases where rectification of pensions will be required e.g. those where an uplift in pension due to the anti-franking minimum pension would have applied to the opposite sex at the same age. Administering authorities will be hoping the numbers of such cases will be low – but it could still be a potentially large exercise rechecking all post 17 May 1990 retirements and potentially updating annual and lifetime tax allowances for those where the pension has increased!

Mortality Updates

The Continuous Mortality Investigation (CMI) have published their mortality monitor for the final quarter of 2019. The conclusion of their analysis is that mortality as a whole for 2019 has been lower than in any previous year in the last 11 years.

Further, during the same period, only 2009 saw a higher cumulative mortality improvement by 31 December. The cumulative mortality improvement for 2019 was 3.6% p.a. by the end of the year.

All else being equal, this will increase pension liabilities. We would expect that CMI 2019 will be published in early March. Administering authorities who are interested in what this might mean for funding levels and contributions should get in touch. It might also be worth revisiting the assumption used in exit valuations and potentially for future accounting figures.

Black Hole?

Some of you may have seen a recent article in the Evening Standard regarding a "Pensions black hole for London councils". While it is good to see that pensions are receiving wider press coverage, we note that the main figures quoted are from pension accounting results and do not represent the picture emerging on a funding basis. As a result of this, some of the inferences drawn from these results are a bit of a leap of faith. Perhaps there is more we can do to educate the wider public on pensions issues?

Investing for Impact

The need to address environmental and social megatrends, including the climate crisis, resource scarcity and demographic changes is driving a worldwide industrial restructuring and shifting the basis of competitive advantage among companies. This is leading to increased pressures on investors to drive constructive change and address some of the world's most pressing environmental and social challenges while continuing to deliver competitive risk-adjusted returns.

Impact investing aims to support these challenges. The Global Impact Investing Network defines impact investments as "investments made with the intention to generate a positive, measurable social and environmental impact alongside a financial return".

Further information can be found in Aon's Investing for Impact paper. Please get in touch with your usual Aon consultant if you are interested in this or have any questions.

April 2020 Pension Increase

The Pension Increase (Review) Order was laid on 25 February 2020. It has confirmed that the CARE revaluation rate and pension increase for April 2020 will be 1.7%.

This increase is likely to be lower than the assumption used for the latest pensions accounting figures and current funding valuation (certainly for Aon advised Funds and employers). Consequently, liabilities will be lower than expected, which is good news for LGPS funding but not such good news for LGPS members.

Industry developments

LGA Update: ABS Technical Guide

As mentioned in last month's newsletter, on 28 January, the LGA published version 2.0 of their annual benefit statement technical guide. The guide has been entirely rewritten following surveys and research carried out by the Communications Working Group.

The guide includes a compulsory requirement for statements to reflect the value of a member's pension, lump sum and survivor's pension after the effects of any Pension Sharing Order or Scheme Pays debit. LGA have stated that this should be included in the 2020 statements.

An optional recommendation is for statements to also include actuarially adjusted benefits for members who are age 55 or over on the relevant 31 March, in addition to the benefits before any adjustment. This change is not expected to be implemented for the 2020 statements, but if Funds wish to include this in 2021 they are advised to raise this with their software provider.

We have lots of experience in assisting Funds with the production of their annual benefit statements and if this is something you would find useful, please get in touch with a member of the team.

LGA Publish Retirement Planning Guide

On 28 January, the LGA also published a new retirement planning guide which is intended to help active LGPS members understand the options available to them at retirement, the process of taking their pension, and the timescales involved. The guide includes information that Funds can tailor to reflect their own individual processes and information.

Code of Good Practice

PASA has launched a consultation on its DB transfers code of good practice. The objectives of the code are to:

- Improve the overall member experience through faster, safer transfers
- Improve communications and transparency in the processing of transfers
- Improve efficiency for administrators

Responses are due by 30 April 2020, and the code is expected to be released on 1 September 2020.

Last year PASA released guidance on DB transfers, and as a result of this we are currently assisting Funds with reviewing their transfer processes. If you would like to discuss this further, please get in touch with a member of the team.

UK Budget

Chancellor Rishi Sunak has confirmed that the budget will be delivered as originally planned on 11 March.

It had previously been confirmed that a consultation on the future of the Retail Prices Index would launch once the Budget had been presented.

There has been speculation that the Chancellor will remove/reduce higher rate tax relief on pension savings. We have of course been here many times before, and there has been some high-profile criticism of the suggestion from within his own party, so we will have to wait and see.

PLSA Stewardship Guide and Voting Guidelines 2020

Last week 2020 guidelines were published, which offer practical guidance for schemes of all types and sizes in acting as good stewards of their assets.

These new guidelines have been updated to better support schemes in light of the new disclosure requirements on stewardship, and to help them hold their managers and service providers to account.

The guidance is intended to be of use to schemes as well as their asset managers and consultants.

SAB Updates

It has been announced that Rachel Brothwood (West Midlands Pension Fund) has been successful in her nomination as practitioner representative on the Scheme Advisory Board.

SAB have also confirmed they will not be providing any definitive advice or guidance on how the fiduciary duty test applies to investment decision makers in the LGPS, following concern raised as part of feedback on part 1 of the Responsible Investment draft guidance.

A revised document excluding fiduciary duty will be circulated in draft for comments.

Once the government's position on proposed climate change provisions in the Pension Schemes Bill is known, then further information will be disclosed in relation to fiduciary duty.

Update on McCloud

On the 13 February Economy Secretary John Glen responded to a parliamentary question confirming the Government plans to launch a consultation on the issues identified as part of the McCloud court case.

What we've been talking to our clients about

2020 Accounting Exercises

We have been agreeing timetables and detailed plans for the 31 March 2020 accounting exercise. Key items continue to be allowance for rectification following the McCloud/Sargeant judgement and for equalisation of GMPs.

The March 2019 exercise was complicated by announcements related to McCloud/Sargeant occurring during the preparation of accounting figures. While we do not expect a repeat of this in 2020, it remains possible that new news will impact on work required. While we (and other firms) have set out a proposed approach for the 2020 process and we discussed this with PwC acting on behalf of the National Audit Office / Wales Audit Office, we recommend employers discuss the approach with their auditor ahead of work commencing to ensure they have no concerns with the approach set out.

Exit Payments

Some of you may have seen a recent article setting out an "innovative" approach to a housing association "sidestepping a cessation debt". Whilst we are not convinced it is as innovative as it sounds (it seems to us to be very similar to the council simply agreeing to absorb the assets and liabilities on exit), it is noteworthy because it may lead to similar approaches being suggested by corporate advisers in the sector.

Further, given the problems which have been encountered following the retrospective changes to the exit provisions (see below) the suggestion that the Regulations are changed so that no exit deficit is payable on any liabilities accrued before the employer's admission could be fraught with problems.

Recent press articles suggest that a contractor is suing the administering authority for an exit credit which is allegedly due following the contractor's exit from the Fund. The article further suggests that the contract was terminated early which is unlikely to have helped the situation. We understand that changes to the Regulations regarding payment of exit credits is expected to be published by the end of the month and given this is not the first reported court case they cannot come soon enough. We are not in a position to comment on whether any regulatory changes would solve the reported issues, but would encourage administering authorities to ensure they keep their approach under review and engage with their employers as appropriate.

We believe a number of administering authorities will currently be considering exit cases pending regulatory changes, so it will be important to react quickly once the regulations do change.

Recent events

CIPFA LGPS Actuarial Summit 2020

Jonathan Teasdale presented at the CIPFA LGPS Actuarial Summit on 7 February. A wide range of issues were covered during the conference, including an update on key issues and priorities from the viewpoint of the LGPS Advisory Board, from Jeff Houston; a review of the 2019 valuation process from Jonathan; as well as presentations on the actuarially assessed impact of the

McCloud/Sargeant judgement; the impacts in the short and long term of removal of the RPI, and an update on the Good Governance project. Finally, there was a look at the potential role of the LGPS in shaping ESG investment and a reminder of what GAD are likely to focus on as part of the Section 13 review of the 2019 valuations.

CIPFA Pensions Audit and Accounting Workshops

Joel Duckham presented at the CIPFA Audit and Accounting Workshop in London on 18 February, with Sam Ogborne presenting in Manchester on 28 February. Their sessions included updates on key issues in preparing the 2019/20 accounts including accounting for the potential impact of McCloud, prepayment of contributions and more.

The workshops also included an 'ask the auditor' session where the panel gave thoughts on the previous year's accounts and the increased scrutiny on financial reporting.

There was further feedback on last years' Annual Report and potential amendments that could be made driven by the latest iteration of the Example Pension Fund Accounts.

Upcoming events

LGC Investment Seminar

Alison Murray will be attending the LGC investment seminar on 28th February. Hopefully she will see some of you there.

National LGPS Technical Group meeting

Catherine Pearce will be attending the next Technical Group on 6th March.

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