

Local Government Newsletter

October 2020

Hello and welcome to the latest edition of our newsletter. We hope most of you have had a chance to take a little time off as schools break up for half term and are enjoying some (Covid - safe) time with your families.

With new regulations and guidance covering the exit cap, the McCloud rectification and employer flexibilities on the horizon, as well as the GMP indexation consultation, there's plenty to get our teeth into!

October is also "Cyber Awareness Month" at Aon so there's lots going on in that area too. We hope you find this edition interesting and useful.

Laura



People news

On 2nd October, after numerous attempts Mary Lambe and her now husband Paul managed to circumnavigate Covid-19 restrictions and get married in St Albans in front of 12 guests in person and many more via Zoom. They had a wonderful wedding day despite the rain and having to end the celebrations at 10pm and enjoyed a honeymoon in Edinburgh and the Isle of Skye. Below is a photo of the happy couple. Congratulations to Mary and Paul!



COVID-19

Governance matters: Lessons learned, effective meetings and skills and diversity

There are a lot of lessons to be learned from a crisis such as the Covid-19 pandemic – indeed, you often learn more from a crisis than in comfort - so we have created a guide on “Adapting and Enhancing Pension Scheme Effectiveness”. This guide gives ten key areas of review to help implement positive outcomes – applicable to Covid-19 or to any crisis. The overall goal is to learn from the incident and think about what you could have done better. Examples of these areas include reviewing crisis management plans, developing the ways of communicating with members, and reflecting on the balance of face to face or virtual meetings.

Virtual meetings have brought practical challenges but are likely to play a part (alongside face-to-face meetings) in the future. We have compiled 10 questions to help you to determine the right balance for your fund in the future.

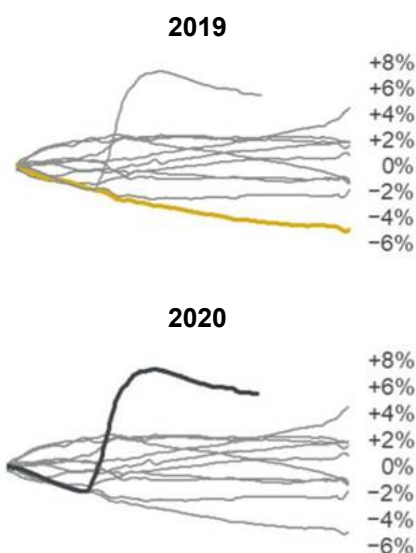
The wider Aon Governance team has been busy creating a practical guide to diversity on boards. The team are also preparing for a series of podcasts designed to complement the practical guide and support boards with diversity. If you would like to see a copy of the guides mentioned above or would like to know more please get in touch with [me](#) or your usual Aon contact.

Mortality update

On 6 October, the Institute and Faculty of Actuaries' Continuous Mortality Investigation Board (CMI) published their mortality monitor document for the third quarter of 2020 – it's a publicly available document which can be found [here](#).

Mortality during Q2 of 2020 was exceptionally high due to the coronavirus pandemic, but mortality in Q3 of 2020 was lower than any other quarter analysed by CMI to date. However, overall mortality for 2020 to date is much higher than previous years. The pattern of population-level mortality in 2019 and 2020 compared to the 2010-2019 average is illustrated in the charts below.

Standardised mortality rates compared to the 2010-2019 average



Observations:

- The downward slopes of the lines in the later part of 2019 and the first quarter of 2020 indicate that mortality has improved compared to the average over that period.
- The impact of the coronavirus outbreak in the second quarter of 2020 is very clear.
- Mortality has actually started to improve slightly compared with 2019 for the period since the first wave.
- Where we end the year will depend on the mortality impact of any second wave of

infections, as well as any effect (positive or negative) on other causes of death such as seasonal flu.

It's also worth noting that, whilst the impact of the first wave has been greatest at the oldest ages, mortality rates and improvements have been outside the range of 2010-2019 for all age bands.

Aon's general position on setting mortality assumptions in light of this information remains as it was last quarter, i.e. we expect most funds to wait for a greater degree of clarity over the medium to long-term impact of COVID-19 before updating their mortality assumptions.

CMI_2020 consultation

The CMI have previously noted that a “business as usual” update to the CMI model used to project improvements in life expectancy when setting life expectancy assumptions would be highly unlikely to meet subscribers’ needs, given that an improvement of -10.9% across the whole of 2020 would lead to life expectancy at age 65 falling by 4-5%, which does not reflect CMI’s view (or industry expectations) of how life expectancies should respond to 2020’s mortality.

CMI's consultation on the next CMI model (CMI_2020) suggests a core assumption of placing no weight on 2020 experience. Although this isn't quite the same as not updating the model at all, it has a similar effect, leaving life expectancies broadly unchanged from CMI_2019 projections. This is consistent with our current views. Aon will provide input into the consultation, and we expect the updated model will be released in March 2021.

Fund-specific Covid-19 analysis

Many administering authorities are interested in understanding how their fund has been affected by Covid-19 so far, and we can carry out this analysis for you, using our Demographic Horizons™ specialist team expertise.

You will need recent experience data, as a minimum covering the period to the end of May, with data extracted from the administration system at least a couple of months after the end of May, to minimise the chance that there are deaths that have happened but not yet been recorded on the administration system (e.g. late notifications). This recent experience data can be combined with any experience provided to the Demographic

Horizons team as part of the 2019 actuarial valuation. Please contact your usual Aon contact if this is something that you are interested in.

Build Back Better: How impact investors can support social inclusion

The Covid-19 outbreak has highlighted existing inequality across and within countries. Evidence shows that the economic and health consequences of the pandemic are being borne disproportionately by the poor and minority groups.

This [blog](#) from our investment colleagues looks at some of the ways investors can use the power of capital to make a positive difference to support social inclusion and "build back better".

Industry developments

£95K Exit Cap

Update

The £95,000 [cap on exit payments](#) to public sector workers is due to be implemented from 4 November. Changes to the LGPS regulations are required and MHCLG have released a [consultation](#) on potential changes that closes on 9 November. As part of this consultation it is proposed the calculation of strain costs be based on a standardised approach and factors across the LGPS for employers subject to the cap. GAD have now released draft guidance and factors, and MHCLG have released draft regulations.

The proposed changes are extensive but the draft regulations apply only to employers subject to the public sector exit payment cap, which means that the new flexibilities will not apply to members employed by a LGPS employer not subject to the cap. However, the proposed changes will affect certain members (for affected employers) who do not actually trigger the cap, due to the reduction in redundancy payments allowed when there is a strain cost. This situation may create confusion, particularly for members who move between employers subject to the cap and those that are not, so clear communication will be vital.

We understand that MHCLG sent a [letter](#) to all administering authorities on 28 October in respect of the implementation of the regulations as drafted. This explains that the Government's view

is that affected LGPS members should be able to elect to receive an immediate but fully reduced pension. If they do not make that election a deferred pension plus a lump sum equal to the capped strain cost will apply.

LGA / SAB are considering this letter alongside ongoing legal advice on the matter and will publish the legal advice together with a commentary for administering authorities and scheme employers around the end of October.

LGA published their draft response to the MHCLG consultation on 28 October, and that can be found [here](#).

Implications for calculations

Currently, the strain cost for an early payment of pension is calculated by each LGPS fund. This currently does not affect member benefits as a full pension is paid regardless of any differential in cost calculated by different funds. Under the new proposals, strain costs that are capped will result in reduced pension, however the changes to the LGPS regulations and standard strain cost calculations are not yet in force, and are not expected to be till late 2020/early 2021. Until that time we assume that existing strain cost calculations will continue to be used when calculating whether strain costs should be capped (with effect from 4 November 2020 when the public sector exit payment regulations come into effect). As mentioned above, we understand LGA are taking legal advice on how the exit cap should work in the interim.

We understand that the LGPS regulations are due to be in place by the end of this year (if parliamentary time can be found) and it is possible that there will be an additional period of time to implement the necessary changes to the administration systems. This could mean that manual calculations may be required in the interim both for quotes in advance of retirements and actual exercises once the new approach and factors apply. Aon is therefore developing a model that can be provided to administering authorities that can carry out the calculations based on GAD's method and assumptions to plug the gap between the LGPS regulations coming into force and the administration systems being updated.

There will obviously be a change in strain costs when the move to the standard GAD factors is implemented. This change could lead to a funding strain (or gain) at actuarial valuations due to early retirements on redundancy. As there is flexibility under the proposed GAD guidance to charge employers not subject to the exit cap different strain costs, funds should consider whether this is something they want to implement. It is currently not clear whether the software providers are planning to allow more than one set of factors (or differential uplifts to standard factors) to be set up within the administration systems for different types of employer. If this is something administering authorities are keen to explore, then it is key that they engage with their software providers to influence the way they set up the calculations. Alternatively, our model can include costs on different sets of assumptions / factors and can be used longer term to calculate early retirement strain costs for such employers.

If you have any questions or are interested in this model please contact [Becky Durran](#) or your usual Aon contact.

SAB meeting on Employer Flexibilities

On 19 October the SAB Working Group met to discuss the recent regulation changes in relation to employer flexibilities and deferred debt arrangements. MHCLG has drafted proposed statutory guidance for employer flexibilities which is now with the working group to consider. It is hoped that there will be a short consultation with the working group and the actuarial firms on the guidance, so that guidance is available publicly as soon as possible. It is expected that this will be late this year / early next year, alongside the SAB guidance which will be more detailed. We will provide further information on this once it is available.

HMT GMP Indexation Consultation - Proposal to Extend Full Indexation

The HMT's consultation on GMP indexation was launched on 7 October 2020 and will continue until 30 December 2020.

The key concern of this consultation is the treatment of members who retire after 1 April 2021 and how the government plans to meet its obligations in terms of full indexation of past benefits going forward.

The full consultation can be found [here](#) but briefly, the following options are explored:

- The extension of full indexation to cover those reaching SPA up to and including 5 April 2024
- The extension of the interim solution to cover those reaching SPA beyond 5 April 2024 (to, for example March 2030)
- Discount conversion as a long-term policy solution and make full GMP indexation the permanent solution for public service pension schemes

The underlying view is that full indexation would be required at least up to April of 2024 with conversion to be brought in as a longer term option, though there is concern that the more this is delayed, the less valuable the benefit becomes.

What we've been talking to our clients about

Cyber Awareness Month

October is Aon's Cyber Awareness Month, so we have been busy raising this in conversations we've been having with various administering authorities.

We've been issuing questionnaires for administering authorities to pass to their host authority's IT department and administration / software providers to complete, and the responses will be assessed with recommendations for improvements from our colleagues in Aon's Cyber Risk team. [Let us know](#) if you would find this support useful for your fund.

We've also been developing data and asset maps, which provides a framework for understanding where your cyber exposures are. Instead of just considering where data moves, the data and asset maps look at the detail of the data flows and asset transfers to provide a better insight into the risks. [Let us know](#) if you would be interested in seeing an example data and asset map.

We've also been made aware that fraudsters are already searching for publicly available documents to obtain authorised signatures in order to attempt to falsify disinvestment

instructions. We strongly recommend that all administering authorities check the contents of their websites and publicly available meeting papers for this sort of documentation to ensure those published are unsigned versions.

Finally, you should have received an invitation from Karen McWilliam to our **“Cyber Risk in the LGPS”** webinars earlier this week. We are running two separate educational sessions, one for fund officers at 10am on Wednesday 18 November, and another for Pension Committee and Pension Board members at 10am on Thursday 19 November. We will be launching our free **“LGPS Cyber Scorecard”** at this event - this is the only one of its kind, allowing funds to assess their cyber resilience across 10 distinct areas, and compared to their peers. We have seen a great amount of interest from the private sector in their equivalent version – over 70 schemes have carried out the assessment so far. If you can't attend the webinar, don't worry, we will also be contacting funds about the Scorecard after the event.

Please see below under “upcoming events” for more information on the webinar and a link to register.

If you are interested in the wider range of support we can offer in Cyber Risk Management please see our attached [flyer](#).

McCloud Update

MHCLG's consultation on amendments to the statutory underpin for the LGPS in England and Wales ended on 8 October. We understand that 94 consultation responses were received and that MHCLG is considering these before deciding on a timescale for its response.

Aon's consultation response, which stresses the need for consistency of approach to data collection, communication and the implementation of the regulations, supported by central guidance, is available upon [request](#). Our Spotlight on the McCloud Consultation issued in August 2020 can be found [here](#).

We are providing support for an increasing number of clients as McCloud moves up the agenda. The main focus is on identifying members and employers who are in-scope, data collection and McCloud project initiation, along with initial member communication to ensure that members know what to expect.

If you haven't already started to think about what data you will ask employers to provide to ensure you have a full history of part-time hours and service breaks going back to 1 April 2014 (2015 in Scotland and Northern Ireland), here are some initial questions to consider:

1. What part-time hours and service break data have employers been providing since 1 April 2014/15? You may need to engage with individual employers to answer this question.
2. If employers haven't provided all the data, or it isn't reliable, will you request it for all members with active membership on or after 1 April 2014/15, or just those who were also active as at 31 March 2012? To inform your decision, you may need to ask employers how they will obtain the data. For example, can they run a bulk report or will they have to search through individual records?
3. If employers have provided data but it hasn't been loaded to your administration system, what action needs to be taken?
4. Will the SAB data collection templates work for your fund or will tweaks need to be made?

If you would like to discuss how we can help you get started, or to discuss the support we can offer all the way through to completion, please get in touch with [Virginia Burke](#) or your usual contact.

Brexit and overseas payments

Administering authorities should be preparing for the potential impact of Brexit (particularly a possible “no-deal” scenario) on those in receipt of a pension who have overseas accounts, or even just those who live overseas but have a UK bank account. We are aware that some UK banks are closing the accounts of those who don't live in the UK, for example. Those who may be affected should be contacted as soon as possible to ensure that the pensions can continue to be paid.

This is not a trivial exercise as a different approach may be needed depending on where the pensioner actually lives. The DWP has published brief online guidance on how rights to pensions and benefits for those living overseas will be affected:

- [Guidance](#) for UK nationals living in the EEA or Switzerland. This sets out if a workplace pension is paid into a UK bank account, the bank should contact the pensioner if it needs to change the way the pension is received

because the UK has left the EU. The guidance notes that UK law allows workplace pensions to be paid overseas and that the Government does not expect this to change because the UK has left the EU.

- [Guidance](#) for EEA and Swiss citizens living in the UK explains that if such individuals are living in the UK by 31 December 2020, they will be entitled to continue receiving UK benefits on the same terms as now for as long as they continue to be lawfully resident in the UK and meet the eligibility requirements; those moving to the UK after that date will be subject to a new system. Both guides explain that there will be no changes before 1 January 2021 to the rules on claiming UK benefits and state pensions.

Aon and Willis Towers Watson combination update

The combination of Aon and Willis Towers Watson continues as planned and we are excited about how this combination of technology and skills will further enable us to deliver innovative solutions to the LGPS, without any changes to the teams you deal with on a day-to-day basis. The leaders of both organisations have produced the following white paper on the combination which may be of interest: [Helping Clients Navigate an Increasingly Complex World](#)

Recent Events

Aon's webinar on Employer covenant, Employer flexibilities and DDAs – 16 October 2020

Alison Murray chaired a webinar to discuss the proposals regarding employer flexibilities that have been introduced, deferred debt agreements (DDAs) and implications on employer covenants. Alison was joined by two of Aon's experts in employer Covenant and alternative financing solutions. Please find the [replay](#) and [presentation slides](#) linked.

LGPS Technical Group Meeting - 1 October

Catherine Pearce attended this meeting, and while much of the discussion was around McCloud and the Exit cap changes which have

been covered elsewhere in this newsletter, the following items were also discussed:

- Some employers are challenging the decision made by administering authorities not to pay them an exit credit and the judicial review hearing is on 12th November
- A recent ombudsman adjudicator opinion held that the tier a member receives on ill-health is a decision not a discretion and therefore should have been considered by the administering authority and a replacement decision made at stage 2. LGA queried this with the ombudsman's office and they have confirmed that similar cases in future should ask to be referred to the ombudsman's legal office for consideration
- It was noted that following the exit payment cap changes there will need to be a review of employer discretion policies – LGA will be looking at this in due course
- The McCloud consultation for Northern Ireland is expected imminently and is expected to follow the same remedy as England, Wales and Scotland.

The minutes of the meeting are to be found [here](#).

SAB Cost Management, Benefit Design and Administration Committee – 5 October

Alison Murray attended this meeting, and again, much of the discussion was around the £95K exit cap and issues around HMT Regulations being in place before LGPS Regulations have been amended. However, also discussed was:

- A consultation on Higher Education and Further Education participation in the LGPS is expected "fairly soon"
- The Pooling and Investment Regulations are hoped to be in place within the next 3 months
- The response to the consultation on the LGPS valuation cycle is expected to be published late this year / early next year
- Fair deal is still on the SAB agenda (but is currently not timetabled)
- It was noted that given the ongoing changes to tidy up various equality issues, in future it may be a requirement for funds to hold data

on disability and / or ethnicity to assist with impact assessments.

Formal notes of the meeting are set out [here](#).

SAB Investments, Governance and Engagement Committee

Mary Lambe attended a virtual committee meeting on [12 October](#), where items included an update on responsible investment guidance including the development of a new RI Advisory Group, and how the principles and policy objectives soon to be requirements in private sector schemes for calculating 'carbon footprint' of pensions schemes are being considered for the LGPS by MHCLG and DWP officials. A note of the actions and agreements at the meeting is available [here](#).

Upcoming events

Cyber Risk in the LGPS – Aon and TPR webinars

Cyber risk is increasingly topical for pension funds, even more so due to the changes to working practices due to Covid-19. LGPS funds hold huge amounts of personal data and assets and have regular financial transactions which can make them a prime target for cybercriminals.

Aon is delighted to invite you to a webinar, presented by Karen McWilliam, Head of Public Sector Benefits and Governance, Jason Wilson, of our specialist Pensions Cyber Risk team and featuring Nick Gannon from the Pensions Regulator.

These educational webinars aim to:

- provide an overview of the threat landscape, and Aon's cyber strategy framework
- help you understand what the Regulator expects of LGPS administering authorities, including an overview of the Regulator's 16 Cyber Security Principles and information about the Regulator's survey activities
- help you identify what the administering authority should be doing to manage and monitor cyber risks

The link to register for the sessions are here:

- [Cyber Risk in the LGPS – for fund officers](#) (10 am on Wednesday 18 November)

- [Cyber Risk in the LGPS – for PC/PB members](#) (10 am on Thursday 19 November)

If you are a fund officer, please pass this [invitation](#) on to your Fund's Committee and Local Pension Board members, as Aon may not hold their contact details (or please feel free to register on their behalf if they want to attend using the above links).

9, 10 & 13 November: Aon's Virtual Investment Conference: Covid, climate and compliance – are you ready for the new investment challenges?

This year's virtual Investment Conference will draw on real-world insights from pension scheme decision-makers and address practical steps investors can take now to position their portfolios in response to the pressing challenges of Covid-19, climate change and increased regulation and compliance. Key areas of focus will include:

- the current investment environment and market outlook
- the DB funding code of practice and the implications for investment strategy,
- investment governance
- why ESG matters.

A link to the invitation for this event is [here](#).

Research and Publications

The latest research and publications by Aon Thought Leaders:

- [October Covid-19 investment market update](#)
- [Helping Clients Navigate an Increasingly Complex World](#)
- [Blog: Build Back Better](#)

Aon's Investment Research and Insights 2020:

- [Investing for impact](#)
- [Renewable Energy Infrastructure: Investing in The Global Energy Transition](#)
- [Investment Governance](#)
- [Responsible Investment](#)
- [Cost and Transparency](#)

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