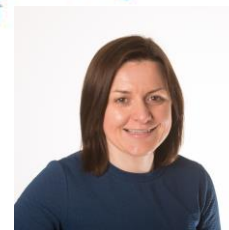


# Local Government Newsletter

June 2019

*Hello and welcome to the latest edition of our Newsletter. This month's topics include an update on the LGPS consultation covering local fund valuations and the management of employer risk, and update on changes to the final Investment Consultancy and Fiduciary Management Market Investigation Order 2019 which impacts the LGPS, recent Scottish Amendment Regulations, new actuarial factors in England and Wales and an update on the Pension Regulator's new Corporate Plan 2019-2022.*



Mary

## People / Aon News

### Engagements

A little flurry of diamonds in the last few weeks with Scott Campbell and his fiancée Steph getting engaged – congratulations to the happy couple on this great news. I also had the pleasure of a proposal from my (now) fiancé Paul earlier this month. Wedding plans afoot for both couples for Spring 2020.

### Talking points

#### Consultation on Local Valuation Cycle and Management of Employer Risk

As noted in May's newsletter, views are being sought by MHCLG on this consultation by 31 July 2019. Earlier in June we issued our [Spotlight update](#) which considers the administering authority, scheme employer and contractor perspective.

The consultation covers an extension of the formal valuation cycle and the introduction of powers to carry out interim valuations as well as greater flexibility on employer exit and the possibility of HE/FE employers being able to close the scheme to new members. It also suggests improving the current provisions relating to the repayment of surplus on exit to allow for any risk sharing which is in place. Do get in touch with your usual contacts if you have any queries on the [Spotlight update](#) or consultation more generally.

## Industry developments

### Investment Consultancy and Fiduciary Management Market Investigation Order 2019

The Competition and Markets Authority (CMA) has [issued](#) the [Investment Consultancy and Fiduciary Management Market Investigation Order 2019](#). This marks the final step of the CMA's investigation and reform of the investment consultancy and fiduciary management sectors. The requirements of the final order appear similar to those of the draft order, however there is one notable difference in that, whilst the previous draft order did not include all Public Service Pension Schemes, the published order now includes the LGPS.

The requirements for trustees (now including Pension Committees) take effect on 10 December 2019 which includes setting objectives for investment consultants which are "closely linked" to the fund's investment objectives (to be reviewed very three years). In addition, the Pensions Regulator are due to publish a draft consultation with guidance on the order shortly.

### Scottish Amendment Regulations

On 2 May the [LGPS \(Miscellaneous Amendments\)\(Scotland\) Regulations 2019 \[SSI 2019/161\]](#) were made and come into force on 28 June 2019 (some amendments backdated to 1 April 2015). In addition, corrections to two errors were addressed in the laying of the [LGPS \(Miscellaneous Amendments\) \(Scotland\) Amendment Regulations 2019 \[SSI 2019/204\]](#) on 11 June. The main changes arising from these amendment regulations include

providing that a deferred member who has attained age 55 or over may elect to receive immediate payment of pension and a widening of scope of direction making power of Scottish Ministers to determine (by direction) which LGPS fund any member or class of member should belong to. In addition, where assumed pensionable pay applies, the amendment regulations now provide that no account is taken of any reduction in pensionable pay the member received if working reduced contractual hours to ill health.

## New Actuarial Factors

From 21 June new factors issued by MHCLG take effect including updates to:

- Annual allowance scheme pays – reflects change in methodology with only one factor table
- Inverse commutation
- Conversion of AVCs to transfer credits
- Conversion of accumulated AVCs for added pension (pre and post 2014).

Factors, a covering letter and transitional table are all available from [actuarial pages](#) of the LGPS regulations website.

## Aon Global Investment Survey

Aon's second global survey on responsible investing is open and we invite you to participate to provide your views on how you think about responsible investing. We are keen to understand where you and your colleagues are on your responsible investment journey and what is driving your interest as well as whether you do (or don't) expect it to form part of your investment decisions in the future. The 10-minute survey can be found on the [Aon website](#). Responses will be anonymous, and Aon's Responsible Investment Team will share a full analysis of results this summer. On completion of the survey, you will also receive a link to Aon's latest paper 'Key considerations for Responsible Investing Initiatives'.

## TPR Corporate Plan 2019-2022

In May 2019 the Pensions Regulator issued its corporate plan for the next 3 years. Full details can be found on the [TPR website](#). It includes their six priorities with some specific activities over the next financial year 2019/20) also set out. The six priorities include:

1. Extending TPR's regulatory reach with a wider range of proactive and targeted regulatory interventions
2. Providing clarity, promoting and enforcing the high standards of trusteeship, governance and administration TPR expect
3. Intervening where necessary so that DB schemes are properly funded to meet their liabilities as they fall due
4. Ensuring workers have an opportunity to save into a qualifying workplace pension, through automatic enrolment
5. Enabling workplace pensions schemes to deliver their benefits through significant change, including responding to Brexit
6. Building a regulator capable of meeting the future challenges we face.

In relation to priority 2 listed above TPR have called out their concerns relating to public service schemes, in particular, their concern about the potential for poor data as a driver for late payment of contributions and failure to provide ABSs. TPR went on to confirm that, in the 2018 Public Sector Governance and Administration survey, three-quarters of schemes had undertaken a data-review but only 7% had completed rectification work. They also note that public sector schemes have to contend with huge complexity and lack of time and resources. Their focus will be on administration and data in the next year across public service pension schemes and they will aim to strike the right balance between support/education and using powers where this is persistent failure to improve.

## Pooling Guidance

We understand from recent presentations by MHCLG that pooling guidance due to be issued will be statutory guidance and that a formal consultation on that guidance is expected before the parliamentary summer recess (i.e. end of July) although this is not guaranteed.

## What we've been talking to our clients about

### Accounting for McCloud

Auditors have descended on finance teams over the last couple of weeks, with many taking a view that

the McCloud/Sergeant judgement should be disclosed in the accounts.

Many auditors are still forming a view on this; however, we have already been seeing a range of approaches being discussed between employers and auditors – reporting a contingent liability (with or without quantification), provision, or constructive obligation (i.e. liability sitting within the IAS 19 pensions note). Both materiality, and auditor house view, are key factors on the decision being made.

The NAO has also confirmed they will not be issuing central guidance on accounting for McCloud.

At the same time, employers and auditors are also considering the accounting treatment of GMP equalisation and indexation, which is generally less material.

We are currently assisting clients on a range of options, depending on the preferred accounting treatment including:

- drafting wording to include in the notes to the accounts under a contingent liability;
- calculation of an approximate McCloud liability based on figures calculated by GAD at a scheme level
- calculation of a more accurate McCloud liability based on the employer's actual membership profile and liabilities in the Scheme at the last valuation
- calculation of an accurate liability of GMP equalisation and indexation.

## 2019 valuation

Despite the distraction from last minute accounting issues, progressing the valuation remains top priority and we have received membership and employer data from a number of funds and have started validating the data received. There has been lots of discussion on the extent to which GMP equalisation and indexation, McCloud and the cost cap should be allowed for in the valuation calculations. We have been discussing the assumptions to use for initial calculations and, together with the latest funding update calculated on the proposed assumptions, have been considering the potential impacts upon employee contributions for 2020-2023 (or beyond depending on what happens with the valuation timescales/cycles consultation).

## Restricting exit payments in the public sector £95K cap consultation

Following publication by HM Treasury of a consultation [on restricting exit payments in the public sector £95k cap](#) in April we have been supporting clients in work to help develop responses ahead of the closing date of 3 July 2019.

## Recent Events

### Cost Management SAB Sub-Committee

Jonathan Teasdale attended the SAB Cost Management, Benefit Design and Administration Sub-Committee meeting on 3 June, having battled his way through the major London police presence greeting President Trump's State visit.

Some of the bigger discussions governed the cost of possible McCloud remedies which GAD were able to provide an early indication of; in the meeting GAD stressed the big variability in potential costs depending on whether a worst-case remedy is required (underpin for everyone, with significant costs) or something more proportionate (which may cost the proverbial tuppence half-penny). It is striking how recent commentary from within the accounting community has focused very much on the worst-case position.

There was also considerable focus on the consultation regarding the £95K exit cap; major reservations were expressed on the current suite of draft materials from both a policy and technical perspective. Among other technical items there was discussion on the proposed changes to late retirement factors, where practitioners were uncomfortable about the complexity of approach which would create challenges for member communication. An indication was given that delay of implementation of the new factors until September 2019 was now possible.

### CIPFA Summer Workshops

Laura Caudwell and Chris Darby attended the CIPFA Summer Workshops in London (6 June) and Manchester (12 June) where they presented an update on funding risks as well as an introduction to Cyber Risk. Both sessions were well attended, and a wide range of funding risks were discussed. Slides are now up on the CIPFA website for those who attended. If anyone has any questions on how to identify, evaluate and manage the various

actuarial/funding risks and cyber risks for their Fund do get in touch with Laura, Chris Darby or your usual contact.

## Upcoming Events

### ACA Pensions in Public Services meeting

Joel Duckham will be attending a meeting of the Association of Consulting Actuaries (ACA) Pensions in Public Services Sub-Committee on 26 June where the main point of discussion is likely to be the consultation on changes to the LGPS valuation cycle, and the challenges being posed by the McCloud judgement.

### Aon Cyber Security

On 9 July 2019 from 9.30-1pm Aon will be hosting a Cyber Seminar in Bristol (The Watershed, Canon's Road, Bristol, BS1 5TX).

The seminar will include a rare insight into how hackers work from a former email 'prankster' James Linton as well as insight from David Molony the Head of UK Cyber Practice at Aon and Raf Sanchez the International Breach Response Manager at Beazley (UK Cyber Liability insurer). For more details and how to register for this event please visit <https://risk.aonunited.com/BristolCyberSeminarInvite>.

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