

Local Government Newsletter

October 2019

Hello and welcome to the latest edition of our newsletter. This month's topics include MHCLG's statistical release on the LGPS for 2018/19, GAD's request for valuation data, an update on the local valuation cycle, an updated briefing note on the CMA Order, and the Government's response to a proposed fund merger. I hope you find the content useful and if you would like any further information please get in touch.



Ben

People news

Arek's return and new graduates



The team is pleased to welcome back Arek Gibas from his shared parental leave, which he has spent with his family visiting numerous relatives in Poland. In the photo Arek is with his youngest son, Bernard in Poznan's Botanical Gardens.

The Bristol office has also been swelled by the recent addition of three retirement graduates, and we welcome Maddie Ross, Rav Heer and Jock Holmes, and a new apprentice on the client management programme, Tom Ford.

Talking points

MHCLG publishes statistics for the LGPS in England and Wales for 2018/19

On 16 October, MHCLG [published](#) its compilation of the data provided by 87 LGPS Administering Authorities in England and Wales on the SF3 (Pensions) form for 2018/19. The SF3 form collects data on income, expenditure, membership, retirements and other activities.

Regarding income and expenditure, the report showed an increase of £0.7 billion in expenditure, versus a decrease of £2.3 billion in income. This meant that total expenditure was 84% of total

income, which was significantly higher than in 2017/18 (73%). MHCLG put this mainly down to the higher amount of employers' contributions made during 2017/18.

The release confirmed that total membership of the scheme increased over the year by 154,000 (or 2.7%) to stand at 5.9 million, although the number of active members actually decreased by around 21,000 (or 1.1%). This continues the trend of recent years where active membership has remained relatively flat, while the number of deferred members has been notably increasing.

In relation to employers, data showed that 74% of all membership was covered by local authorities, even though they represented less than a fifth of the total number of employers. In contrast, private sector, voluntary sector and other bodies are responsible for only 6.4% of all members but accounted for around a third of all employers.

In addition, the report showed that total retirements from the scheme increased by over 7,500 (or 9.9%) compared to 2017/18. The most notable change was early payments of deferred benefits, which increased by over 9,000 (or 24.8%) and accounted for well over half of all retirements. This is not a surprise, given the introduction of the amendment regulations in May 2018, which enabled all members to take payment of their benefits from age 55 onwards, without requiring the consent of their former employer.

GAD issues request for valuation data

On 18 October, GAD issued a [formal request](#) to all LGPS funds in England and Wales for valuation data as at 31 March 2019. This is required as part of the cost management process

and is expected in the format of the agreed universal data specification. The deadline for providing this information is 18 November. We will be in touch with our clients on this, but we understand that the general expectation is that funds will send (to GAD) the final universal data extract that was issued to us for the 2019 valuation.

The request letter also indicated that GAD are minded to agree to submit LGPS mortality data to the actuarial profession's Continuous Mortality Investigation (CMI), but still welcomes responses to the three questions set out in a [previous letter](#).

Local valuations to take place in 2022

At a meeting of the Scheme Advisory Board (SAB) Cost Management, Benefit Design and Administration Committee on 7 October, MHCLG confirmed that local valuations will take place in 2022. However, following responses to the [recent consultation](#) on changes to the valuation cycle, MHCLG also indicated that they are inclined to proceed with the move to a four-year cycle as proposed in the consultation, although the amendments to regulations would not occur until after 2022.

A separate issue covered by the consultation that will require swifter action is the policy change in relation to exit credits. At the meeting, MHCLG indicated that they will be seeking permission to lay these regulations before Christmas and that they will be broadly in line with the changes proposed in the consultation document.

An official consultation response is expected.

SAB issues updated briefing note on CMA Order

On 15 October, following clarification from DWP and MHCLG, the SAB released an updated [briefing note](#) on the recent Competition and Markets Authority (CMA) Order and the implications it has for the LGPS. The update reflects the SAB's understanding that remedy 1 (obligation to tender Fiduciary Management service) will not apply to the LGPS but that amendments to MHCLG's Investment Strategy Statement (ISS) statutory guidance will implement remedy 7 (obligation to set strategic objectives for Investment Consultants).

Although the ISS guidance is not expected to be updated this year, Part 7 of the Order will come into effect on 10 December 2019 and LGPS authorities should be aware that they may be subject to challenge should they not be compliant from this date.

Government publishes response to consultation on West Midlands Pension Fund merger

On 18 October, the Government published its [response](#) to the consultation on a proposed merger of the West Midlands Integrated Transport Authority Pension Fund with the West Midlands Pension Fund. In response to the consultation, the Government confirmed that the merger will proceed with an effective date of 1 April 2019 and it has also laid a statutory instrument (SI 2019/1351) to enable it.

Industry developments

Government publishes Pension Schemes Bill for consideration by Parliament

On 15 October, the Government [published](#) its Pension Schemes Bill for consideration by Parliament. The Bill covers various areas, including a framework for a new type of pension scheme known as 'Collective DC', support for pensions dashboards, extended powers for the Pensions Regulator – including significant new anti-avoidance powers – and new scheme funding requirements.

In respect of Collective DC, the Bill explicitly states that this will not apply to public sector schemes.

CPI increases by 1.7% over year to September 2019

On 16 October, the Office for National Statistics [published](#) inflation indices confirming that the increase in the Consumer Prices Index in the year to September 2019 was 1.7%. This will impact various figures that are indexed in line with the September increase, including the Lifetime Allowance. Under the Finance Act 2004, the Treasury must make regulations specifying the 2020/21 Lifetime Allowance, but it is expected that this will be £1,073,000.

The Pensions Regulator steps up crackdown on poor record-keeping

On 2 October, the Pensions Regulator (TPR) [announced](#) that it had asked four hundred schemes to conduct an urgent data review within six months and that those who fail to do so may face further action, including an improvement notice which could result in fines. The schemes included defined contribution, defined benefit and public service schemes.

A total of 1,200 schemes are being contacted with a reminder to carry out annual reviews of both common and scheme-specific data. This action is part of TPR's move to tighten its regulatory grip and improve standards of governance and administration and deliver better outcomes for pension savers.

High Court rules against Backto60 campaign group

On 3 October, the High Court sided with the Government and dismissed claims by the Backto60 campaign group that increases in the State Pension Age discriminated on grounds of age and/or sex.

Following the judgment, the House of Commons Library updated briefing paper [CBP-7405](#), which looks at the legislation increasing the state pension age for women born in the 1950s, and the campaigns against the increases.

What we've been talking to our clients about

On 2 October, we issued our [Spotlight on Governance](#), which considered recent governance developments in the LGPS. The Spotlight covered TPR's engagement report and future developments with its Code of Practice, as well as other ongoing activity such as the Scheme Advisory Board's (SAB) recently published Good Governance report. If you would like to discuss any of the topics covered please get in touch.

Following the deadline for issuing Pension Savings Statements, we have been in discussions with several clients regarding pensions taxation, including high earner workshops and Annual Allowance reviews. If you would like more

information on this, please contact your usual Aon consultant.

We have now issued all the 2019 valuation initial results to our actuarial clients. These have generally shown an improvement in the funding level, primarily due to positive asset returns since the last valuation. We have presented at a number of employer meetings and are progressing the individual employer results, although there is more variation between employers than ever with an increasing number of Funds using different discount rates to reflect perceived differences in employer risk as well as where the exit position is being targeted for those employers expected to exit leaving orphan liabilities.

Recent events

Good Governance working groups

Following on from the first round of Good Governance workshops in September, Karen McWilliam attended the second round on 4 October. Following these workshops, a report is now being developed which will be issued to the SAB by the end of October ahead of a board meeting on 6 November.

SAB Cost Management, Benefit Design and Administration Committee

Jonathan Teasdale attended a [committee meeting](#) on 7 October. Aside from the consultation update mentioned earlier in this newsletter, items included McCloud/the cost management process, the academies and third-tier employers project, TPR's annual scheme return and the CMI's request for scheme data.

SAB Investments, Governance and Engagement Committee

Daniel Carpenter attended a [committee meeting](#) on 14 October, where items included the Good Governance project, cost transparency, the FCA Stewardship Code and responsible investment.

CIPFA Pensions Panel

Mary Lambe attended a CIPFA Pensions Panel on 21 October to provide an update on the work we are doing with CIPFA on revising the Knowledge and Skills frameworks.

Upcoming events

CIPFA Annual Conference

On 13 November, Karen McWilliam and Mary Lambe will be speaking at the CIPFA annual conference about proposed revisions to the CIPFA Knowledge and Skills frameworks.

Pension Managers' Conference

On 19 and 20 November, Jonathan Teasdale, Sam Ogborne, Becky Durran, Craig Payne, and myself will be attending the Pension Managers' Conference in Torquay – including a speaking slot from Jonathan and Sam on the second day. We look forward to seeing many of you there.

Contact information

Ben Challinor

Benefits and Governance Consultant
+44 (0)7557 545 722
ben.challinor@aon.com

Alison Murray

Head of Public Sector Actuarial
+44 (0)117 900 4219
alison.murray@aon.com

Karen McWilliam

Head of Public Sector Governance and Benefits Consultancy
+44 (0)7711 016 707
karen.mcwilliam@aon.com

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