

Local Government Newsletter

May 2020

Hello and welcome to the latest edition of our newsletter.

This month's topics include an update on the continued impact of COVID-19, focusing on the longevity impact and cyber risk as more people work from home. In addition, we look at various topics that we have been discussing with our clients, including a financial advice service for LGPS members and assistance with the annual allowance exercise.



Scott

People news

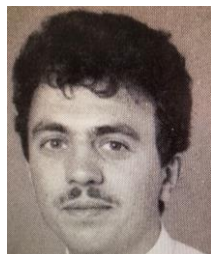
This month we sadly had to say goodbye to a long-standing team member. Chris Archer has decided to retire from the end of May after nearly 39 years of working and just over 30 years at Aon and its predecessor firms (Bacon & Woodrow and Hewitt) in two separate periods of employment.

Chris has worked for the public sector team since his return to Aon in March 2003 being, over that time, the lead actuary for six LGPS Funds. Chris has also advised a number of employers who participate in LGPS Funds he does not advise.

Chris has worked with the team for a significant period to ensure work and responsibilities are transitioned and to ensure clients were involved in this process.

Unfortunately, we have not been able to give Chris the retirement send-off he deserves but hopefully we will be able to arrange something later in the year.

For those of you who know Chris we thought you would enjoy seeing a picture of him from his early days at Aon – I think you will all agree he hasn't changed a bit!



COVID-19

In the articles below we provide an update on two important areas where the pandemic is currently affecting the LGPS; firstly in relation to the potential impact the pandemic could have on funds from a longevity perspective (i.e. expected life expectancy of members), and secondly in relation to cyber risk as more people work from home.

These articles have been prepared with input from our central Demographic Horizons™ team and Cyber Solutions practice respectively.

COVID-19 Update: Longevity analysis

The short-term impact of the COVID-19 outbreak on UK deaths is unprecedented in recent times. Deaths from COVID-19 have peaked in the UK, but the rate of decline has been slower than the initial rate of increase – suggesting that whilst social distancing and lockdown has been an effective strategy for inhibiting the spread of COVID-19, initially at least it does not stop the spread altogether.

Data from the Office for National Statistics also shows that the total "additional" deaths so far this year (compared to what is typically seen) are significantly higher than the official COVID-19 death counts, with around 60,000 "additional" deaths since the start of the year, compared to around 38,000 official COVID-19 deaths.

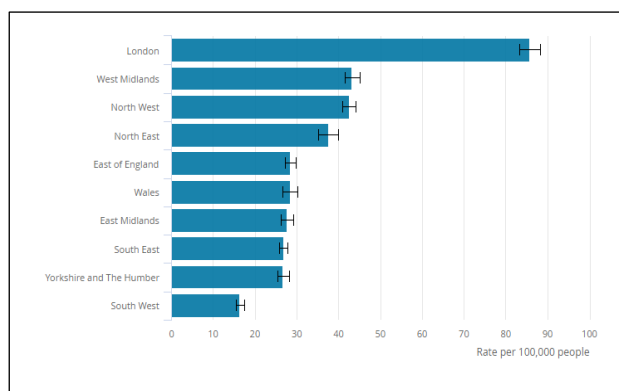
The outlook for the remainder of 2020 (and beyond) is still very uncertain, but it is possible that there could be 100,000 more deaths than

expected by the end of the year, compared with around 600,000 deaths in a typical year.

A lot of data has been published about the impact of COVID-19 at a national level, but the impact on pension funds could be very different and will be two-fold:

1. the impact of more members having died than would usually be expected; and
2. the outlook for longevity changing, for example depending on the health of the surviving population; and the economic, social and political consequences of tackling COVID-19.

The impact of COVID-19 has varied significantly between groups, for example depending on age, affluence and location (illustrated by the chart shown below), so even within the LGPS the impact will differ between funds, and the long-term effects could be either positive or negative.



As well as the very real impact for members and administrators, employers and funds will wish to understand the implications from a funding perspective given that funding levels have fallen due to market conditions. With this in mind we are planning to ask funds to submit up-to-date pensioner and dependants extracts later this year, allowing the impact of COVID-19 to be assessed at a pension fund level and compared to national/LGPS-wide data. However, to avoid the risk of funds receiving multiple requests we have already been in touch with LGA as SAB Secretariat to discuss our proposals, with a view to ensuring a coordinated national approach.

We will be in contact with funds in relation to this in due course. In the meantime, if you would like to discuss the impact of COVID-19 in more detail, please get in touch with your usual Aon contact.

More information on COVID-19 is available from our regular longevity impact briefing, which can be found [here](#).

COVID-19 Update: Cyber Risks increase as more people work from home

The global COVID-19 pandemic has led to many employees working remotely, some for the first time; a development that has significantly increased organisations' cyber risks. Cyber criminals are aware of the opportunity that rapidly deployed, mass remote working offers, and are taking advantage of the vulnerabilities exposed by the new way of working. Hackers are targeting individuals through phishing attacks disguised as coronavirus-related notices, or by luring them to infected websites that appear to be legitimate sources of COVID-19 information.

Business email compromise is an increasingly serious risk. Over the course of 2019, internet-enabled theft, fraud and exploitation were responsible for \$3.5 billion in financial losses, according to the FBI. Virtual private networks (VPNs) may lack the capacity for the added online workforce while IT teams are overtaxed dealing with a remote workforce or depleted by COVID-19, making defending organisations against cyber attacks that much more difficult. Given the increased number of entry points for potential attacks, heightened activity and increasingly distracted employees juggling work and home obligations, it's recommended that organisations ramp up their cyber security efforts as part of their COVID-19 response.

A few simple questions local authorities (and all LGPS employers) should be asking themselves include:

- what sort of cyber security guidance or support are you providing employees who are working remotely and being targeted by those seeking to take advantage of the COVID-19 pandemic?
- do you have Bring Your Own Device (BYOD) standards in place? Have you reminded employees about the requirements of these standards?
- have you noticed additional spam or potential phishing emails? Are employees alert to the increased risk?

Aon's [Covid-19 Response Site](#) was created to provide resources to organisations mounting an effective response to the COVID-19 pandemic.

In addition, our public sector experts within our Cyber Solutions practice can help local authorities and other public sector organisations assess cyber security risks, quantify the potential impact of cyber attacks, craft cyber security solutions and

transfer risks where appropriate. These materials equally apply to those managing LGPS or other public sector schemes and, as highlighted by The Pensions Regulator in last year's survey, cyber security is a significant issue that requires attention by scheme managers. We can provide assistance with questionnaires for your suppliers (including the host authority), identifying your key areas of cyber risk and documenting incident response plans. If you would like to know more, please get in touch with your usual Aon consultant, Karen McWilliam or Mary Lambe.

SAB update and surveys

The England & Wales Scheme Advisory Board issued their third COVID-19 survey in May. This covered LGPS COVID-19 governance and the results can be found [here](#).

In addition, the SAB held a (virtual) meeting on 5 May 2020. The main points arising from the meeting, including an update on COVID-19 issues and McCloud can be found in this [Summary note](#) on the Scheme Advisory Board's website.

Industry developments

Update on McCloud

In last month's newsletter we provided an update on McCloud and set out ways that we can help funds plan for this project.

We have recently run three McCloud workshops with clients to ensure that administering authorities understand what this will mean for their fund and enable them to plan their resources appropriately. Clients have told us that the workshops have been really useful, and more are planned ahead of the public consultation on the proposed remedy which is expected at the end of June/early July.

If you would like to discuss how we can help you, please contact Virginia Burke or your usual Aon contact.

GAD data letters

All administering authorities in England and Wales should have received correspondence from GAD regarding the 2019 data supplied last September. Following concerns raised by funds and their actuaries, a meeting was scheduled between colleagues from LGA, MHCLG, GAD and the four actuarial firms advising administering authorities. Becky Durran and Alison Murray attended from Aon.

GAD explained that the purpose of the exercise had been to "test" the process in advance of data being requested as at 31 March 2020 for the Scheme valuation for cost management purposes. GAD is intending to follow up with the dozen or so funds whose data appeared relatively poor to ensure there have been no misunderstandings with the data and/or explore if the funds can provide data differently or if there are issues with employers not providing them with data.

Whilst we believe the communication might have been better and insufficient thought was given to how GAD's correspondence might be received by funds, and others expressed similar views, everyone approached the meeting constructively.

Key actions:

- given GAD's acknowledgement that the quality of the data was as good as, if not better than, in 2016, a generic communication will be considered to provide reassurance that GAD's findings do not undermine the validity of the 2019 valuation results nor indicate that LGPS data quality is poor
- GAD will consider feedback from fund actuaries on the process and their findings and asked for this to be submitted by mid-June
- administering authorities should also consider responding to GAD and indicate if they expect any issues regarding the 2020 exercise.

We have been working with a number of administering authorities to help them respond to GAD and also to assist with internal reporting to the pension board or committee and would encourage others to respond to GAD if they haven't already done so. Whilst in general the quality of data for the 2019 valuations was good, in many cases we were able to resolve issues due to our experience of working with LGPS funds and knowledge of individual funds' issues. Ensuring quality data is held is an ongoing issue and relies on employers supplying timely and accurate information to administrators, and funds having the time and resource to process that information. An annual review of data quality is best practice and could be invaluable for the 2020 scheme valuation. Funds should also avoid letting backlogs of work build up where possible. Our view is that administering authorities and their advisers need to work together to help ensure GAD fully understand the data provided - it is in everyone's interests to ensure the data underpinning the cost management valuation is reliable and we are keen to play our part in that.

What we've been talking to our clients about

Financial Advice

Following requests from a number of administering authorities, we have been working with colleagues across the business to develop a financial advice service for LGPS members covering pension matters. This is primarily aimed at members with queries relating to annual and lifetime allowance matters but is also available for those requiring advice about transfers or retirement planning. This service is offered exclusively through administering authorities and employers and can be used in conjunction with our existing offerings, such as group member presentations, support with high earner calculations, or provided as individual sessions for members as and when required.

If this would be of interest to you, please get in touch with Catherine Pearce or your usual Aon contact.

Annual Allowance

We know that many funds find the annual exercise to issue Pensions Savings Statements difficult. We just wanted to remind you that Aon can assist with this exercise, ranging from helping with individual calculations through to carrying out the full exercise on your behalf (which could include identifying affected members, carrying out all calculations, and designing and issuing the Pensions Savings Statements). As you will see from the article above we can also now offer independent financial advice for members who would find this useful to assist them in making decisions about their pension tax affairs.

If you would like to discuss assistance with annual (and lifetime) allowance calculations at any time, please get in touch with Catherine Pearce or your usual Aon contact.

Recent events

- Alison Murray and Catherine Pearce attended a webinar hosted by PLSA and featuring Lorraine Bennett from LGA and Nick Gannon from The Pensions Regulator. This covered several areas including the impact of COVID-19 on the LGPS from a governance and administration perspective. PLSA reiterated that the LGPS is generally coping well but there are a number of key challenges, including remote working, staff shortages, difficulty servicing member requests and funding concerns. Nick Gannon stated that tPR is pulling together some public-sector specific guidance for the COVID situation and this should be available shortly.
- Alison Murray and Chris Darby attended a meeting hosted by Jeff Houston from LGA along with representatives from the other actuarial firms, MHCLG and GAD. The key topics included post valuation experience and discussing any employer / cashflow issues, possible employer flexibility regulations, McCloud update and NHSC life assurance scheme.
- Aon hosted a webinar entitled COVID-19 Response Webinar: Understanding the Bigger Picture on 20 May which covered Aon's latest scenarios for potential recovery in markets and the global economy. A recording of the webinar is available [here](#).

Research and Publications

The latest research and publications by Aon Thought Leaders:

- [Investment market update: 25 May 2020](#)
- [Aon's Investment Podcast: What Damage is the Coronavirus Doing to the UK and Global Economies \(12 May\)](#)

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About Aon

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