Local Government Newsletter
November 2020

Hello and welcome to the latest edition of our newsletter. We are looking forward to coming out of the nationwide lockdown (in England) and seeing our families (from a safe distance) if the new tier allocations allow it!

This month we bring you updates on COVID-19 and further information on the £95k exit cap proposals. We are also pleased to have just launched our free LGPS Cyber Scorecard for you to test your fund's Cyber resilience!

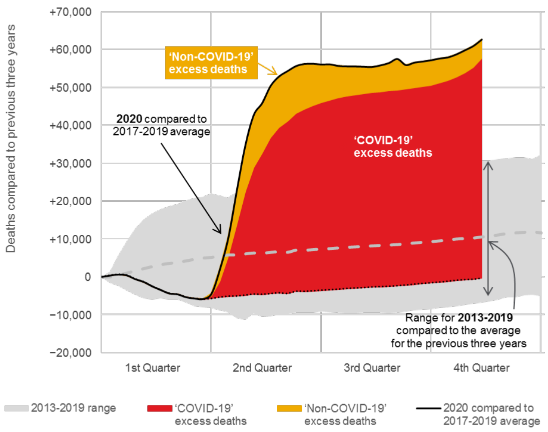
Laura

People news

After 24 years with Aon, David Higgs will be hanging up his calculator (so to speak) as he starts his retirement in December 2020. Dave has been a huge support to the Public Sector Team through the years and whilst we are all sad to see him go, we are excited for him to start his new chapter in life in beautiful Cumbria!

COVID-19 Update

England & Wales excess deaths (to 6th November)



The above chart shows the number of deaths in 2020 (to 6 November) compared to the average over the last 3 years – the red area is COVID-19 excess deaths, and the yellow is other excess deaths. As of 17 November, Public Health England data suggests they expected over 2,000 'COVID-19' deaths in the last week.

Hospitalisations appear to be stabilising, which suggests excess deaths will too.

It appears that the second wave is not on the same scale as the first wave, although there is regional variation in hospitalisations, with the North West falling steadily and the Midlands, South East and South West growing rapidly. However the impact of the local restrictions and subsequent national lockdown is not yet showing in the data. A positive impact is expected in the next few weeks, i.e. falling hospitalisations and then falling excess deaths.

Impact on life expectancy assumptions

Overall, Aon's views on mortality/life expectancy have not changed since that set out in our previous newsletter 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. This is aligned with auditors' views in relation to accounting valuations.

Colleges & Universities facing funding shortfalls due to Pensions & COVID

The Institute for Fiscal Studies has published its report on Education Spending in England, with a deeper look at the impact of COVID on the education sector. It notes that there is significant risk arising from the potential for student numbers at universities to fall notably following this crisis (especially where universities rely on international students).

However, the report notes that the biggest risk to universities is the increase in the cost of their pensions, as market conditions have contributed to a larger deficit and high employer contributions. As we have highlighted previously, this could result in such employers looking to cease participation in defined benefit schemes such as the LGPS.

Industry developments

£95K Exit Cap

The public sector exit payment cap came into effect on 4 November. However, as has been highlighted, changes to the LGPS regulations are still pending and so there is an interim period where the cap needs to be applied but there is uncertainty over how this can be done in practice. The Scheme Advisory Board has a page linking to the recent advice issued to both scheme employers and administering authorities.

The consultation on the principles of applying the exit payment cap to the LGPS is now closed, and we have circulated our response. The consultation on the draft regulations runs to 18 December, so there is still time to respond on this part of the consultation. We are also in correspondence with GAD to clarify some areas of the draft guidance on calculation of the strain factors that are unclear.

Information about the waiver process for England is included in the guidance on the new regulations, and interim waiver guidance for Wales (requiring approval by Welsh Ministers) has also been released which will be in force until the full waiver process is agreed.

We are also aware of a legal challenge by two local authority groups, Lawyers in Local Government and the Association of Local Authority Chief Executives. They have requested that Treasury confirms by 10 December whether it will contest the case, and have requested a hearing before 10 February 2021. This is in addition to the challenges already raised by two unions last month.

As far as we are aware, the LGPSs in Scotland and Northern Ireland are not affected by these changes.

GMP Equalisation - Lloyds ruling on historic transfers

On 20 November the High Court ruled on the equalisation for GMPs of historic transfers out of the three largest Lloyds Banking Group pension schemes. The judgement requires all transfers with 17 May 1990 – 5 April 1997 GMPs to be equalised, even if they were taken as long ago as 1990. Schemes will be expected to pay a top-up to the receiving scheme with interest at Bank base rate +1%. There are limited exceptions that do not require a top-up, but it is not obvious within the judgement that there is to be any blanket exemption on the application of this ruling to public sector schemes. It is not yet clear what impact this will have for the LGPS (for example on club vs non-club transfers), so we expect funds to await guidance specific to the LGPS before taking any action on this.

RPI Methodology Consultation

HM Treasury and the UK Statistics Authority (UKSA) have published a response to their March consultation on the Reform of the Retail Prices Index (RPI) Methodology. From 2030, RPI is expected to be calculated in line with CPIH (the Consumer Prices Index including owner occupiers' housing costs).

This was in response to a report published in January 2019 on the use of the Retail Prices Index (RPI), which was critical of flaws in RPI remaining unaddressed, and raised the prospect of RPI being replaced.

As pension increases and revaluation in the LGPS are already linked to increases in CPI rather than RPI, the main impact for LGPS liabilities is likely to be in relation to how the assumption for CPI linked increases is derived. It is typically based on expectations for index linked government bonds with a suitable adjustment, as there is no equivalent market for CPI linked bonds. However, as this change will take effect a fair distance in the future, we do not suggest any further analysis of its impact at this stage Funds will of course need to consider the impact on the value of any index-linked bond holdings although these are generally far less material than in the private sector.

TPR Public Service Survey 2019

The Pensions Regulator (TPR) has published the results of its Public Service Governance and

Administration Survey for 2019 based on research carried out between November 2019 and January 2020. The report sets out the various areas of the governance and administration requirements of the LGPS as set out in the Public Service Pensions Act 2013 and the Public Service Pensions Act (Northern Ireland) 2014 with information on where further improvements are needed.

The headlines of the report were mostly positive, and 80% of LGPS Funds have all six of the key processes that TPR monitors as indicators of public service scheme performance.

Nick Gannon of TPR gave an insight into the Cyber-related aspects of the survey results in our webinar series "Cyber Risk in the LGPS" – see below for links to the recording.

Nick also gave a "heads up" to funds that the next survey will be coming out in early 2021, once the scheme returns have been collected.

Statistical Release for England & Wales LGPS Funds 2019/2020

The MHCLG has published its statistical release with information on the LGPS (E&W) Funds over the 2019/2020 financial year, setting out the key indicators over the year such as population, expenditure, income and value.

As the closing values were as at 31 March 2020, the effects of market volatility caused by the onset of COVID-19 can be seen in the decreased in total fund value of £14.8 billion over the year. We will have improved over the past few months as markets have picked up.

Please see here for the full document.

TPR and Pension Scams

On 10th November, the Pensions Regulator (TPR) launched a new anti-scam pledge. TPR is urging those responsible for providing pension schemes to sign up to the pledge by committing to take a number of steps to protect pension scheme members. Once these steps have been taken, signatories can then self-certify that they are carrying out the pledge commitments.

The pledge is voluntary but TPR also makes it clear that these steps set out its expectations and urges the pensions industry to go further than this. We therefore expect that most administering authorities will want to make the pledge.

Aon has developed a scams training session which helps those responsible for pension funds have enough information to help them to understand the background to pension scams and their responsibilities. This also helps them to understand if they want to make the pledge and if there are any further steps they feel they should be taking. Please let us know if you are interested in this for your fund.

Independent Schools Leaving the Teachers' Pension Scheme (TPS)

There has been an increasing number of private schools leaving the TPS, with more schools in talks with unions to do the same.

The Department for Education published the results to the consultation, which commenced in September 2020, on their proposal to amend the rules so that independent schools in England and Wales could opt out of TPS participation for future teaching staff whilst allowing existing staff to remain as active members, as a means of mitigating a mass exodus of schools from the Scheme. Please see here for detailed consultation findings.

This may be a sign that private schools (which are admission bodies where they participate in the LGPS) may also be looking to close to new staff or even close to future accrual in the LGPS. It is a good example of where the new deferred debt arrangement flexibilities could be put into use (once the guidance and policies are in place of course!).

LGA Bulletin

The latest LGA bulletin was published on 10 November. This provides a useful summary on the exit cap developments, and information about the TPR scheme return notices to Funds. The CPI increase for September 2020 was 0.5% so this is likely to be the Pension Increase / pension account revaluation rate from April 2021.

What we've been talking to our clients about

Early Retirement Strain on Fund Factors

The majority of the factors used for members taking options within the LGPS (e.g. early and late retirement factors) are determined by the Government Actuary's Department (GAD). However, the factors used to determine the strain on fund payment required by Employers when members retire early with no actuarial reduction are set by your Fund Actuary. These should be reviewed periodically, usually after the completion of the triennial actuarial valuation, so that they are based on the most up to date funding strategy, although many funds put such reviews on hold earlier this year whilst the details of the exit cap were finalised.

MHCLG's consultation on draft regulations confirmed that for employers within the scope of the exit cap, the strain on Fund would need to be based on factors produced by GAD. However this is not required until the proposed LGPS Regulations come into force. Many funds are considering adopting these factors early, given the exit cap is now in force. While this is not an unreasonable action to take, regulation 68(2) requires the factors for calculation of the strain on fund cost to be set by the fund actuary, and therefore funds should discuss this with their actuary before implementation. It is also worth bearing in mind that GAD's methodology is quite different to the existing calculations within the administration systems (and makes an accurate allowance for post-2014 CARE benefits). Even if you don't adopt the GAD factors given members' benefits may be affected we would strongly suggest funds consider the underlying methodology.

Given the increased focus on covenant and exit debts (especially in the current depressed financial climate), we believe that funds should also consider whether the GAD factors are appropriate in all cases, as there is flexibility where the employer is not subject to the exit cap. For employers who are likely to exit in the short term, a strain cost which is measured on a basis close to the exit basis is likely to reduce any exit valuation deficit and ensure that employers understand the implications of redundancy exercises.

MHCLG Guidance on Preparing and Maintaining FSS on New Employer Flexibilities

23 September 2020 saw the introduction of the ability to review employer contributions between valuations and d flexibility on exit payments (via DDAs or spreading exit payments).

In support of the new flexibilities, MHCLG and CIPFA has developed draft statutory guidance for administering authorities. There was a three-week technical consultation which ended on 23 November 2020 although we believe that it may be 2021 before the guidance is formally published.

SAB is also developing practical guidance to assist administering authorities and employers in the implementation of the employer flexibilities, and it is intended that this will be published alongside the statutory guidance.

Cyber risk management

It was great to see so many of you attend our educational webinars "Cyber risk in the LGPS" on 18 and 19 November, with special guest speaker Nick Gannon from the Pensions Regulator, who covered the Cyber-related aspects of the newly published 2019 public sector scheme governance and administration survey results. If you and/or your Committee and Board members missed the webinars the links to the recordings are still available here:

- Cyber risk in the LGPS – for officers
- Cyber risk in the LGPS – for PC/PB members

Thanks to those of you who contributed towards our polls. As expected, this demonstrated that some of you are already making good progress but there is always more you can do to better protect the fund, including training, fund specific incident response plans, and ensuring the Committee and Board are getting enough assurances on this.

In other Cyber news, the Institute and Faculty of actuaries published a paper on pension scheme cyber risks which can be found here. This was co-written by Aon's Vanessa Jaeger FIA and focuses on deliberate (i.e. non-accidental) acts, and how to manage them. The Pensions Administration Standards Association (PASA) has also announced the launch of its new Cybercrime Guidance for pension administrators. These two publications help to highlight some of the risks to which funds are exposed and provide a useful starting point for tackling some of the Cyber-related risks LGPS funds face. However, we recommend funds carry out their own analysis of Cyber risks (accidental and deliberate, relating to data, administration, assets, operations etc). and put in place an overall Cyber Strategy using Aon's "Seek, Shield, Solve" framework. For more information our cyber flyer can be found here.

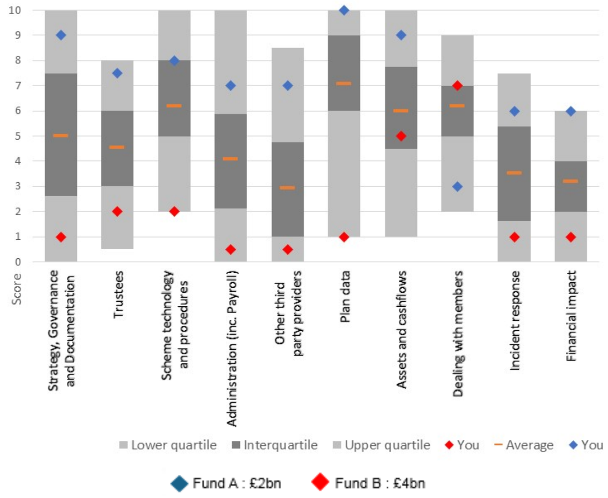
With an increase in hacking attacks targeting key data and operations looking to exploit to the recent wholesale move to online learning Cyber Risk has become a critical concern across the higher education sector. For funds with Higher Education employers, our Cyber specialist team also ran a Cyber event which may be of use in helping those employers tackle these risks.

LGPS Cyber Scorecard

McCloud and the exit payment cap are causing additional work for officers at the moment, but the LGPS is still a key target for cyber criminals and funds need to do what they can to prepare themselves should the worst happen. To support you in identifying where you need to focus your attention, we are delighted to have launched our **LGPS Cyber Scorecard**. This Scorecard enables funds to assess their overall approach to cyber risk and how they compare to other LGPS funds. The assessment consists of about 60 multiple choice questions which takes about 30 minutes to complete. They are not technical questions, and senior officers should be able to answer the questions without much difficulty.

Participating in this assessment is free and we will provide a free report which provides an overall score, a breakdown into 10 key areas, and a comparison against the database of other LGPS funds who have completed the assessment. This report could, for example, be tabled in the spring Pension Committee and Pension Board meetings, which may help in prioritising key actions in relation to managing Cyber risk for your fund. An example of the chart showing the summarised results in these 10 areas which is included in the report is shown below.

If you would like to take part, the link to the assessment is here.



McCloud Update

MHCLG has shared the feedback on its consultation on the proposed changes to the statutory underpin which closed on 8 October. The main themes from the consultation are:

- Implementation will be a highly significant project for administrators and employers, and obtaining data and finding resources are of real concern
- There is a strong desire for national guidance and communications
- There is general support for the two-stage underpin proposal, with some concerns raised regarding scope and including underpin estimates in the ABS

In addition, the LGA has recently reiterated its encouragement for funds to make a start on gathering McCloud data, identifying gaps in hours and service break data, issuing data templates to employers and consulting with software providers with regard to loading the data onto their administration system to allow the proposed new underpin to be calculated for active members and leavers.

Clearly it would be preferable for the LGPS regulations to be finalised as early as possible to enable software providers and administrators sufficient time to prepare for implementation. In the meantime, there is plenty to do to prepare and we would encourage funds to identify how many members they have in scope, formally set up their project, consider their resource requirements and start their data collection. We are helping more and more clients to get started by providing the dedicated resource and expertise that takes some of the pressure off their ever-increasing “to-do” list. If you would like to discuss your Fund’s McCloud project please get in touch with Virginia Burke or your usual Aon contact who will be happy to help.

Recent Events

PM Conference Summary

Becky Durran, Catherine Pearce, Sam Ogborne and Craig Payne attended the virtual Pension Managers' Conference on 17/18 November, Sessions included an overview from the Chair of the Scheme Advisory Board, Roger Phillips, as well as updates from LGA and workshops on McCloud, the exit cap and the higher education sector. There was a very useful legal update on pension scams and an interesting presentation on 'big data' and its impact on pension funds.

PLSA Local Authority Update

Alison Murray and Mary Lambe attended the virtual PLSA Local Authority update on 11/12 November which covered a range of topical subjects including the £95K cap, tier 3 employer covenant, the Good Governance review and an update from TPR on the forthcoming new Single Modular Code. Comments that the McCloud Regulations might be delayed by other legislative priorities due to Brexit was picked up by a number of pensions publications. We can only hope that this doesn't happen in practice or that MHCLG finds a way of giving funds and software providers sufficient comfort on the content of the final regulations that any regulatory delay does not derail the implementation of the changes.

CIPFA Pensions Conference

On 16/17 November Alison Murray and Mary Lambe attended the virtual annual CIPFA Pension Conference with forthcoming changes to the Knowledge and Skills Framework for Pensions Committees and Officers, which Aon is supporting, being discussed, as well as an update from the Government Actuary Department.

Research and Publications

The latest research and publications by Aon Thought Leaders:

- November COVID-19 Investment Market Update

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