

# Local Government Newsletter

## February 2019

*Hello and welcome to the February edition of our Newsletter.*

*Joel*



## People News



Joseph Ramsey, a recent graduate from Queen's University Belfast with a First Class Honours in Finance, has moved over from Northern Ireland to join Aon as part of the Aon graduate programme. Joseph will be working on a mixture of public sector and private sector

clients whilst studying for the actuarial exams. Outside of work, Joseph has a keen interest in football and plans on going to a few games soon.

## Talking points

### McCloud Judgement

On 20 December 2018 the Government lost a Court of Appeal ruling which found that the transitional protections introduced as part of the reforms to the Firefighters' and Judges pension schemes were age discriminatory. In both schemes, members who, on 1 April 2012, were within 10 years of their Normal Pension Age were protected so they would see no change to the level of benefits or when they could expect to receive them. Whilst this ruling applies to the Firefighters and Judiciary Schemes, it has implications for all public service schemes which contained similar transitional protections for those within 10 years of their NPA on 1 April 2012.

The Government has applied for permission to appeal to the Supreme Court to challenge this Court of Appeal ruling.

### Pause to the Cost Cap process

Government has announced a pause in the cost cap process for public service pension schemes in light of its application to appeal the McCloud judgement to the Supreme Court. On 8 February 2019, the Scheme Advisory Board confirmed that it

had no option but to pause its own cost management process pending the outcome of the McCloud appeal process.

- Although the McCloud case only directly refers to the Judges' and Firefighters' Schemes, it is expected that the principles will be treated as applying equally to all public service schemes including the LGPS.
- There are likely to be substantial implications of benefit and/or member contribution changes when the cost management process recommences, which may be implemented retrospectively to 1 April 2019 if there is no movement in the implementation date.
- LGA has recently circulated draft member contribution bands to apply from April 2019 based on the existing regulations [LGA Bulletin 181.pdf](#).
- There are also implications of the pausing of the cost cap process for the 2019 actuarial valuations, noting that calculations of employer rates will be completed before the appeal ruling, which itself may not be until after 1 April 2020 (see below).

Further comments were included in our [LGPS Cost Management update](#).

### McCloud Q&As

The Scheme Advisory Board has published a list of Q&As for Administering Authorities following the pause in the Cost Cap process. The document is available on the SAB website [here](#).

The Q&A poses a question to Administering Authorities around how the McCloud judgement and cost management process should be allowed for in the 2019 actuarial valuation. Authorities are asked to respond Friday 1 March. Two options have been put forward:

- A) SAB to issue guidance on the approach to use with the intention of promoting consistency across LGPS Funds. This option suggests that, if no final outcome is known by 31 August 2019, Authorities will be instructed to value benefits on the basis of 'no change', but to consider allowing for the risk of future changes when setting rates (with transparency around the approach taken). Guidance would also cover exit valuations.
- B) No guidance, so individual Administering Authorities decide the approach they wish to take as part of overall funding strategy.

## LGPS (Miscellaneous Amendment) 2018 Regulations

The LGPS (Miscellaneous Amendment) 2018 Regulations came into force on 10 January 2019 but with certain provisions having effect from earlier dates.

Key changes introduced by these amendment regulations include:

- Introducing a general power for the Secretary of State to issue statutory guidance;
- Making a technical amendment to allow early access to benefits between age 55 and NRD for deferred members who left prior to 1 April 1998;
- Providing that survivors of registered civil partners or same sex marriages are provided with benefits that replicate those provided to widows (addressing the Walker v Innospec judgement).

We understand that MHCLG will be issuing guidance on addressing the survivors of civil partners and same sex marriages shortly. There are several actions that administering authorities must take as a result of these changes, and these are summarised in LGA Bulletin 181.

## Industry developments

### House of Lords ruling on RPI

The House of Lords Economic Affairs Committee has [published](#) its [report](#) on the use of RPI. The Committee recommended correcting a known error with RPI and moving to a single general measure of inflation.

While no changes have been confirmed, pension funds and their advisors are likely to be watching with interest. Potential considerations include continued suitability of any existing inflation hedges and potential impacts on future outlook for market prices of RPI linked assets. In addition, the recommendations may pave the way for new assets which provide a better match to LGPS inflation e.g. CPI linked gilts.

Short term market impacts arising from the published recommendations, and any subsequent action will also feed into considerations for assumption setting both for funding valuation and accounting purposes, so something to be aware of as 31 March 2019 nears!

## Update on proposed acquisition of Equitable Life

Equitable Life announced early in 2018 that it had entered into an agreement to transfer its business to Reliance Life Ltd by the end of 2019.

Under the proposed deal it is expected that:

- All policies will transfer to Reliance Life
- With-profit policies will be converted to unit linked funds, as any guarantees will be removed
- Conversion terms will result in a significant uplift to fund values, expected to be between 60% to 70% of current policy value
- Administering Authorities will be able to vote on whether to accept the proposed deal

**Communication:** Equitable Life will be communicating with Administering Authorities, as the named policyholder. Authorities will need to disseminate information to their affected members in a timely fashion.

**Expected uplift to with profits:** As the conversion of with-profits to unit linked funds is designed to compensate members for the loss of their guarantees, Equitable Life will be carrying out 'fairness' tests to check that the uplifts do not result in members being worse off (based on projections using specified assumptions). It is possible that there may be differential uplifts, i.e. some members may get more than the expected 60% to 70% of policy value if their guarantees are deemed to be more valuable.

During 2019 Equitable Life will apply additional checks where members request a transfer-out of their funds or retirement prior to the transfer to Reliance Life. These checks will ensure that members are aware that they could forgo a significant uplift. We recommend Administering Authorities make members aware of this as soon as possible.

**With Profit fund mapping:** Equitable Life will issue a Fund pack in June 2019 containing the available unit linked fund choices and illustrations for each with-profit member. Administering Authorities will need to decide whether they select the fund mapping or whether they manage the process such that their members make the selection.

**Voting:** Administering Authorities will receive voting packs in June 2019 and will need to separately vote on:

- the proposed uplift for their respective members and conversion of with-profits to unit linked funds: requires 50% by number (trustee = 1 vote) / 75% by value for this to go ahead
- the transfer of the business to Reliance Life: requires 75% by member (1 vote per £1,000 policy value - max 10 per person) for this to go ahead

#### How we can help:

- Equitable Life can provide us with details that enable us to work out the uplifts prior to being formally issued later in the year to Administering Authorities.
- Support decisions on with profit fund mapping.
- Drafting appropriate member communications and conducting generic member workshops.
- Attendance at Committee / Panel meetings by one of our DC experts.

### Aon's Responsible Investment Update

This month we have issued our latest quarterly Responsible Investment update, which can be found on our website by clicking [here](#).

In this edition, we touch on:

- **Aon's Responsible Investment Network:**

Aon's Responsible Investment Network - a group of over 200 institutional investors with an interest in responsible investment - held its first meeting in November, and its second meeting

21 February (see a brief overview in the recent events section below).

- **Climate change:**

We highlight a number of climate-related developments, including the UN's 24th Conference of Parties and the release of the USGCRP's assessment of the impacts of climate change on the United States. We also note the release of Aon's annual report on the impact of global natural disasters and the news that the Bank of England is considering adding climate risks to its next round of stress tests.

- **Legislative, regulatory and industry developments:**

In the official sector, the European Commission continued its important work on sustainable finance and the UK Government responded to the Environmental Audit Committee's paper on embedding sustainability in financial decision making. Additionally, the AMNT-UKSIF published a guide for trustees on holding their investment consultants to account on responsible investment matters.

- Finally, a number of changes to private sector regulations around the Statement of Investment Principles are set to come into effect from 1 October 2019. Aon has been helping pension scheme trustees as they work towards compliance with the new requirements.

Please get in touch with a member of our [Responsible Investment Team](#) if you want to know more.

### Schemes will be forced to provide data for pensions dashboard

During a [parliamentary debate](#), Pensions Minister Guy Opperman confirmed that the Government will require schemes to provide data for the pensions dashboard. He said that "the only issue is the timeline" as "Certain providers could provide the data quite quickly...Others will take longer". He also said that more details will be provided by the DWP in its response to the dashboard consultation which it expects to publish in March 2019.

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

### Ill health retirement costs and other risk benefits

As we near the 31 March 2019 valuation date, administering authorities and Fund actuaries are busy preparing, including data cleansing and review of funding strategies. A key component to the valuation is the strategy to dealing with the cost of "risk benefits" including ill health pensions and lump sums / dependants' pensions payable on death in service. You may have seen recent press coverage related to these items. Four options generally considered for each risk benefit in turn are:

- Live with the risk – i.e. each employer will pick up the excess cost (which may be negative) of any risk benefit over and above the cost assumed in the valuation basis. This may be met as a lump sum or spread over a period.
- Using a pooled approach to setting contribution rates – i.e. risk is spread among all pooled employers within a funding pool using a defined method.
- Pooling of the cost of the risk benefit alone across the whole Fund (known as self-insurance).
- External insurance.

Each administering authority will need to periodically review its strategy which may include quantitative and qualitative analysis to determine its favoured strategy, considering the scheme stakeholders as well as cashflow management and efficiency (e.g. commission and profit loadings related to external insurance solutions, and overheads of pooling). Changes in risk appetite, increased employer awareness and transparency (e.g. as a result of the movement of many Funds to unitised asset monitoring) are some possible reasons why your existing solution may no longer be optimal, and it is possible that different solutions will be, or continue to be, appropriate for each risk benefit type. If you would like to explore the options further, or would like to learn more about our risk benefit management review framework, please contact your usual Aon contact.

### Pension Committee & Pension Board Member Training

A number of local elections are scheduled to take place throughout England and Northern Ireland in May which may prompt changes in the make-up of Funds' Pension Committee and Pension Board membership. Following the success of the training sessions we held last year, we are planning on replicating these again this year with a focus on covering the key areas within the CIPFA recommended competencies for Committee and Board members:

- An introduction to the LGPS
- Legislation
- Governance
- Funding matters
- Benefit structure
- Investment matters

Last year's sessions were held in London but we are considering hosting these in other parts of the country if there is sufficient demand. We are thinking of issuing quick surveys to discover what interest there is for such sessions, and in which locations, but in the meantime please feel free to contact your usual Aon contact if you would have a strong preference for sending members to a particular location?

### Recent Events

Jonathan Teasdale presented a session on Data Quality at the recent CIPFA LGPS Actuarial Summit on 31 January 2019. Other topics included the Future Direction of the Scheme – which was very much up in the air following the recent McCloud judgement, and a session on the Section 13 Report from GAD which prompted some lively debate.

Mary Lambe attended the second Aon Responsible Investment Network in London on 21 February. A wide ranging and informative discussion took place with delegates sharing real life examples on their experience of the various stages of responsible investment including how to define beliefs, agreeing objectives and policies, as well as assessing risks and selecting investments. The practical examples shared really helped demonstrate the range of activity in this area. If you are interested in joining the network to receive information and details of future events please click [here](#).

## Upcoming Events

Catherine Pearce and Karen McWilliam will be attending the LGC Investment Seminar at Carden Park in Cheshire taking place on 28 February and 1 March, as well as the CIPFA Pensions Administration Update: Procurement, Resources & Benchmarking in Manchester 8th March (Catherine only), and in London on 12th March.

### Aon's 2019 Pension Conference Series – evolution, solutions, performance

As mentioned in previous editions, our Pension Conference Series is a free event and is designed for trustee, HR and Finance professionals in all parts of the UK pension industry who are responsible for making decisions about their scheme. The conference is held on a number of dates in different locations of the country.

Visit [our website](#) to register.

Date	Location
26 February 2019	London
5 March 2019	Bristol
12 March 2019	Birmingham
19 March 2019	Leeds
26 March 2019	Edinburgh
2 April 2019	London

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## About Aon

[Aon plc](#) (NYSE:AON) is a leading global professional services firm providing a broad range of risk, retirement and health solutions. Our 50,000 colleagues in 120 countries empower results for clients by using proprietary data and analytics to deliver insights that reduce volatility and improve performance.

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