

# Local Government Newsletter

## August 2020

*Hello and welcome to the latest edition of our newsletter.*

*We are all getting used to a new way of working and living, with a global pandemic seeing spikes both nationally and internationally. Though the challenges continue, we hope you have managed to take some time-off over the summer. This month we look at crisis-resilience, some more legal cases including another on survivor benefits and 2020 data validation. And the McCloud train rumbles on!*



Laura

### People news

Chris Emmerson and his partner Hazel got engaged on the 2<sup>nd</sup> August, whilst out walking in one of their favourite spots. Chris did a good job of keeping it a secret – it turns out he is more devious than his new fiancée realised!

I have returned from a year out on maternity leave and am now learning a new skill of working from home with one-year old twins in the house!

### COVID-19

#### 10 Questions to rate Pensions Administration Crisis Resilience

Our colleagues at Aon have produced a 10 Questions checklist to help you rate (each question is rated out of 10) the resilience of your Fund's administration service to the current COVID-19 crisis. The checklist may also help plan your business continuity responses for future crises.

The checklist covers areas including critical administration activity, business continuity, strategic projects, online and postal communications, and protection against cyber risks and scams, to name just a few.

We would be happy to provide you with the full list of questions and take officers / Pension Committee / Pension Board through this. Please contact [me](#) if you would like to be sent the full list.

### Industry developments

#### Goodwin – another survivor benefits legal case

As those who are involved with LGPS pension administration will no doubt be aware, following the Walker v Innospec Supreme Court ruling, the government recently decided that surviving male same-sex and female same-sex spouses and civil partners of public service pension scheme members will receive benefits equivalent to those received by widows of opposite sex marriages.

A newer case earlier this year (Goodwin vs the Department for Education) highlighted that these changes may lead to direct sexual orientation discrimination within the Teachers' Pension Scheme, where male survivors of female scheme members will now be entitled to a lower survivor benefit than a comparable same-sex survivor.

The government has concluded that changes are required to the Teachers' Pension Scheme, and other public service pension schemes (including the LGPS) to address the discrimination, see [written statement](#) issued 20 July 2020.

It is expected a consultation on the required Regulatory changes will take place as soon as possible. Funds will then need to investigate affected members (looking back as far as 5 December 2005) and notify members of changes as soon as possible.

If you would like any support on how this may affect your Fund please let [me](#) or your usual Aon contact know.

We have also been receiving requests from auditors on whether allowance for the Goodwin judgement should be made in employer accounting disclosures. Whilst our view is that the additional liabilities are immaterial from a funding perspective, auditors are generally looking for some quantification so that they can satisfy themselves that it is not material for inclusion in the employer's accounts. We have carried out some approximate analyses for this purpose so do let us know if this could help you or your employers.

### McCloud in Scotland: SPPA publishes consultation on LGPS statutory underpin

The Scottish Public Pensions Agency (SPPA) has published its consultation setting out proposed changes aimed at removing unlawful age discrimination introduced by the protections for older members adopted by the 2015 public service pension scheme reforms. As expected, the consultation is almost identical to that previously published for England and Wales.

The consultation can be found [here](#) and the deadline for responses is 23 October 2020.

In addition, the Welsh Government has published its Consultation on Amendments to Firefighter Pension Schemes in Wales 2020. A link to the consultation is provided [here](#).

### McCloud – guidance for administrators

The SAB McCloud implementation group has produced guidance documents in respect of collecting the data needed for the McCloud remedy.

The following guides are available on the Administrator guides and documents pages of the LGPS Regulations webpages for [England and Wales](#) and [Scotland](#).

- guidance for administrators
- standard data collection template
- notes to accompany the standard data collection template
- key messages for employers
- Q&As for employers

The SAB recommends that the standard data collection template and notes are used by all administering authorities that need to collect historic data.

### McCloud Consultation – our views

Aon's views on the impact of the proposals set out in MHCLG's consultation on draft Regulations. consultation are outlined in our latest [Spotlight](#). This update is intended to assist administering authorities and other stakeholders in formulating their own response to the questions asked in the consultation and to enable them to make progress with their McCloud implementation programme.

If you are interested in finding out how Aon might be able to help manage the impact of McCloud upon your members, employers and the administering authority please see our one-page McCloud [flyer](#) or contact [Virginia Burke](#) (or your usual Aon contact).

### McCloud – Police Scheme

The McCloud case may resolve one area of age discrimination - the protections afforded only to older members in the 2014/15 reforms - but it has shone a light on other perceived areas of discrimination between age groups and genders arising from the differences in retirement ages and accrual bases in the legacy and reformed public service pension schemes.

A specific example of this has arisen as a group of police officers representing the Pension Challenge/Cops Against campaigning group has responded to the consultation claiming the requirement for all active members to join the 2015 CARE Police Scheme with effect from 1 April 2022 is itself discriminating against younger members. The link to their response is [here](#).

### GAD report on the impact of COVID-19

GAD has published a short paper on the [mortality impact of COVID-19 on pension schemes](#). It highlights the uncertainty and recommends consideration of three areas, including how much weight should be given to pandemic mortality experience when setting future assumptions on life expectancy. This may differ depending on what the mortality assumption will be used for.

This is consistent with Aon's approach to setting longevity assumptions in light of the pandemic. Aon's Demographic Horizons™ team continues to monitor the impact the pandemic could have on funds from a longevity perspective as information emerges on a daily basis and their latest briefing can be found [here](#).

## Assumed Pensionable Pay (APP)

Following the receipt of a query about the treatment of lump sums in the calculation of APP, the LGA have amended their guidance on the calculation. Previously the employer had to assess whether any lump sum payment paid in the 12 months before the start of the APP period would be paid again during the period that APP applies, and decided whether to add that lump sum back into the APP annual rate.

The revised interpretation of the regulations is that the employer must assess whether any lump sum payment is “regular”. Any regular lump sum paid in the 12 months before the start of the APP period must be added into the annual APP figure. There is no requirement for the employer to assess how long the APP period is likely to last or to assess the likelihood that the lump sum would have been paid again during that period.

### 2.75% pay settlement agreed for local government workers

The National Joint Council (NJC) for local government services wrote to local authority Chief Executives in England and Wales on 24 August 2020 to advise that a pay settlement of 2.75% backdated to April 2020 has been agreed. The NJC also agreed to consider options for ensuring local government (and the NJC pay spine) can meet Government’s target for the National Living Wage in the coming years.

Whilst an increase of 2.75% is generally less than the pay growth assumption adopted for the 2019 valuations, the effect on LGPS liabilities will depend on total pay increases, including promotions and other increments and how these are distributed amongst members with final salary benefits.

## Knowledge & Skills

CIPFA recently published '[Key Competencies for Public Sector Finance Professionals](#)' which sets out the knowledge, skills and approaches required by public finance practitioners. Aon is currently working with CIPFA to update its knowledge and skills guidance for Pension Committee members, Section 151 officers and Senior Pensions Officers. A further update on timings is due in the Autumn in line with expected developments in the SAB Good Governance project.

## Exit Payments Cap

Alison Murray and Becky Durran attended a meeting with representatives from LGA, GAD, MHCLG and the other actuarial firms on 19 August. Draft Regulations are expected shortly and GAD has prepared guidance for Scheme-wide factors to be used for the purpose of comparing costs with the cap. We will share further thoughts once the draft Regulations have been published but our initial views are that:

- Administering authorities may wish to explore how the GAD factors compare to strain costs on the funding basis and consider their options in relation to charging costs for non-public sector employers (i.e. those not subject to the cap)
- Software changes are going to be needed to ensure calculations pick up whether or not the cap applies. And as a side issue, if no changes are made to the regulatory requirement for members over age 55 who are made redundant being granted a full unreduced pension for employers not subject to the cap, this is very unlikely to go down well with those employers
- Administering authorities should consider their approach in providing quotations for any redundancies in the future (particularly from 1 January 2021 when we expect the cap to be in force) and consider how they will approach calculations if, as expected, there is a delay between the cap coming into force and the software systems being updated.

We plan to develop our existing strain cost model to incorporate the GAD factors to provide administering authorities with a means of calculating quotations and costs to avoid the need for manual calculations. If this is something which interests you please let [Becky Durran](#) or me know.

### MHCLG partial response to LGPS consultation (review of contributions and exiting employers) published

MHCLG has partially responded to the spring consultation on changes to the LGPS rules, in relation to the review of employer contributions and flexibility on exit payments.

The outcome is that MHCLG intends to bring forward changes which introduce new flexibilities for administering authorities and employers in terms of reviewing contributions. This may be appropriate in cases where there has been:

- a significant change to the liabilities of an employer
- a significant change in the employer's covenant
- an employer request for a review

Administering authorities will be required to consult with the employer when undertaking a review of the employer's contributions, and state their policy on the matter in their Funding Strategy Statement, having taken actuarial advice. MHCLG will also work with SAB and CIPFA on any guidance to support use of these new flexibilities.

Administering authorities will also be able to spread exit payments from an exiting employer over a period where the employer no longer has active members in the scheme. Technically this power already exists but our assumption is that it will be made more explicit as it currently stems from the definition of an exit payment within the Regulations.

In addition, MHCLG has stated that there will now be a new "deferred employer status" in the LGPS. The exiting employer's responsibilities will be the same as for employers of active members but excluding the requirement to pay primary contributions. We expect that this will be very welcome news for employers and also funds in some cases although it will be important to develop a policy on how these new flexibilities will be used to manage any additional risk to the fund. As gilt yields have fallen materially since the 2019 valuation date (and even then they were at a materially lower level than at the previous valuation), allowing an employer to continue to contribute after the last active has left rather than crystallising an exit deficit and leaving orphan liabilities is likely to represent materially better value for money for taxpayer-backed admission bodies.

We also spotted that the response echoes a comment made recently by an MHCLG official that they are not generally supportive of different investment strategies for different employers, at paragraph 3.26: [in relation to deferred debt arrangements] "*Generally, this will not include a separate investment strategy for deferred employers as it is more effective in the long term for funds to maintain a single investment strategy which is suitable for the range of employers across the fund*". It will be interesting to see whether this is reflected in the draft Regulations or any associated guidance.

The MHCLG response is [here](#).

## LGA responds to Pensions Dashboard Call for Evidence

The Local Government Association (LGA) has published its response to the consultation on pensions dashboards (which closes on 31 August). The response includes which disclosure items LGA believes are difficult to supply digitally. LGA state that "We do not agree that the Disclosure Regulations prescribe that an estimate of benefits to normal pension age must be provided on annual benefit statements. If this information must be provided to a pensions dashboard, it will require a significant amount of software adjustments and testing (this might easily take two to three years taking into account that public service pension schemes are already making significant software changes due to the implementation of the McCloud remedy)."

A link to the full response can be found [here](#).

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

### Employer accounting

We have provided our Funds with a briefing note to send to Fund employers with a July year end, to give them a heads-up as they can expect to see a significant increase in balance sheet deficits at this accounting date. This is due mainly to the Covid-19 pandemic which has caused reduced yields on corporate bonds, upon which the discount rate is determined (increasing liabilities by 15% to 20% on average). The pandemic has also resulted in volatile investment returns, meaning that some Funds' returns will have been negative over the year, but others will have been positive. The return will depend on the Fund's investment strategy and relative performance.

We have also been in discussions with funds, employers and auditors on accounting for McCloud and Goodwin and have produced supporting documents to assist in the audit process. We believe our approach on McCloud has been well received as we invested a significant amount of time early in this year to ensure our approach aligned as closely as possible to the expected remedy. If you would like any more information on employer accounting or related support for the employers in your Fund, please contact [Joel Duckham](#) or your usual Aon contact.



## 2020 Data cleanse and GAD data collection

We understand GAD are expecting data for the 31 March 2020 for the cost management process to be provided in September 2020, although that has not yet been confirmed. In meetings we attended with them, GAD indicated that they are planning to ask additional questions when requesting 2020 data including on backlogs, bulk transfers and casual workers. This should help them better understand the data and we believe it is important that funds, their actuaries and GAD work together to ensure the 2020 data is as accurate as possible and to try to avoid any negative commentary around the quality of the data.

Carrying out a data validation exercise as at 31 March 2020 may help ensure the data provided for cost management valuation is as reliable as possible.

The Pensions Regulator also states that scheme managers should review scheme data at least once a year. We have been discussing data validation with the Funds we advise, in particular, running their member data through our LGPS-specific data validation model.

One of the key benefits of this is the employer-level analysis which it incorporates. It will enable the Administering Authority to consider whether it needs to focus its efforts on any particular employers in advance of the 2022 actuarial valuation.

If you require any assistance in this area, then please let us know, by contacting [me](#) or your usual Aon contact. This could range from carrying out the data validation exercise, to corresponding with GAD and working with the Fund to resolve any specific issue identified by GAD, and reporting to pension board or committee about the Fund data.

## Cyber-attack on local authority

This month we saw an [article](#) on the Public Finance webpage about a local authority which had seen a cyber-attack back in February.

This example showed that despite the Council having suitable cyber-security arrangements in place before the attack, the attack still cost a lot of money to resolve (estimated £10.1m) and had a large effect on operations throughout the Council.

This is yet another example which shows that Funds need to be satisfied that suitable Cyber controls are in place at the administering

authority, all participating employers, custodians and any other third parties involved with the Fund.

This is an area we and our Cyber expert colleagues can support in a variety of ways, from testing your Cyber-resilience to helping draft policies and procedures. Please let [me](#) know if you would like any further details on this.

## Funding updates to 30 June 2020

Overall, the Funds we advise have seen positive asset returns from 31 March 2020 to 30 June 2020, offsetting the poor asset performance over Q1 2020.

The net discount rates for the majority of Fund employers have not significantly changed over the period, and so overall, the funding levels of the Funds as at 30 June 2020 are expected to be higher than at 31 March 2020.

However gilt yields have fallen by 0.6% pa from 31 March 2020 to 30 June 2020 so the improvement in position will be less marked for any employers subject to a lower-risk funding approach.

## Pension Administration

We are also still supporting a number of Funds in administration related projects i.e. to help tackle backlogs or unblock key strategic projects. Depending on the nature of the work, this sometimes involves our Administration and/or Actuarial teams' expertise – let [me](#) or your usual Aon contact know if this is something you'd like to discuss.

## Recent events

### CIPFA McCloud Webinar - Are You Ready For McCloud?

Virginia Burke and Chris Darby presented on the CIPFA McCloud Webinar on 6 August to around 80 delegates from over 50 LGPS funds and employers. This was a high-level introduction to the McCloud consultation and how to get started with the implementation of the proposed legislation and the associated data collection.

### CIPFA McCloud Workshops for Officers and Pensions Committee / Board members

The webinar was followed by in-depth half day McCloud workshops, one for Officers on 18 August, and another for Pensions Board and Pensions Committee members on 19 August.

Virginia and Chris were again the speakers for the day and the workshops included break-out sessions which enabled delegates to share their thoughts and concerns. Our speakers were impressed by the level of interest and engagement from all of those who attended these sessions.

We plan to run many more such events as the McCloud changes move from consultation through to implementation over the coming months and years so stay tuned and do get in touch if you would like to run a bespoke training session for your administration team or your Committee and Board members.

Please click [here](#) for an overview of Aon's McCloud support services.

## SAB meeting on 25 August

The agenda and papers for the August SAB meeting are here. These included the McCloud Consultation, £95K Cap Consultation and Responsible Investment A to Z Guidance plus update from the SAB Committees. The agenda also refers to an update on the Good Governance Review although the paper has not yet been published as far as we are aware.

### Research and Publications

The latest research and publications by Aon Thought Leaders:

- [August COVID – 19 investment market update](#)
- [UK equities: The pandemic is not the only headache](#)
- Aon's [paper](#) on COVID-19 longevity impact

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Registered in England & Wales No. 4396810

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