

# Local Government Newsletter

## March 2019

*Hello and welcome to the latest edition of our Newsletter. This month's topics include the anticipated valuation consultation by MHCLG, SAB guidance on McCloud, an update on the public sector redundancy cap, new CIPFA guidance on administration, new fair deal, and an update from the latest SAB Investment, Engagement, and Governance Sub Committee.*



Joel

## People / Aon News



### Baby Duckham

Hot on the heels of Arek's new baby news in January, I have been celebrating the birth of our daughter Ruby Duckham at the end of February. As you can tell

from the picture she is already ignoring me.

### Pensions Age Awards – Aon success!

At the Pensions Age awards on 28 February, Aon picked up the prestigious Pensions Consultancy of the Year award for the second year in a row. This is a fantastic achievement, with our first-rate innovation, our clear focus on servicing clients, and the overall value delivered through quality of consultant advice across Retirement and Investment cited as the main reasons for our win.

## Talking points

### Exit credit issues – regulation 64

We understand MHCLG is going to consult on a change to regulations requiring payment of exit credits as part of a broader consultation covering a move to quadrennial funding valuations. The consultation is expected imminently.

Our understanding is that MHCLG is going to propose amending the regulations to provide that an administering authority must consider an exiting employer's exposure to risk in calculating any exit credit. If the administering authority is satisfied the service provider has not borne any risk the exit credit may be calculated as nil. However, where the service provider has borne some funding risk and, had things been different, an exit payment to the

fund could have been payable, we believe it's likely that an exit credit will remain payable (even if it is higher than the contributions paid in). We also understand changes may be retrospective to 14 May 2018, the date of the 2018 Amendment Regulations containing the exit credit provisions.

We expect that different parties may have different views on how much funding risk has been borne by a service provider and therefore how any exit credit should be calculated so we strongly suggest that administering authorities and scheme employers alike engage with the consultation once it has been issued. Administering authorities should also speak to their Fund Actuary in due course about how the Funding Strategy Statement could or should be amended.

In the meantime, administering authorities will need to decide whether it would be appropriate to delay payment of any exit credit in live cases, bearing in mind current regulations require payment within 3 months of exit. We hope the consultation will clarify MHCLG's expectations around ongoing cases, noting administering authorities are subject to both the risk of failing to recover any exit credits paid before the change and the risk that exiting employers challenge non-payment of exit credits due. Administering authorities may wish to consider legal advice if they are unsure of the best course of action.

### Response to LGA's McCloud Q&As

The LGA's publication of the McCloud Q&As (see February newsletter) included a short survey question asking administering authorities if they would like central guidance on the approach to allowing for the McCloud judgement, and its implications for the cost management process, within the 2019 valuations. We understand the

overwhelming majority of administering authority respondents (51 to 3) expressed a preference for central guidance although there was a large minority who didn't respond. We understand that draft guidance is likely to be tabled for discussion and approval at the next SAB meeting (which we believe is scheduled for 8 April).

### Treasury pushes to implement public sector redundancy cap

The chief secretary to the Treasury, Liz Truss, has written to ministers to notify them of an intention to push ahead with implementing the £95,000 exit payment cap policy set out in the 2016 Enterprise Act. The expected date of passing the necessary legislation (which requires affirmative procedure meaning it needs to be passed by both houses of parliament) is uncertain, and Government will first need to work through the practicalities, not least the changes that would be needed to the LGPS Regulations which currently provide for automatic payment of pensions for over 55s on redundancy. The associated 'strain' costs can often be in excess of this cap. We are expecting a consultation imminently on how this will be reflected in the LGPS.

### CIPFA guidance on administration

This month CIPFA has published a new [guidance document](#) on administration in the LGPS. We are pleased to have supported CIPFA in writing this guidance, which continues our successful partnership with CIPFA following the development of guidance on Managing Risk and Governance Principles for Asset Pooling.

The focus of this new administration guidance is to help senior decision makers (including Committee and Board members) to know what questions to ask of pension administration teams, which in turn should allow them to identify when and where additional resource is required. An underlying message in this guidance is that it is the role of Committee, Board and senior officers to identify where there are delivery problems and ensure conversations are had around how to resolve them.

### Fair Deal consultation

A reminder that the Government's consultation on Fair Deal provisions in the LGPS closes on 4 April. Proposals include the introduction of a definition of 'Fair Deal employers' and 'protected transferees' who will retain the right to participate in the LGPS

for as long as they are wholly or mainly employed on the outsourced service. Outsourcing employers would also be permitted to be a 'deemed employer' instead of contractors being required to have an admission agreement. As expected, the broadly comparable route will no longer be available.

The consultation also includes proposals for the automatic transfer of LGPS assets and liabilities following a merger or takeover involving scheme employers.

As ever, the devil is in the detail and we have a number of concerns with how the proposals would work in practice. We set out our initial thoughts on the proposals in our recent Spotlight, [here](#).

### SAB Investment, Engagement, and Governance Sub Committee

Karen McWilliam attended the meeting of the [SAB Investment, Engagement and Governance Sub Committee](#) on 25 March. The Committee discussed a wide range of areas and highlights including:

- the cost transparency initiative. The aim continues to be to release a new set of templates in the spring, including an update to the LGPS code which investment managers will be asked to move to no later than 20/21.
- guidance on responsible investment being developed by SAB. This forthcoming guidance is to include a checklist to assist administering authorities to measure compliance against the law and good practice.
- Pension Board survey. A follow-up to the 2017 pension board survey, is currently in development and is expected to be issued later this year.
- Good governance project. The next phase of this project will include an on-line survey and a plenary session at the PLSA Local Authority Conference (13 – 15 May). If anyone would like to have a discussion to help them consider what they might want to include in response, please get in touch

## Industry developments

### Interserve PLC sold to Interserve Group

Following Interserve PLC entering administration, the business and assets of the defunct company were sold to Interserve Group, a new organisation controlled by its lenders. Whilst Interserve Group has advised it is 'business as usual' this is likely to have implications for public sector contracts and admission agreements to the LGPS, which may need novating. In some cases, termination clauses may be triggered despite the underlying services continuing to be provided by the new company. Letting authorities may take this opportunity to re-let a poorly performing contract, triggering an exit valuation and another round of staff transfers.

Administering authorities who have admission agreements with Interserve should discuss with the relevant letting authority the implications of the sale on the services contract, admission agreement and any bond arrangements, and to understand any future expected business plans at an early stage.

### New actuarial factors for Additional Pension

MHCLG has issued revised factors for additional pension. Administering Authorities will need to go through their members paying ARCs to amend the factors and communicate the change. The new factors take effect from 1 April 2019 and can be found on the actuarial section of the [lgpsregs.org](http://lgpsregs.org) website.

### Consultation on Late Retirement

MHCLG has issued a technical consultation on the implementation of new late retirement factors proposed from 1 May 2019. MHCLG does not normally consult on actuarial guidance but have done so in this instance due to the significant change to the methodology being proposed. The consultation closes on 17 April.

### GAD publishes updated assumptions for broad comparability assessments

The 1999 [Statement of Practice by the Government Actuary](#) set out the principles on which the Government Actuary's Department (GAD) undertakes its assessments of broad comparability. GAD provide a significant amount of detail on their [website](#), including Actuarial assumptions for assessment of broad comparability.

The [most recent version](#) (18 February 2019) applies to applications received by GAD on or after 1 March 2019. This replaces the [previous version](#) that was dated 1 July 2014.

### The Money and Pensions Service – disclosure and communication changes needed

Legislation has now been amended to give the new single financial guidance body a name from 6 April 2019: the Money and Pensions Service. This means that administering authorities need urgently to consider making changes to disclosure and communication materials, for example to replace references to TPAS. Amongst other things, this will affect member booklets, IDR processes, transfer value material, and information provided to members with flexible benefits.

### RPI report - response delayed

The Government had been due to respond to the Economic Affairs Committee of the House of Lords' report on RPI around now. However, the [Spring Statement](#) stated that the Government is (still) discussing the relevant issues with the UK Statistics Authority and will respond to the report in April.

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

As you would expect, planning for the forthcoming triennial valuation and the March accounting exercise are top of the current actuarial agenda, with both projects kicking off in earnest shortly as we reach the valuation and accounting date. Employers and their auditors continue to ask about the possible effect of GMP equalisation so do let us know if that is something you would like a steer on (the good news is that this isn't anything like as much of an issue as it is for private sector schemes!)

### Falling mortality improvement rates - CMI 2018 published

The CMI ('Continuous Mortality Investigation'), has published its updated standard mortality projections model, 'CMI\_2018'.

The updated model projects lower future mortality improvements which will – all else being equal – reduce pension liabilities. The lower projected improvements arise for two reasons:

- the additional data continues the recent trend of low national mortality improvements (data to the end of 2018 showed no improvement to standardised mortality rates over the year);
- CMI have recognised that this low improvement trend is likely to represent a shift to a new normal and have placed more weight on recent mortality data to reflect this

We are currently undertaking a review of our best estimate assumptions for the purpose of the 2019 valuations and will be discussing the impact of those changes with clients over the coming weeks and months.

### Cyber crime – simulated phishing exercise

As mentioned in our January newsletter, we will be undertaking a simulated phishing exercise for trustees of pension schemes later this year.

This is designed to be of benefit to committee and board members, but it can also be used for the wider pensions team.

The phishing exercise is a group exercise offered to multiple pension schemes at low cost. Alternatively, we can organise Fund-specific exercises which are tailored to your own circumstances.

If you wish to understand more about how we can support you with understanding and tackling cyber risk, please speak to your usual Aon consultant, or contact [paul.mcglone@aon.com](mailto:paul.mcglone@aon.com).

## Recent Events

Catherine Pearce and Karen McWilliam attended the LGC Investment Seminar at Carden Park in Cheshire on 28 February and 1 March, which included updates from some of the pools and sessions on the current political turmoil and how this will affect investments, as well as workshops focusing on particular types of investment. Catherine and Karen also enjoyed catching up with many of you at the event.

Catherine also attended the CIPFA Pensions Administration Update: Procurement, Resources & Benchmarking events in Manchester on 8 March, and in London on 12 March (Craig Payne also attended the London event). These were useful events including updates from tPR and the LGA, as well as sessions on procurement and the National Frameworks. The events ended with a panel discussion session in which Catherine participated.

## Upcoming Events

### PLSA Local Authority Conference

Alison Murray and Mary Lambe will be attending this event at the Cotswold Water Park Hotel, Gloucestershire between 13 and 15 May and they look forward to seeing many of you there.

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

The last date of our Pension Conference Series is on Tuesday 2 April 2019. This is a free event and is designed for trustee, HR and Finance professionals who are responsible for making decisions about their scheme. Visit [our website](#) to register.

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