



Local Government Newsletter

September 2019

Hello and welcome to the latest edition of our newsletter. This month's topics include The Pensions Regulator's LGPS engagement report, HMT's response to a report on the use of RPI, an announcement by the Scheme Advisory Board in relation to its Compliance and Reporting system, and the legal opinion obtained by LGA on the potential transfer from Equitable Life. I hope you find the content useful.



Ben

People news

Baby Ogborne and Loren's return



Many congratulations to Sam on the new addition to his family. Lily Florence Ogborne was born on 23 September. Baby, Mum and Dad are all doing well.

The team is also pleased to welcome Loren Wynn back from maternity leave.

Talking points

The Pensions Regulator's LGPS Engagement Report

Earlier this month The Pensions Regulator (TPR) published [its findings](#) following engagement with 10 LGPS funds between October 2018 and July 2019. As we would expect, TPR indicated that they saw evidence of good practice across the LGPS funds. They also outline key areas for improvement across the scheme.

Those key findings include the importance of avoiding an over-reliance on the Local Authority (particularly around policies and procedures and cyber security); that good data quality and record-keeping underpin all aspects of a well-run fund; that funds should put in place reporting measures that will capture both quantitative and qualitative results; and the benefits of engagement between

funds to discuss common challenges and solutions.

It's a helpful development to have greater insight from the engagement by TPR with LGPS funds as the involvement of TPR is still relatively new for public sector pension schemes. It comes at a time of significant activity in the area of governance including the recent [Good Governance report](#) and the findings of the [2018 Annual Governance and Administration survey](#) published during the summer.

HMT response to the Economic Affairs Committee report on the use of RPI

On 4 September, the Chancellor of the Exchequer, Sajid Javid, published [his response](#) to the House of Lords' Economic Affairs Committee's report on the use of the Retail Price Index (RPI).

In summary, the Government has responded to pressure to change the calculation of RPI by:

- stating that no change will occur until 2025 at the earliest;
- implicitly accepting that RPI could change to be in line with CPIH (i.e. Consumer Prices Index including owner occupiers' housing costs) from 2030; and
- announcing a consultation in early 2020 on whether to introduce any change between 2025 and 2030 and how this could be handled.

CPIH increases are broadly expected to average around 1% p.a. below RPI increases in the long-term.

In relation to the LGPS, where pensions are CPI-linked, the position remains that for funds holding index-linked gilts (or other assets such as swaps that provide a hedge to RPI), the implication of this development is potentially unfavourable. Any funds with material index-linked holdings (current or planned) should consult with their actuary and investment consultant.

For more information on the announcement and potential impacts on the wider pensions industry, please see Aon's [In Touch technical update](#).

Scheme Advisory Board announces appointment of Byhiras

Earlier this month, the Scheme Advisory Board (SAB) [announced](#) that they had appointed the technology company Byhiras to develop and host a system for scheme managers to evidence compliance with the LGPS Code of Transparency and provide reporting and comparison tools for LGPS funds and pool companies.

A programme of roadshows to introduce the system to users is expected to take place over the coming months and the system is due to be rolled out to all LGPS funds and pools by Q1 2020.

More information on the Code of Transparency can be found on the [SAB website](#).

Legal opinion obtained by LGA on Equitable Life transfer

On 6 September, LGA obtained a [legal opinion](#) on behalf of administering authorities on the transfer of business from Equitable Life to Utmost Life and Pensions, which includes the risk of future legal challenge as a result of how they vote in relation to the proposals.

As mentioned in last month's newsletter, this is an area in which we have been engaging with and supporting clients, including assistance with member analysis and member communication. If you would like to find out more, please contact Karen McWilliam or another member of the benefits and governance team.

Industry developments

New consultation on NHS Pension Scheme flexibility

Following on from updates in our previous two newsletters, on 11 September the Department of Health and Social Care opened a [new consultation](#) on proposals to increase flexibility within the NHS Pension Scheme.

The new plans go beyond the previous 50:50 proposal and include a 'flexible accrual' option, where senior clinicians can choose an accrual rate in 10% increments before the start of a scheme year, and the facility to increase the accrual rate towards the end of a scheme year, once total earnings are clearer.

Other proposals include replacing the current DC approach to Scheme Pays deductions with the debit method and giving scheme employers the option to recycle their unused contributions back into the member's salary.

The consultation closes on 1 November.

Consultation on independent schools and the Teachers' Pension Scheme

[Another consultation](#), this time from the Department of Education, opened on 9 September to gather views on proposals to change the rules of the Teachers' Pension Scheme in England and Wales.

Currently, when an independent school opts out of the scheme, all members become deferred. However, the proposed changes would enable more flexibility by allowing existing staff to remain as active members.

The consultation closes on 3 November.

Government guarantees uprating of State Pension for EU residents

With Brexit now (supposedly) a matter of weeks away, the government [announced](#) on 1 September that it will continue to uprate the UK State Pension paid to people living in the EU for the next three years, in the event of leaving without a deal.

What we've been talking to our clients about

Progressing the actuarial valuations is still top priority, with initial results being issued to administering authorities and further discussions taking place around funding strategy and approach for the various groups of employers.

Following on from Annual Benefit Statements last month, attention has now turned to working with clients on Annual Allowance calculations and the production of Pension Savings Statements before the deadline of 6 October.

Cyber risk and security has also been a hot topic this month, brought up both at the LGC summit at Celtic Manor and in the TPR's engagement report. Aon provides a range of cyber risk services and packages so please get in touch if you would like to discuss this area further.

Recent events

SAB Tier 3 Working Group

Chris Darby attended a meeting of the Tier 3 Working Group on 4 September.

LGC Investment & Pensions Summit

Alison Murray and Mary Lambe attended the LGC summit at Celtic Manor on 5 and 6 September.

Both enjoyed the two-day event and the opportunity to catch up with many of you.

Good Governance Working Group

Karen McWilliam attended the Good Governance workshops held at the LGA offices on 18 September.

Initial discussions were around the development of standards and outcomes and how funds will evidence compliance against these. Further workshops will take place on 4 October ahead of a draft report being issued to the SAB in November.

LGA Fire Pensions Annual Conference

Mary Lambe and Craig Payne attended the LGA Fire AGM on 24 and 25 September respectively. It was a really informative event with Craig also giving a presentation on Aon's recent

administration and benchmarking review for the Firefighters' Pension (England) Scheme Advisory Board.

Upcoming events

Good Governance Working Group

Karen McWilliam is due to attend the second round of Good Governance workshops on 4 October.

SAB Cost Management, Benefit Design and Administration Committee

Jonathan Teasdale will be part of the above committee meeting on 7 October.

LGA Fundamentals Training

Catherine Pearce, Daniel Kanaris and Mary Lambe will be presenting at the LGA Fundamentals training days on 3, 17 and 31 October respectively.

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