Local Government Newsletter

April 2019

Hello and welcome to the latest edition of our Newsletter. This month's topics include an update on Aon's response to the LGPS Fair Deal consultation, the latest developments in the Good Governance project, an update on the public sector redundancy cap consultation, news on expected timings for Government application for leave of appeal in the McCloud judgement and a summary of the Government's response to the Pensions Dashboards consultation.

Mary

People / Aon News

Apprenticeship success

We are delighted to report that James Haysom has recently passed his actuarial apprenticeship. James's hard work over the last two years means he has reached this significant milestone in his career. He is also the first in the Bristol office to do so.

Talking points

Fair Deal

The LGPS: Fair Deal – Strengthening pension protection consultation from the Ministry of Housing, Communities and Local Government (MHCLG) closed earlier this month (4 April). Hopefully many of you will have submitted your own responses and found our Spotlight helpful in that regard. Our suggestions in response to the consultation include:

- greater clarity on the role of the Fair Deal employer in tracking Protected Transferees and on what constitutes "wholly or mainly employed" on a service in relation to employees working across multiple contracts and potentially across a number of LGPS funds.
- re-thinking the Transitional Proposals as we do not believe the proposal for cash equivalent transfers is fair to members. We recommend introduction of a regulation for inward bulk transfers and an amendment to the Transitional Provisions to allow members to exchange final salary benefits in a broadly comparable scheme for final salary benefits in the LGPS.
- further thought being given to the operation of the Deemed Employer approach - we envisage potentially material practical difficulties and are not convinced it will reduce the administrative burden as intended. Our view is that other approaches, such as pooling of the admission body and Fair Deal employer, should be considered. We also believe the draft Regulations are too light on detail and are particularly concerned about how the proposals in relation to academy outsourcings will operate in practice.

The consultation included proposals on the transfer of assets and liabilities on employer mergers and take-overs which is welcome, particularly as activity has been increasing with college area reviews, mergers of housing associations and movements between employers associated with multi-academy trusts. However, we believe greater clarity and flexibility for administering authorities are needed, including the ability to revise the contributions for the new combined entity and retention of the ability to carry out an exit valuation should that be appropriate. We also believe that separate provisions for academies would be preferable, given the particular issues involved when a multi-academy trust fails, and its academies move to a number of different multi-academy trusts. We are not clear whether that would constitute a merger or take-over within the draft regulations.

Good Governance Project

Previously the separation project, the LGPS Scheme Advisory Board (SAB) in England and Wales commissioned Hymans Robertson to facilitate a consultation with LGPS stakeholders on governance structures.

To date we have shared views with SAB and Hymans Robertson as part of their initial fact-finding exercise to assist in identifying areas of LGPS governance which need to be taken forward for further discussion. The next stage of the project is an online survey and supplementary conversations with stakeholders.

The online survey was issued to pension fund officers, Section 151 officers, elected members, democratic services officers, local pension board chairs, trade unions and others on 23 April. The survey runs until 31 May and we understand that the findings will form the basis for the final report due to be brought to the SAB in July 2019. Given the dates are outside of many Pension Committee cycles you may wish to consider how best to ensure Committee involvement in signing off your Fund's response to this important consultation.

Restricting exit payments in the public sector (95k cap) consultation

The HM Treasury consultation on restricting exit payments in the public sector was published on 10 April.

The draft regulations set out what is included in an exit payment and what payments are exempt (i.e. not part of the cap). It covers which employers are in scope (the draft regulations do not apply to 'relevant Welsh exit payments' which are payments made to particular office holders nor to any bodies in Scotland or Northern Ireland which wholly or mainly exercise devolved functions) but doesn't provide details on the impact on the LGPS. A briefing note on this consultation was issued by the LGPC on 17 April – see the LGPS Regulations website for more details. We expect engagement over the coming weeks with stakeholders in the LGPS to fully consider how these draft regulations will impact on the LGPS. Key issues include how redundancy early retirements will operate in the LGPS if the Regulations are not amended before the HMT Regulations come into force and how the cost of paying pension benefits early will be calculated given strain payments are generally calculated using locally set factors.

Industry developments

McCloud judgement – Government Appeal

Whilst it was anticipated that a decision on the Government's application for leave to appeal the McCloud judgement would be made in April, a House of Commons briefing document suggests this is now expected in July 2019. Given it has always seemed unlikely that a final decision would be made in time for accurate allowance for McCloud/Cost cap benefit changes to be made in the 2019 valuations it's arguable that the delay doesn't really change anything from a valuation perspective. Our understanding is that the E&W SAB still plans to issue guidance to administering authorities to try to ensure consistency of approach, at a high level at least.

Consultation on Late Retirement

The MHCLG consultation on the implementation of new late retirement factors closed on 17 April. The intention is for the revised factors and methodology to come into force on 1 May 2019. It is unusual for MHCLG to consult on GAD guidance but given the significant change of methodology they felt it warranted a consultation process.

Administering authorities should speak to their software suppliers as a matter of urgency to establish their plans for implementing the revised methodology and factors. If the software won't be updated from the effective date, there will be a significant amount of manual calculation required for any late retirements. Administering authorities may also wish to review any late retirements in the pipeline (including any estimates provided recently) and notify affected members of the changes so they have the opportunity to amend their retirement date if possible. Administering authorities should also consider how they will deal with any late retirement estimate requests received before the changes are confirmed and ensure members are appropriately notified.

The proposed approach seems a fair way to apply the uplift, as it effectively means the change in factors is not backdated and avoids the 'cliff edge' that previously applied when factors were changed. However, we are concerned that the proposed methodology seems overly complex given the small number of members affected and therefore the potential cost to Funds. This period of more complex calculations could last for up to 10 years (for people retiring at 75) and could become even more complicated if there is a further similar change in a few years' time. Perhaps a simpler approach would have been to say that for a short period (perhaps 6 months or a year) members retiring late get the higher of the old factors or the new factors to enable them to plan their retirement, before the new factors properly kick in.

Responsible Investment Report published by UNISON and Share Action

ShareAction and UNISON published research on 11 April which includes a review of LGPS investment strategy statements in England and Wales. The report, which can be found on UNISON's website states that only 29 LGPS Funds recognise climate change as a material risk.

Pensions Dashboards

On 4 April the Government published its response to the recent consultation on the introduction of Pensions Dashboards. Public Sector schemes will likely be compelled to provide but for practical reasons, the schemes providing data via dashboards will need to be brought on in stages. Large DC schemes are likely to be first with a suggested timeframe for all schemes to be participating within 3-4 years. A delivery group will be led by the new Single Financial Guidance Body (SFGB).

The Government agree that State Pension information should be part of the service and they indicate they will continue to work towards making this happen at the earliest possible opportunity.

Dashboard providers - organisations other than the SFGB who wish to provide dashboards - will need to be authorised by the Financial Conduct Authority (FCA). DWP have also asked the SFGB to begin work to create and run its own, non-commercial pensions dashboard.

Overall the pensions industry is being asked to:

- prepare data to be ready within a 3 to 4-year timeframe
- work with the industry delivery group on setting data standards and offer opportunities to supply data on a voluntary basis to inform delivery
- create and test their own dashboards (for interested FCA authorised firms), working collaboratively with the delivery group.

The costs involved for schemes to participate in dashboards will vary depending upon their size. The government's response notes that public service schemes have a variety of funding arrangements for administration costs and says it is for the relevant department to consider how these and other pressures on scheme administration budgets are appropriately funded. The government's intention is to require only basic information at the outset, which should help to minimise the cost of scheme participation in this initial phase.

SAB update from latest meeting

The SAB secretariat issued an update from the latest meeting held on 8 April, it includes information on a number of areas including a presentation from the Pensions Regulator, an update on the Good Governance Project, the Local Pension Board Survey, and Responsible Investment Guidance. For more information see the SAB website.

Teachers' Pension Scheme (TPS) increases in employer contributions – Department for Education consultation response

The Government has confirmed support of £830m to fund the increase to employer contributions to the TPS for state-funded primary and secondary schools in 2019 and 2020. An additional £80m is being put in place for further education colleges and other publicly funded training organisations. However, there is no additional support being provided for independent schools or higher education (HE) institutions in England. In a joint press release HE representative bodies Universities UK, UCEA and GuildHE indicated that the total annual cost to affected universities will be £142 million for the 2020-21 fiscal year. It seems likely that this may increase pressure from the sector for administering authorities and their actuaries to maintain or even reduce their LGPS contributions.

The full consultation response can be found on the Government website.

The Pension Transfer Gold Standard

On 9 April a voluntary code for Independent Financial Advisors (IFAs) was launched called "the Pension Transfer Gold Standard". This has been created by the Pensions Advice Taskforce which includes the Pensions Administration Standards Association (PASA) and the Personal Finance Society (PFS – the IFA trade body). The Gold Standard will be a kitemark for DB transfer advice. It is voluntary and the PFS's view is that smaller IFAs (i.e. the majority) will only sign up if they can see that failing to have the Gold Standard is a barrier to customers hiring them.

There will be a public launch in a couple of months' time and the PFS has produced a consumer guide. They would like to see this included with transfer quotes/retirement packs in the same way as leaflets on pension scams are included.

The motivation is both to improve practice amongst IFAs and to improve confidence in the quality of advice. Funds could consider including reference to the Gold Standard in member communications (e.g. in the next member newsletter).

CIPFA Guidance recently issued

Please note that CIPFA recently published the Preparing the Annual Report: Guidance for Local Government Pension Scheme Funds (2019 Ed). For more information visit the CIPFA website.

What we've been talking to our clients about

As you would expect, activity relating to the triennial valuation continues to be top of the current actuarial agenda. In addition, we are seeing a real focus on data cleansing with clients and ensuring backlogs are being addressed and actioned. The March accounting exercise continues to be a key area of focus with clients, with hot topics this year including accounting for the slow-down in improvements to mortality rates; GMP equalisation and indexation, and the McCloud judgement (see next).

Contingent liability accounting for McCloud judgement

We have been seeking clarity from the National Audit Office (NAO) and CIPFA on their expectations on accounting for the McCloud judgement. During a call on 16 April with CIPFA, the NAO, and the actuarial consulting firms (including the GAD), CIPFA confirmed they intend to issue central guidance on this shortly. We expect CIPFA's note will encourage employers to disclose information consistent with paragraph 6.4.3.42 of the CIPFA code of practice in relation to this uncertainty, which could include quantification of a potential loss consistent with contingent liability accounting. For the purpose of quantifying the impact, it was proposed on the call that the GAD would be commissioned to calculate a range of scenarios that would be suitable for employer accounting, however it may take up to a month to produce these figures and so may be more helpful for audit rather than internal accounts sign off. In the meantime, we are assisting clients with the content of their notes to the accounts. We will also be happy to help clients decipher any figures provided centrally in the context of the assumptions they have used to report their pension figures.

Recent Events

SAB scheme-specific data scoring meeting

Laura Caudwell joined the SAB secretary and representatives from administering authorities, software suppliers and actuarial firms on 17 April to resurrect discussions to provide a standardised list of LGPS scheme-specific data items (with associated guidance) to be included in the data scoring section of the TPR Scheme Return. An email on the way forward is expected to be sent to administering authorities shortly and an update will be shared in our next newsletter.

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 we look forward to seeing many of you there.

Contact Information

Mary Lambe
Senior Governance and Benefits Consultant
+44 (0)1727 888236
+ 44 (0) 7771 678745
mary.lambe@aon.com

Alison Murray
Head of Public Sector Actuarial
+44 (0)117 900 4219
alison.murray@aon.com

Karen McWilliam
Head of Public Sector Governance and Benefits Consultancy
+44 (0)771 101 6707
karen.mcwilliam@aon.com

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 deliver insights that reduce volatility and improve performance 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.

Aon Hewitt Limited

Registered in England & Wales No. 4396810

Registered office: The Aon Centre | The Leadenhall Building | 122 Leadenhall Street | London | EC3V 4AN

QAS Institute and Faculty of Actuaries®
Quality Assurance Scheme

Empower Results®