

# Local Government Newsletter

August 2019

*Hello and welcome to the latest edition of our Newsletter. This month's topics include updates on Aon's response to the LGPS consultation on the valuation cycle and management of employer risk, a letter from the FBU to the Chief Secretary to the Treasury regarding McCloud and the Cost Management process, mortality data, publication of the Good Governance Report, Pensions Dashboard developments, the new LGPS Minister in England and Wales and a further review of the impact of the tapered annual allowance on the NHS Pension Scheme.*



Mary

## People News

### Laura's babies – update



Last month we brought you the great news that Laura's babies arrived a little earlier than planned, on the 20 July, with Abigail and Jack being

expertly looked after by the staff in the neonatal intensive care unit at St Michael's Hospital in Bristol. We are delighted to confirm that Abigail and Jack left hospital on 21 August and are settling in well at home.

## Talking points

### Aon consultation response

Aon's response to the Government consultation on the LGPS Valuation cycle and management of employer risk, issued to MHCLG on 31 July, set out our view which considered the perspectives of administering authorities, scheme employers and contractors. Some general comments from our response are set out below.

The consultation brings together a number of changes, most of which we welcome. The proposal to move the local valuation cycle (which sets employer contributions) from triennial to quadrennial to align with the scheme valuations (carried out by GAD for cost management purposes) has been well trailed, although the rationale is weak when considered from a local, funding perspective. MHCLG does, however, appear to recognise this and has proposed a number of potential mitigations, including interim valuations.

The suggested changes to the exit regime for employers and giving greater flexibility and choice for the HE/FE sector in determining whether or not to admit new employees to the scheme, were strongly supported by employers and administering authorities during Aon's consultation for the Tier 3 project for the Scheme Advisory Board. The proposals will not be welcomed by everyone, particularly member representatives, but given the strength of feeling of many employers, we believe it is important for the issues to be raised and debated openly and transparently, which this consultation should facilitate.

The consultation also proposes to address what has proved to be a material oversight in the introduction of the requirement to repay an exit credit to an outgoing employer, i.e. the failure to allow administering authorities to consider any risk sharing or other arrangements which are not consistent with any surplus being repaid on exit. Our response to the original consultation on 19 August 2016 made clear the potential complexities associated with pre-existing arrangements, so we are pleased that this is now being addressed, although it would of course have been preferable for the issue to have avoided in the first place. Many administering authorities have put exit credits on hold, but clarity will be needed on what should happen where exit credits have already been paid, but where risk sharing arrangements were in place.

For more details please see our [latest Spotlight](#) article covering this consultation in detail.

## FBU letter – McCloud and Cost Management

The Fire Brigades Union (FBU) recently wrote to Rishi Sunak MP, Chief Secretary to the Treasury, requesting that the cost management improvements, currently on hold following a Court of Appeal decision in December 2018, should be implemented in addition to any changes as a result of the McCloud judgement for the Firefighters Pension Scheme.

Currently, the cost management process itself is on hold pending the outcome of the McCloud judgement. However, transitional protection is currently not included in the cost management process and the FBU is requesting the decoupling of the cost management process from the McCloud outcome. As far as we are aware, there has been no reply to date from HM Treasury to FBU's letter.

## Industry developments

### Publication of the Good Governance Report

On 31 July, the [Good Governance Report](#) was published and is available on the Scheme Advisory Board's (SAB's) website. The England and Wales SAB Secretariat is working to develop a detailed plan to present to the Board at their November 2019 meeting, which will set out how to implement the report's findings and conclusions. Hymans Robertson's project team who worked on the report are assisting the Secretariat in taking the project forward, with two working groups being established. One working group's focus will be on defining good governance outcomes and the guidance needed to clearly set them out. The other working group will consider the options for the independent assessment of outcomes and mechanisms to improve the delivery of those outcomes. The groups are due to work over the coming months in order to feed into findings for the November 2019 SAB meeting. The Secretariat have indicated that both working groups will include a wide range of scheme stakeholders and Karen McWilliam will be participating from Aon.

### LGPS Community Document

The Local Government Association (LGA) recently published a document entitled "The LGPS Community" which sets out details of the different

bodies and groups in the LGPS and the relationship that exists between those bodies. The document can be found on the [LGPS Regulations website](#) documents section.

### Mortality Update

CMI published their mortality monitor document for the second quarter of 2019. It is available from the [Institute and Faculty of Actuaries website](#). Following on from first quarter data, it shows that mortality in the first half of the year has been relatively light (fewer deaths). Although mortality rates in 2019 have been light compared to 2018, it is perhaps worth noting that the rates over the year to date have been quite similar to those seen in 2014 – indicating that overall population-level improvements over the last five years have been low.

### New LGPS Minister

The new Parliamentary Under Secretary of State, Minister for Local Government and Homelessness was announced on 27 July. [Luke Hall MP](#) is a Member of Parliament for Thornbury and Yate. We understand the new Minister has been invited to the next Scheme Advisory Board meeting in November.

### Pensions Dashboard

Recent developments include the appointment of Chris Curry (Pensions Policy Institute) as Principal of the Pensions Dashboard Industry Delivery Group (IDG) and Angela Pober as its Implementation Director. Chris Curry published his first blog on 25 July which is available on the [Money and Pension Service \(MaPS\) website](#). Applications were open recently (closed 26 August) for interested individuals to join the steering group of the Pensions Dashboards IDG. In addition [MaPS confirmed](#) that the non-commercial dashboard that it will create is to be called the MaPS Dashboard.

### Pensions Ombudsman Annual Report

The Pensions Ombudsman published its Annual Report and Accounts 2018/19 on 18 July. The full report is available on the [Government website](#). It sets out key facts and figures including that the Pensions Ombudsman completed 1,268 investigations in 2018/19. The most common topics of completed investigations include (i) failure to provide information or act on instruction, (ii) transfers – general issues around calculations of transfer values or delays in payment and (iii)

incorrect calculation of benefits. It reports that around 28% of complaints determined by an Ombudsman were upheld, at least in part.

### NHSPS consultation update

On the 7 August the Department of Health and Social Care announced a [further review](#) of the impact of the tapered annual allowance on the NHS Pension Scheme. This replaces the consultation mentioned in [last month's newsletter](#) which was a new 50/50 proposal. The '50/50' proposal (as put forward for consultation in July) is being dropped and a wider consultation is now expected, which would, from 2020/21, allow senior clinicians to set the exact level of pension accrual at the start of each year, with employers being allowed to divert unused contributions into salary. The announcement includes the comment that "HM Treasury will review how the tapered annual allowance supports the delivery of public services such as the NHS", which might suggest that the review may consider wider changes to that legislation, rather than being limited to changes within the NHS scheme.

### TPR pension scams – new blog

The Pensions Regulator (TPR) and the Financial Conduct Authority (FCA) have jointly published research suggesting that 42% of pension savers could be at risk of falling for a least one of six common tactics used in pension scams. From [TPR's press release](#) these are noted as cold-calls, free pension reviews, claims of guaranteed high returns, exotic investments, time limited offers and early access to cash before age 55. Subsequently, TPR issued a [blog](#) describing the actions it has taken against scammers, and highlighting the importance of public awareness - which is being raised by TPR and the FCA with the latest ScamSmart campaign.

### Centre for Social Justice Report

The Centre for Social Justice (CSJ) published a report entitled "Ageing Confidently – Supporting an ageing workforce" on 18 August. It includes a proposal to move SPA to 70 by 2028 and 75 by 2035. The think tank's report can be read on [their website](#).

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

Progressing the actuarial valuation is top priority, with most funds having already provided data. Calculations are progressing, and we'll start providing initial results during September.

August was a busy month for the team working with clients on the production of Annual Benefit Statements ahead of the statutory deadline of 31 August.

We have also been engaging with Administering Authorities on the provision of advice on Equitable Life's proposed closure where voting papers have been received by the Administering Authority on their proposed approach. We are providing a range of support from a house view on the reasonableness of the uplifts proposed by Equitable Life and the default investment strategy for funds transferred from the With Profits Fund, through to member analysis of the proposed uplifts and the sustainability of the investment strategy for members, as well as member communication support. Please speak to Karen McWilliam or members of the benefits and governance team if you are interested to find out more.

## Recent Events

### Investment, Governance and Engagement Sub-committee

Mary Lambe attended this sub-committee on 28 August with a range of areas covered including discussion about development of responsible investment guidance, forthcoming Local Pension Board survey due to be issued next month and the next stage of work arising from the Good Governance project.

## Upcoming Events

### Scottish Training

Daniel Kanaris will be visiting Edinburgh on 3 September to deliver training to Scottish Local Pension Board and Pension Committee members.

## LGC Investment Summit

Mary Lambe and Alison Murray will be at Celtic Manor on 5/6 September. We hope to see some of you there.

## Fire Annual Conference

Craig Payne will be at the LGA Fire Annual Conference due to take place in London on 24 and 25 September.

## Contact Information

### Mary Lambe

Senior Governance and Benefits Consultant

+44 (0)1727 888236

+44 (0) 7771 678745

[mary.lambe@aon.com](mailto:mary.lambe@aon.com)

### Alison Murray

Head of Public Sector Actuarial

+44 (0)117 900 4219

[alison.murray@aon.com](mailto:alison.murray@aon.com)

### Karen McWilliam

Head of Public Sector Governance and Benefits Consultancy

+44 (0)771 101 6707

[karen.mcwilliam@aon.com](mailto: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 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

Copyright © 2019 Aon Hewitt Limited. All rights reserved.

Aon Hewitt Limited is authorised and regulated by the Financial Conduct Authority.

Nothing in this document should be treated as an authoritative statement of the law on any particular aspect or in any specific case. It should not be taken as financial advice and action should not be taken as a result of this document alone. Consultants will be pleased to answer questions on its contents but cannot give individual financial advice. Individuals are recommended to seek independent financial advice in respect of their own personal circumstance.