

'Tis the season to be united.

AON

Local Government Newsletter

December 2020

Hello and welcome to the December edition of our monthly newsletter. We hope you are all able to relax and spend some time with your nearest and dearest during this festive period, and we all look forward to what 2021 brings us. I'll be handing over to a new editor in the new year, but it's been a pleasure bringing you our news and views over the last few months!

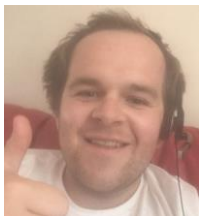
Laura



People News

We are eagerly awaiting the results of colleagues actuarial and PMI exams. We will publish the results in January's edition.

Our public sector team joined in a virtual Christmas social with our colleagues in the wider retirement business in Bristol on the 16th, which was run as a "rewards ceremony", with both serious and silly categories! Our team members were nominated for the following awards: Daniel Kanaris: Most supportive colleague; Ben Challinor: Rising star; Catherine Pearce: Aon United colleague; Rita Young: Best back drop and most cheerful; Craig Payne: Best lockdown hair ... this picture says it all ... Whilst we had no wins



but we did perform well in the virtual raffle with Nicky Russel winning a Bath team rugby shirt, Scott Campbell winning a contemporary illustration of Bristol from Upfest and Lauren Wynn winning an afternoon tea with bubbles.

COVID-19 Update

Summary of excess deaths over 2020

We saw around 60,000 excess deaths in April/May, because in hindsight, the UK locked down late, and while the UK was rated on the best prepared countries for a pandemic, there were deficiencies with NHS protocols and the PPE supply chain. Since then, deaths in Q3 were relatively light, and deaths in Q4 have been heavy – around 7,000 excess deaths in the second wave so far.

It is interesting to examine what happened in Australia over their winter, as – just as in the UK – they have a flu season every year. However, in 2020 there was no flu season. Australia is not exactly the same as the UK, but we are expecting COVID-19 mitigation measures to have a positive impact on UK winter flu deaths.

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Industry developments

SAB response to MHCLG exit reform draft regulations

SAB has published its [response](#) to the consultation on the draft Local Government Pension Scheme (Restriction of Exit Payments) (Early Termination of Employment) (Discretionary Compensation and Exit Payments) (England and Wales) Regulations 2020.

The response includes technical points on various issues, and suggested areas where amendments would be needed to deliver what they believe is the intention of the draft regulations. For example, the SAB suggests that the definition of 'relevant Scheme member' must be clarified to confirm whether it includes only those who are active members on their termination date, and the position for a member who retires from active status under regulation 30(5) and the employer waives some or all of the early payment reduction under regulation 30(8) also needs to be clarified.

The SAB also mentions the preference for provisions relating to retirement to be included in the 2013 LGPS Regulations rather than the Compensation Regulations.

Exit payments - update

In late November the LGA published a set of FAQs for pension scheme members covering the exit cap, which can be found [here](#).

Exit cap waiver guidance

On 16 December MHCLG published its [guidance](#) on applications for the relaxation of the exit cap for LGPS employers in England during the interim period until the LGPS Regulations are amended. HMT Directions specify the circumstances where mandatory or discretionary waivers may apply so this guidance provides information on the process MHCLG will follow in deciding whether or not to approve a request for a waiver. The guidance is largely directed at employers. However, the employers are required to submit a business case for a waiver to MHCLG and this needs to include information from administering authorities.

The guidance states that funds will have up to two weeks to provide information on the strain cost whether or not the waiver were granted. However, at the current time if the waiver isn't granted members can't receive a partially reduced pension given the LGPS regulations

have not been amended. Where there is a bulk redundancy exercise the total figures must be provided, as well as the range and distribution of individual strain costs. Where the waiver is on grounds of extreme hardship, the annual pension amount (with and without waiver) is also required as well as the strain costs. LGA have already expressed some concerns at the contents of the guidance and have advised administering authorities to provide the full strain cost only. They have also flagged that only employers and (and not the administering authority) can (or should) determine the amount of any cash payment that may be payable where the member is capped and only receives a reduced or deferred pension. LGA's view is that if administering authorities are involved in determining any cash amount they could be liable if the employer exceeds the cap or the employee challenges non or part payment of any element of the total.

SAB Guidance on new employer flexibilities

SAB has issued a consultation on the guidance for the new employer flexibilities in the LGPS. This covers operational and practical guidance for employers and administering authorities. In addition to the Guide, relevant case studies and examples of these flexibilities working in practice will be published by the SAB. The consultation will run until 9 January.

HMRC Newsletter 126

HMRC has published [Newsletter 126](#) - this includes a request for scheme administrators to remind members who exceeded their annual allowance in the 2019/20 Pension Input Period, and who do not have sufficient unused annual allowance to carry forward to cover the excess, to declare this on their Self Assessment tax return.

Technical Group Meeting

On 10 December Catherine Pearce attended the Technical Group meeting. Other than where discussed elsewhere in this newsletter, the following was discussed:

- McCloud – the software providers are making progress on the systems requirements for obtaining the required information.
- GMP equalisation – the consultation is ongoing and MHCLG have taken advice on the recent decision about having to revisit transfers-out and are hopeful that this will only apply to a small number of transfers.

The challenge for funds will be accessing the data for older transfers-out to assess if they're affected or not. It is hoped that guidance on this will be available in New Year.

- Exit cap – the three judicial review challenges lodged have been expedited by Government and a permission hearing is expected before Christmas. There were 400 responses to the consultation on the Local Government compensation arrangements which MHCLG are still working through and there will also be further responses to the draft regulations consultation. Funds will need to start thinking about their processes for providing pension estimates to members and employers as it's likely there will need to be some back and forth between the parties. Aon has developed a model that can help with these calculations – if you are interested in this please get in touch with [Becky Durran](#) or your usual Aon contact.

LGA bulletin

LGA published its latest [bulletin](#) on 11 December. Other than that set out already in this newsletter, the bulletin mentions the [TPR guidance for spotting signs of employers in financial distress](#). This isn't aimed at the LGPS but there may be some useful information in the guidance for administering authorities.

Pensions to be included in wealth tax

A report published by the Wealth Tax Commission has suggested that applying a tax to all of an individual's net assets worth more than £500,000 would raise £262bn. The value of pensions and the family home (less mortgages and other debts) would be included in that net asset value.

If this tax were implemented it could help the Government to recover almost all of the £280bn that has been spent on fighting the COVID-19 pandemic this year. The recommendation in the report was that tax should be paid at 1% over five years, although the pension wealth should be paid out of the pension lump sum on retirement.

Despite the report the Government has for now apparently rejected the proposals, stating: "*We have taken steps to ensure the wealthy pay their fair share, reforming the taxation of dividends, pensions and business disposals to make the tax system fairer and more sustainable.*"

First LGPS Fund achieves PASA accreditation

Congratulations to the team at the West Midlands Pension Fund which has become the first LGPS Fund to achieve the Pensions Administration Standards Association (PASA) "Gold Standard" accreditation. This is particularly impressive in such a challenging year!

What we've been talking to our clients about

McCloud – Aon in the news

You may have seen a news article in Pensions Age in which our colleagues Alison Murray and Virginia Burke comment on the challenges being faced by administering authorities and their concerns regarding a potential delay to new regulations. We have spoken informally to MHCLG about the need for sufficient time being given to enable software suppliers to update their systems and hope that they will be able to find a workaround if there are any delays due to the need for primary legislation or other external factors.

McCloud – data challenges

We have been discussing with administering authorities how to gather most efficiently historic part-time hours and service break information, which will be needed as part of the McCloud rectification project.

We are seeing more and more administering authorities starting to plan their McCloud implementation projects and with the possibility, albeit by no means certainty, of LGPS McCloud regulations in Spring 2021 we encourage all administering authorities to set up their McCloud project and core team, request any missing data and engage with their software supplier as to what support they can offer. If this is something you also need help with, please contact [Virginia Burke](#).

Exit payments and flexible retirement

A key focus over the last month or so has been providing advice to funds on the factors they use to calculate strain costs with many funds looking to adopt the GAD approach in advance of the changes to the LGPS Regulations.

We have also been running exit cap workshops for a few of our administering authority clients to help them understand the regulatory timeline and challenges, and provide a few live examples with the resulting member options arising from the new draft regulations.

Please get in touch with [Becky Durran](#), [Catherine Pearce](#) or your usual Aon contact if you would welcome a session on the exit cap.

LGPS Cyber Scorecard – how does your fund compare?

Last month we launched our LGPS Cyber Scorecard and we've already had lots and lots of interest from funds of all sizes.

This Scorecard enables funds to assess their overall approach to cyber risk and how they compare to other LGPS funds. The assessment consists of about 60 multiple choice questions which takes about 30 minutes to complete. They are not technical questions, and senior officers should be able to answer the questions without much difficulty.

Participating in this assessment is free and we will provide a free report which provides an overall score, a breakdown into 10 key areas, and a comparison against the database of other LGPS funds who have completed the assessment.

If you would like to take part, the link to the assessment is [here](#).

Academy consolidation

We have been speaking to a number of funds and colleagues at LGA and MHCLG about academy consolidations (i.e. where a Direction is sought to transfer assets and liabilities across multiple funds to a single funds). Whilst consolidation may have benefits for the scheme employer, e.g. reducing the time and administration costs of dealing with multiple funds, funds should be wary of a potential trend of multiple academy trusts looking to go down this route given the potential cashflow and investment and funding implications. The now disbanded academy funding working group considered and rejected the concept of an academy superfund and whilst we are not aware that this is back on the table, and some funds may be quite happy to see some academies leave where there have been data issues, we would urge administering authorities to consider the wider implications if they are asked for their views on the potential consolidation of academies in a MAT.

Spending Review 2020

With news of Section 114 notices and Councils applying for permission to use capital receipts to fund revenue expenditure it will be important for administering authorities to be mindful of the general financial context as planning for the 2022 valuations begins next year. We haven't heard too many negative comments about this year's spending review and nor have we had any Councils requesting that the new flexibilities to change employer contributions between valuations be used to reduce their contributions. However, that is something for administering authorities to watch out for. It may be justified if the regulatory criteria are met, e.g. on the establishment of a material wholly owned company or other restructuring, but funds should consider how they would respond to such requests when developing their policy on using the new flexibilities.

We also noted the spending review announcement of a projected increase in local authorities' core spending power, one of the more controversial elements of the GAD report on the 2016 valuations under Section 13 of Public Service Pensions Act (it was used in the calculation of the liability and asset shock metrics). We have previously asked GAD for confirmation of whether they plan to retain use of the metrics adopted for the 2016 exercise in the 2019 review but have not yet had a detailed response. Watch this space!

Recent events

Alison Murray participated in a SAB/DG LGPS Live event on 2 December discussing the exit cap. The session was chaired by Jeff Houston and co-panellists including Kirsty Bartlett from Squire, Patton Boggs and Heather Chambers from Tyne and Wear Pension Fund.

Research and Publications

The latest research and publications by Aon Thought Leaders: -

- [December COVID-19 Investment Market Update](#)
- [UK Monthly Investment Background paper](#)
- [AA View - Inflation hedging after the RPI announcement](#)
- [AA View: UK Fiscal Outlook - Mammoth deficits, but they look financeable for now](#)
- [CMA Glossy Q3 2020 - Bonds in a lower for longer interest rate world](#)



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