Local Government Newsletter

August 2018

Welcome to the August 2018 edition of the newsletter. I hope those of you who have been on holiday have had a good break, and that you enjoy reading this edition.

Becky

People News

As mentioned last month Scott took on the challenge of cycling from Land's End to John O'Groats. We are pleased to report that Scott completed his challenge in 9 days – here is a picture of Scott along with his fellow cyclists and support driver in their Hospice UK jerseys. The trip largely went to plan although a buckled back wheel meant a quick detour to a nearby bike shop in Nantwich, but luckily no injuries were sustained! Scott's favourite part was cycling through the highlands of Scotland, despite the hills and rain. The group have so far raised over £1,600 so a great effort all round!

Talking points

Government to review pensions tax relief

The government intends to "*examine the processes for payment of pensions tax relief for individuals to explore the current difference in treatment to ensure that we can make the most of any new opportunities that emerge, balancing simplicity, fairness and practicality*". This is in the context of the significant difference in treatment between relief at source and net pay arrangements, typically used by personal pensions and occupational pension schemes respectively, for non-tax payers. Press coverage has suggested that wider changes may also be considered.

In addition, the Treasury Select Committee has published a paper that includes several recommendations for government, including on pensions issues. These recommendations include replacing the lifetime allowance with a lower annual allowance and introducing a flat rate of tax relief (promoting understanding of tax relief as a bonus or additional contribution). The paper also suggests the government should abolish the Lifetime ISA.

LGPS Investment, Governance and Engagement committee - paper on DWP's consultation on trustees duties

The agenda for the next SAB LGPS Investment, Governance and Engagement committee on 3 September is now available. It includes a paper which is comparing the proposed DWP trustee duties consultation with what is already in the LGPS ISS statutory guidance and considering whether the statutory guidance needs amending.

Universities in the news

A number of universities have been in the news recently over proposed changes to their pension scheme arrangements, and we are seeing queries from our clients about similar issues. Local press reported a strike at Staffordshire University over proposals to remove access to the LGPS for some support staff, and Unison have issued a statement.

It will be important to consider the covenant and longevity of universities (and colleges) that participate in the LGPS at the upcoming 2019 valuations, and whether they are proposing/considering any such changes, when determining funding strategy for such employers.

Industry developments

Climate change

The Institute and Faculty of Actuaries (IFoA) has highlighted a checklist to help pension schemes consider climate change risk. The checklist is produced by the UK Sustainable Investment and Finance Association (UKSIF) and covers issues relating to governance, the Statement of Investment Principles (the private sector equivalent of the Investment Strategy Statement), working with investment advisers and managers, pooled funds, segregated mandates, stewardship and collective engagement, and reporting and disclosure.

In June 2018, the IoFA published a summary of its work on resource and environment (R&E) risks for pension schemes. In addition to highlighting the practical guide noted above, the summary also links to supplementary papers on the impact on covenant and mortality.

Recently, ClientEarth (a charity whose mission is to '*use the power of law to protect people and the planet*') referred the LGPS to The Pensions Regulator over policies on the financial risk caused by climate change. The referral calls on the regulator to investigate, publish detailed guidance dispelling their perceived misconceptions, highlight best practice and prepare a report on the pensions industry. ClientEarth has also published two reports on the financial risks posed to pension funds by climate change ('market standards on climate-related risks by asset owners' and 'Why investors should act in response to climate-related risks and opportunities: a survey of current evidence').

Pension costs and transparency inquiry

The Work and Pensions Committee has announced an inquiry into pensions costs and transparency. This will focus on whether the pensions industry provides sufficient transparency around charges, investment strategy and performance to consumers. Responses are requested by 3 September.

FCA's approach to Brexit

In a speech in July 2018, the Financial Conduct Authority explained the preparations it is making, in conjunction with the Bank of England and the Government, to mitigate key risks, including:

- 'Cliff edge' risks in relation to continuity of contracts of insurance, derivatives, and financial instruments such as interest rate and/or currency hedges;
- Working with regulated firms to provide guidance and set expectations;
- A Temporary Permissions Regime (TPR), allowing EEA firms and funds using a UK passport to continue to carry out regulated activities, while they apply for full authorisation;
- Identifying changes needed to legislation and to its rule book (aiming to consult on these changes in the autumn);
- Working with regulators around the world to agree common standards, and to allow access and information sharing.

Separately, the government has released 25 guidance documents on how to prepare for a no deal Brexit, including on banking, insurance and other financial services. It has been reported from discussions in the House of Commons Exiting the European Union Committee that if UK insurers lose authorisation in the EU (because the EU decides the UK's regulatory regime no longer meets the EU's standards) they may not be able to pay pensions to those who have retired in the EU.

TPO finds scheme failed in anti-scam duties

The Pensions Ombudsman (TPO) has found that the Northumbria Police Authority was guilty of maladministration when it transferred a police officer's pension savings without providing the official TPR 'scorpion' anti-scam literature or carrying out adequate checks on the receiving scheme. The authority has been ordered to reinstate the member's benefits, and to pay £1,000 in damages for distress. Sir Steve Webb is reported to have stated that the ruling could lead to some past victims of scams, who have complained unsuccessfully to a pension scheme, now claiming redress through TPO.

What we've been talking to our clients about

Section 13

As predicted in our June Newsletter, GAD's approach to reporting on whether LGPS valuations are "not inconsistent" has proved contentious. After providing initial comments on their draft report (shared in late July), Alison Murray and I attended a meeting on 22 August 2018 with representatives from the other 3 actuarial firms, GAD, LGA and MHCLG to further discuss some of the more contentious elements of GAD's draft report under Section 13. GAD have undertaken to review some elements of their report and we understand a final draft will be published in mid-September.

GMP Equalisation

The High Court hearing on equalisation for the effect of unequal Guaranteed Minimum Pensions (GMPs) has concluded, and a ruling is expected in September or October. The case concerns Lloyds Banking Group Pensions Trustees Limited and three related schemes, but the DWP and HMRC were also represented in court because of the potential for a wider precedent to be set. It's now public that Aon advised the Bank on the case and we understand from colleagues who attended court, that it was a fascinating process.

The 10-day hearing included arguments concerning whether equalisation for the effect of GMPs is required or not. The High Court ruling will provide clarity on this key initial question. If the answer to this question is 'yes', then the ruling will comment on the various potential methods to achieve equalisation. If more than one method delivers equalisation, the court was asked to leave the choice of method to the trustees.

This case has the potential to question how GMP equalisation is currently achieved in the LGPS, which is through paying higher pensions to GMP to avoid any inequalities. The DWP joined the court case in part to present this Public Sector approach to GMP equalisation. The suitability of this approach was strongly challenged in court. You may remember it has been reported that BT has also challenged this approach (albeit for different reasons) and launched legal proceedings against the Government, which we commented on in our May Newsletter. Although, it is unlikely that the current court ruling will directly comment on Public Sector schemes, depending on the range of methods the court does approve, it could lead to some difficult questions for the Public Sector too. It is possible that the answers could also vary depending on whether an occupational scheme or a statutory scheme like the LGPS.

Our expectation is that the court will decide that equalisation is required but it is less clear which method, or methods, the court will approve and so whether it will raise any questions for the LGPS.

Increased auditor scrutiny of accounting figures

There is a growing evidence of increased scrutiny of pension accounting figures by auditors and we expect this trend to continue given the Financial Reporting Council recent audit quality review on pension disclosures. We understand that auditors have asked a number of employers to rework their disclosures at 31 March because the estimate of the investment return was more than 1% different to the actual return. The issue arises due to tight timescales required, so the actual return is not normally available when the actuaries are preparing the figures. By the time the audit is concluded the actual return is available putting auditors in a difficult position and as a consequence some are asking for recalculations.

This in turn makes it difficult for employers and actuaries to decide on the best course of action as there is a conflict between timely production and accuracy. This problem could be mitigated if Funds were able to provide actuaries with monthly investment returns (so estimation is for as short a period as possible reducing the chance of rework being required) or for pension figures to be slotted into the accounts at a very late stage when actual investment returns are available. It is also important that these returns are checked before being provided to actuaries to reduce the possibility of rework (and hence cost) through figures being provided incorrectly. We suggest that employers encourage auditors to consider any estimates in the context of the approximate nature of the calculations being undertaken, and not to place undue scrutiny on one element of the reported figures when other elements may be accepted even though they also contain approximations.

LGPS Survey on pay and organisational structure

We are delighted to report that our analysis of the data supplied for our survey of pay and organisational structures of LGPS funds is now complete and a summary has been shared with all participants and the Scheme Advisory Board. 31 administering authorities completed the survey, covering 34 funds. The survey is not available to those who did not participate but if any administering authorities would like to be included within our analysis please do get in touch with Alison Murray or Laura Caudwell.

Scheme return and data scoring

Administering authorities will be busy planning their responses for the Pension Regulator's annual scheme return. The Pension Regulator's guidance is now out, with a sample scheme return, which includes for the first time reporting the percentage of members with all common and scheme-specific data present. There is also specific guidance for the new items (mainly the data scoring).

From speaking to administering authorities we know that many are concerned about how they should be measuring this data.   One area that has been discussed is unprocessed backlogs of leavers or aggregations. These will be fails under the common data score as the status on the record isn't accurate and we would expect similar fails on the scheme-specific data given other data fields will be inaccurate.

This year, what and how scheme specific (conditional) data is measured is up to each administering authority, as it has not proved possible to reach agreement on a list for all funds to use. It's therefore down to individual administering authorities to determine a list of scheme specific data and test against that. From our conversations with funds we know many will be relying on the scoring system developed by their software provider, or using a list based on the Universal Data Extract. If you need help developing a score, please get in touch and we'd be pleased to help.

The Regulator has been clear that the scores this year are about setting the scene, and appreciate that scores next year may be calculated on a different list of data. In due course the Regulator will expect funds to improve (or at least maintain) their data scores but in the initial years the Regulator accepts that scores may vary as the list of scheme specific data is refined.

If funds would like any assistance with data scoring please contact Laura Caudwell or your usual Aon contact.

Events

Cost Management, Benefit Design and Administration Committee

Alison Murray will be attending the next meeting of this Committee on 30 August 2018.

Investment, Governance and Engagement Sub-committee

Karen McWilliam will be attending the next meeting of this Committee on 3 September 2018.

LGC Investment Summit

Jonathan Teasdale will be at Celtic Manor on 6/7 September.

Public Sector Pensions Conference

Dan Kanaris, Joel Duckham and Chris Darby will be attending this Eversheds conference in London on 28 September.

Aon DB Investment Conference

Taking place in both London and Leeds, our investment specialists and external speakers will discuss some of our best ideas and latest thinking, compelling investment themes, lessons learned, along with topics brought up by the audience during group discussions and Q&A.

The conference will cover a range of investment areas including the steps trustees can take to align UN's Sustainable Development Goals with their responsible investing objectives, how to tackle cost transparency to the benefit of members, and the growing role of real assets within pension portfolios.

London (waiting list applies)
Thursday 27 September, 08:30—14:00
The Aon Centre, 122 Leadenhall Street, London

Leeds
Tuesday 2 October, 08:30—14:00
Park Plaza, Boar Lane, City Square, Leeds

Register for this event

Blog spot

The latest articles from the Aon Retirement and Investment Blog

- Weekly Update - 20 August 2018
- Debating Active vs Passive

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