

# Local Government Newsletter

June 2018

Welcome to the June 2018 edition of the newsletter. I have taken over the editor's role from Michael for the next few months, and I hope you enjoy reading this edition.

*Becky*



## People News

There have been a number of significant birthdays in the team over the last month. The team had a night out to celebrate, and here is a picture of the birthday boys (Dan Kanaris, James England, James Haysom, Joel Duckham and Chris Darby) with their birthday cake made by Rita Young. We will leave you to guess which significant birthday each of them has reached!



## Talking points

### State pension age petition

The Government will have to justify plans to change the State Pension Age after [a petition launched by the union Prospect](#) received more than 10,000 signatures. Legislation means that the Secretary of State is expected to conduct a formal review of the state pension age on a regular basis. At the time this policy was introduced, a key underlying factor was that individuals should spend up to a third of their life in retirement. However, last July the Government announced that the third of adult life principle would be interpreted as being 32% rather than the previous 33.3%.

As the Normal Retirement Age in the LGPS is linked to State Pension Age, any change to State Pension Age has an impact on the LGPS benefits payable.

### Pension Committee and Board Member Training

You will have received an invitation to our training events on the **5 and 30 of July in our Leadenhall Office in London.**

If you have still not booked places for your new members and officers, please contact [Michael Ferguson](#) (copying in [Christine Swain](#)), or you can access the invite [here](#).

The cost is £300 plus VAT per person per day.

### SAB guidance on scheme specific data

SAB has issued for consultation a list of the scheme specific data that funds should measure. This has been sent to funds and the software providers to respond to LGA with any comments by 29 June although it is likely that the list will continue to be refined throughout the summer. SAB will follow up with more in depth guidance on measuring the scheme specific data, although it is not clear at this stage when this will be available.

By the time you read this, we will have held our webcast about data improvement where the scheme specific data proposals will have been discussed. If you missed it and want to watch the replay, please get in touch.

## Industry developments

### KPMG's audit work criticised by watchdog

The FRC (Financial Reporting Council) [has said](#) that they "expect improvements... in the audit of pension scheme balances". Any administering authorities or their employers which have KPMG as their auditors, should be aware that this may lead to changes in how KPMG audit pension disclosures and/or question assumptions used for FRS102/IAS19 or IAS26 figures.

## Secretary of State MHCLG v Palestine Solidarity Campaign and Unison

The Court of Appeal recently found in favour of the Secretary of State in respect of the appeal by MHCLG regarding the decision last year by the High Court that the Secretary of State had exceeded his powers in including a provision in the statutory guidance that was not for “pension purposes”.

In July last year, following the High Court decision, MHCLG had revised their statutory guidance on preparing and maintaining an investment strategy statement to remove the provision requiring that a fund authority should not pursue policies that are contrary to UK foreign policy or UK defence policy.

Our understanding is that the Palestine Solidarity Campaign is seeking permission to appeal the Court of Appeal’s decision.

## New Scottish Regulations

A correction to our May Newsletter regarding the ability to retire without employer consent - it is only leavers from 1 June 2018 who can access their benefits between age 55 and 60 without their employer’s consent (not leavers from 1 April 2015). However, SPPA have confirmed that it is their intention to amend the Transitional Regulations so that leavers under earlier regulations can access benefits between age 55 and 60. We apologise for the error.

## Equitable Life

Equitable Life has announced that it is proposing to transfer the business and all of its policies to Reliance Life, part of Life Company Consolidation Group (‘LCCG’) a specialist European life assurance group. This will result in capital reserves currently held to meet future liabilities being freed up to be paid to with profits policyholders.

**The effect of this will be increases to with profit policy values by an estimated 60% to 70%.**

The deal is subject to a vote, likely to be held in early 2019, and a final court order, expected later that year. The effective date will be confirmed in that court order, but the transfer is targeted to be completed by the end of 2019. We expect more information about the transfer to be announced throughout the course of the next year.

This will affect any members with AVCs held in with profit funds with Equitable Life. Importantly, members not wishing to lose out on the increased uplift will need to defer taking benefits or transferring out before the effective date so it is important that they are made aware of this.

## SLGPS structure review consultation

The Scottish Local Government Pension Scheme Advisory Board has issued a [consultation](#) on the structure of the SLGPS. There are a range of options, from retaining the current structure, through increased collaboration or investment pooling, to reducing the current 11 funds down to a single fund.

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

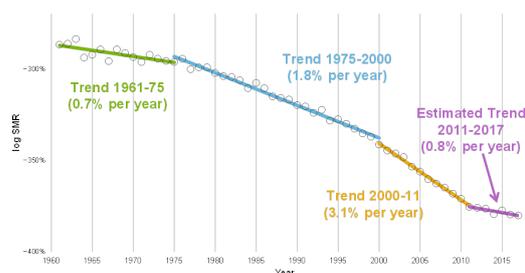
### Longevity

If you attended our LGPS Seminars in February and March this year, you will know that the rate at which life expectancy is improving is slowing down, and that this now looks like a trend rather than a blip.

Backing up this observation, on 18 June, the ONS released a [publication](#), which states that:

- A statistically significant slowdown in the long-term improvement in age-standardised mortality rates for England and Wales took place around the early 2010s.
- This was true for England and Wales, for both sexes, and for older and younger people, with some variations in the timing and extent of the change in trend.

This ties in with Aon’s analysis, as shown in this chart of standardised mortality rates (England and Wales) of males aged 50-89.



In addition, the Continuous Mortality Investigation has released a working paper regarding proposed new mortality tables for self-administered pension schemes, the S3 tables. These tables will be based on pension scheme mortality experience from 2009-2016 (an update from the S2 tables Aon used for the 2016 LGPS valuations based on data from 2004-2011).

We have already been discussing this with funds we advise, but with the 2019 valuations already looming and in light of all these changes, now is a good time to start using our proprietary longevity analysis model, Demographic Horizons™, which combines postcode and socioeconomic data and experience analysis to help funds and their actuaries set more robust mortality assumptions. It's too early to say for sure, but the 2019 valuations may be the first for a very long while when pensioner mortality has a positive effect on the valuation results – positive in terms of funding position and employer contribution that is, clearly it won't be good news for scheme members themselves.

## Responsible investing

We are delighted to share with you the [results of our inaugural Global Responsible Investment Survey](#). This survey provides insight into current and planned responsible investment initiatives from 223 global investors.

As there is no “one-size-fits-all” approach to Responsible Investment, we hope that the survey will help support you to engage with the issues so as to be confident about what your fund's position on Responsible Investment is and why.

For further thoughts on the survey results, please read our [blog post](#). For further information on Responsible Investment please read our latest [quarterly update](#), or download our [“Investor's guide to Responsible Investment”](#).

## LGPS Survey on pay and organisational structure

As reported in previous Newsletters Aon has been collecting information on administering authority pay and organisational structures, in collaboration with 3 administering authorities and in support of the SAB separation work-stream. The data collection phase of the project is complete and we're delighted that 30 administering authorities have completed the survey, covering 33 funds. Colleagues in our Talent, Reward and Performance practice are now analysing and collating the information provided.

## Section 13

We have continued to support administering authorities whom GAD has indicated would receive one or more amber flag in their Section 13 review of the 2019 valuations. Following a number of emails and discussions we are pleased that GAD have reviewed some of their metrics and a number of funds have had at least one of their amber flags withdrawn, although GAD's approach to the asset and liability shock metrics remains a little controversial.

Experience from the 2013 Dry Run suggests that GAD's approach to commenting on whether the valuations are “not inconsistent with other valuations” is also likely to be contentious, but we will suspend judgement until we receive a copy of the draft report, expected in July.

## Recent events

### MHCLG/GAD Data and Section 13 Roadshows – Durham, Cardiff, Manchester, Birmingham and London

We were delighted to host the Cardiff roadshow at our new Cardiff office on 7 June and attended and presented at a number of the other workshops organised by MHCLG and GAD. It was good to see many of you there.

### The Data Challenge in 2018 (15 June)

Catherine Pearce attended this recent CIPFA event. One item of interest was that tPR is planning to visit 10% of funds, with a range of sizes and geographic locations. Selected funds will be getting a letter shortly!

### Academies Funding Working Group

Scott Campbell attended a further meeting on behalf of Aon on 11 June, to assist in putting together a possible solution for further consultation regarding asset transfers on academy conversion and contributions payable by academies. We have been asked to keep discussions at the Group confidential but the key issues/proposals discussed by the Funding and the Administration working groups were summarised in a paper discussed at the SAB meeting on 27 June:

- Introduction of a universal monthly data extract
- Creation of a “kite mark” for payroll providers and a standard employer portal
- Creation of ring-fenced academy pools within each LGPS fund in England into which existing academies would be transitioned over time
- Consolidation of MAT schools into a single pool and minimising movement across funds post-consolidation
- Adaption of the DfE guarantee to stand behind the pools

The Board was asked to note the working groups' work to date and approve continuation of their work as outlined. It is not yet clear what proposals will be taken forward nor when, but administering authorities may wish to consider if and how any changes may affect their funding strategy for the 2019 valuations. The paper can be found [here](#).

## Aon Webinar – Data Quality in the LGPS – 28 June 2018

Aon was joined by representatives from the Pensions Regulator and the Local Government Pension Scheme Advisory Board (SAB) to discuss the new data quality measurement requirements in the annual scheme return, and how this measurement should lead to improvements in the quality of record keeping. A recording of the webinar will be made available shortly for those who were unable to dial in. Please contact Laura Caudwell if you would like to receive a copy.

### Tier 3 Project

Aon presented their draft report on the review of third tier employers participating in LGPS funds in England and Wales for consideration at the Board meeting on the 27 June 2018. We will provide further updates on this project in due course.

## Upcoming Events

### Aquila Heywood CLASS Group AGM 11 - 12 July (Manchester)

Craig Payne and Chris Emmerson will be attending and look forward to seeing many of you there.

## Blog spot

The latest articles from the Aon Retirement and Investment Blog

- [Weekly Update - 25 June 2018](#)
- [Telling the Truth on Trade](#)
- [Global monetary policy set to diverge?](#)
- [Direct lending: Private debt](#)
- [Will an Italian crisis turn into a Euro-Area one?](#)

## Contact Information

### Becky Durran

Senior Consultant

+44 (0)117 900 4426

[becky.durran@aon.com](mailto:becky.durran@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.

Aon Hewitt Limited

Registered in England & Wales No. 4396810

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

Copyright © 2018 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