

Local Government Newsletter

June 2020

Hello and welcome to the latest edition of our newsletter.

As we start to move to the next stage of COVID-19 with a number of the restrictions in the UK starting to be lifted we look this month at the continued impact of COVID-19 on pension funds. In addition, we look at various topics that we have been discussing with our clients, including cashflow management, strain on fund factors and the potential impact of McCloud.



Scott

People news

This month has been very quiet from a people news perspective with summer holiday plans being replaced with lots of DIY and time in the garden - my garden has certainly never been more under control!

In terms of work we are continuing to work from home where possible, and we are very pleased that WebEx and other communication platforms are working so smoothly throughout this time. Whilst plans continue in relation to the reopening of some of our offices at a significantly reduced capacity, we are anticipating that most of the team will continue to work from home for the time being.

COVID-19

Demographic Horizons longevity update

In last month's newsletter we provided an article on the potential impact the pandemic could have on funds from a longevity perspective – see [here](#).

Our Demographic Horizons™ team continues to monitor this impact as information emerges on a daily basis and their latest briefing can be found [here](#).

In summary,

- Actual excess deaths to the week ending 12 June were materially higher than official COVID-19 death counts, with cumulative deaths in 2020 to date well outside the range of the outcomes seen in recent years
- In Italy, Spain and France, daily confirmed cases and deaths stabilised 2 to 3 weeks after

lockdown and are now falling, although the rate of decline is lower than the initial rate of increase. This suggests that European-style social distancing and lockdown is an effective strategy for inhibiting the spread of COVID-19, but initially at least, does not stop the spread of COVID-19 altogether.

- The adjusted daily deaths figures suggest that the UK appears to be on a similar path to Italy in the short term.
- The impact on longevity for pension scheme members will additionally be affected by the indirect impact of COVID-19, including the health of the surviving population, and the economic, social and political consequences of tackling COVID-19. In both cases, the impact on longevity could be positive or negative.

Further useful resources can be found on Aon's Covid-19 response site – see [here](#).

Extension of Job Retention Scheme

Chancellor Rishi Sunak has set out how the Job Retention Scheme for employees furloughed because of COVID-19 will be extended. This follows his earlier announcement that the scheme would run until the end of October.

From 1 July, businesses will be given the flexibility to bring furloughed employees back part time. From 1 August, employers must meet the cost of pension scheme contributions and NICs. The proportion of wage costs met by the government will reduce to 70% for September and to 60% for October (with proportionately reduced caps). Further details can be found in the Government's guidance [here](#).

It has also been clarified that employers can only claim pension contributions for furloughed employees up to 3% of income above the minimum qualifying earnings. Any contributions above this threshold will fall to the employer. However, this will only continue until August 2020, from when employers will no longer be able to reclaim pensions contributions. Updated FAQs can be found on the LGA website [here](#).

Industry developments

Update on McCloud

We were delighted to have over 170 attendees at our webinar on 23 June entitled 'Are you ready for McCloud?' In this webinar we discussed some of the key issues from both a funding and administration perspective. The key message is that this could be non-trivial from an administration perspective and administering authorities should start planning for this project if they haven't already done so. This will help ensure that you are ready to respond to the MHCLG consultation expected in July as well as ensuring you to have sufficient resources in place to gather appropriate data and carry out the necessary calculations once the remedy is confirmed.

We ran a number of polls during the webinar to gauge views of attendees. 43% of respondents admitted that they hadn't yet started planning for McCloud although the vast majority of those plan to do so by the end of the year. 50% of respondents indicated that they thought data collection / upload would be the greatest challenge in implementing McCloud. Only a third (32%) of respondents indicated that they would implement McCloud using only in-house resources.

If you were unable to attend the webinar a recording can be found [here](#), along with the [presentation slides](#).

If you have any questions on this, please contact Virginia Burke or your usual Aon contact.

GAD data letters

Further to our article in last month's [newsletter](#), a communication was sent out from GAD (via LGA) to administering authorities to clarify their intentions and to let funds know that they would be engaging with fund actuaries to gain a greater understanding of the data before the 2020 data collection exercise.

Becky Durran and Alison Murray attended a call with GAD on 18 June 2020 to discuss some further details of GAD's data analysis.

They briefly explained our data validation process and flexibility in how responses are provided (we don't insist on correction and re-submission of data).

They also discussed:

- The importance of the distinction between undecided members, frozen refunds and pending deferred members. We believe that GAD may have overstated the numbers of undecided members, but they are still interested in how these vary by fund.
- Casual workers which may lead to data items (such as post 2014 pay and pension) correctly being zero.
- Ensuring that GAD receive data in respect of Councillors, particularly for Welsh funds.
- Late processing of leavers and joiners, and aggregations / retirements which can throw out GAD's reconciliation (our valuation membership reconciliation was based on actual membership data used at the previous valuation and so was more accurate). We mentioned a concern about GAD inadvertently excluding data and making adjustments where this wouldn't be appropriate.
- Reconciliation of pay and pension compared to cashflows not allowing for leavers and joiners and using an average member contribution rate for the whole scheme, meaning that the tolerances allowed for in GAD's analysis were too narrow, flagging up issues in many cases when there were none.

We believe that this engagement provided GAD with useful information for the 2020 data collection exercise and should make this process run smoother. GAD indicated that they are planning to ask additional questions when requesting 2020 data including:

- Commentary on any backlogs, including at 2016 which would affect their reconciliation of 2016 and 2020 data.
- An indication of any material bulk transfers since 2016 (and data on the members involved).
- Possibly a question on casual workers in the fund, e.g. how material these are.

We believe it is important that funds, their actuaries and GAD work together to ensure the 2020 data is as accurate as possible and to avoid a repeat of the very negative commentary around the 2014 data.

In addition to the Pension Regulator's (TPR's) views on the importance of data quality and it being best practice in any case, this is another reason for administering authorities to carry out an annual data validation exercise. Many funds are now doing this, and we would encourage all funds to do the same.

We have offered to engage with GAD around the time of the 2020 data collection exercise in September, to share any general themes arising from the annual data validation exercise as at 31 March 2020 we are carrying out. This is also an opportunity to raise any fund-specific issues with GAD.

LGPS investment rules determined unlawful

In September 2016 the Department for Communities and Local Government (DCLG) (now MHCLG) issued guidance on how LGPS assets are invested. This guidance prevented pension funds from engaging in boycotts and “ethical divestment” of companies accused of being complicit in Israel’s occupation of Palestine.

Campaigners from the Palestine Solidarity Campaign (PSC) asked for the guidance to be ruled as legally flawed. In June 2017 the High court ruled that the government had acted unlawfully in seeking to restrict “ethical” boycotts on Israel and the guidance was reissued. This was appealed in the court of appeal and the Supreme Court.

On 29 April 2020, the Supreme Court found that the Secretary of State was able to provide guidance to administering authorities on how they should administer and manage the LGPS funds, and how, within the investment strategy they should take ethical considerations into account.

However, the Court noted that current legislation does not allow the Secretary of State to impose the Government’s view on foreign and defence policy on administering authorities of LGPS funds, and the reissued MHCLG statutory guidance from July 2017 remains valid.

Administering authorities, when taking non-financial considerations into account for investment decisions, should consider members’ views as an intrinsic part of their investment

decision making processes. Otherwise, the judgement does not change the fundamental role or duties of LGPS administering authorities in relation to their investment or other powers and confirms that administering authorities remain responsible for the investment decisions of their respective funds.

Transfer warning letter for LGPS

In April 2020, TPR issued guidance on communicating with members during COVID 19, with an aim to provide clear and useful information such that members do not make rushed permanent decisions regarding their retirement options.

This included asking pension managers to send letters to all members who apply for a CETV quote, to help them understand the significance of changing their pension arrangements. The template for this letter provided members with information on what they should consider and where to access impartial advice. The original letter, published on 29 April 2020 was not suitable for use by the LGPS. An [LGPS version of this letter](#) has now been made available to administering authorities of the LGPS on 18 June.

Pension managers have also been asked to monitor the number of requests for CETV quotes they receive from members and their corresponding advisors. This is an attempt to be wary of disconcerting patterns that may emerge, of which the FCA must be notified.

Cost Transparency Initiative

A year after the Cost Transparency Initiative (CTI) published a framework of tools and guidance to help institutional investors better understand their investment costs, the CTI launched additional resources on 20 June 2020 and is encouraging remaining schemes and asset managers to adopt the standards. Please see this [article](#) for further details.

Mobile sites to meet accessibility requirements

The public sector accessibility regulations came into force on 23 September 2018. These built on existing legislation concerning people who have a disability under the Equality Act 2010, and focuses on websites and mobile application accessibility.

The deadline for all public sector websites that existed before 23 September 2018 to comply with the regulations is 23 September 2020. This

includes publishing an accessibility statement by the same date.

This does not apply to websites or site features that have been introduced after 23 September 2019, which had a deadline of 23 September 2019. Mobile applications must meet these requirements by 23 June 2021.

Please click [here](#) to understand more about these regulations and to whom they apply.

What we've been talking to our clients about

Cashflow management

As illustrated by the [2019 Scheme Annual Report](#) recently published by the Scheme Advisory Board, LGPS funds received less in contributions in 2018/19 than in 2017/18 whilst at the same time paying out more in benefits in 2018/19 than in 2017/18. Whilst investment income was sufficient to plug the gap, the positive results from the 2019 valuations mean employer contributions are likely to have reduced since 1 April 2020 and we don't yet know what the effect of COVID-19 may be on cashflows.

LGPS funds which are (or are turning) cashflow negative need to ensure they have a robust policy in place to manage their cashflows. Completion of the 2019 valuation provides an opportunity to explore how updated projections of future benefit payments compare to agreed employer contributions. But a truly robust policy should consider investments too and be clear on the risks to all elements affecting future cashflows and how those risks will be managed.

We have been working closely with specialists in our investment team to develop our capabilities in this area, and we have been discussing with our clients how we can assist them in understanding their asset and liability cashflows together with stress testing how their cashflow policy would cope in different scenarios, e.g. fewer new entrants or other falls in active membership (affecting both liabilities and contribution income), or different levels of income or liquidity and market falls (affecting your ability to meet the gap between benefit payments and contributions).

We have found that the requirements and circumstances of funds can be quite different in this area, so we are currently contacting funds to discuss their specific requirements. If you have any questions on this, then please speak to your usual Aon contact.

Strain on Fund factors

We are currently in discussions with our administering authority clients in relation to carrying out a review of strain on fund factors.

The principal reason for recommending a review of these factors is to reflect the assumptions adopted for the 2019 funding valuation. This ensures greater consistency between the strain payments made and the assessed value of the additional liabilities on the valuation basis.

In addition, we have been discussing how best to allow for post 2014 benefits which aren't generally allowed for in the current calculation methodology within the software systems.

In the current economic environment, we may see an increase in redundancies across some sectors, and with a delay to an announcement in relation to the cap on exit payments, administering authorities may feel that now is an appropriate time to review their strain on fund factors. Please speak to your usual Aon contact if require any further information on this.

McCloud

We are continuing to work with administering authorities to help them understand the potential implications of McCloud for their funds, running workshops to explain the key elements of the project and analysing the data to confirm how many members might be in scope. Based on the work we have carried out so far, the proportion of members affected is very variable across funds, so we suggest that individual administering authorities consider the position for their fund sooner rather than later to help plan resources. We have also been helping some funds start to plan for implementation of the McCloud judgement.

If you would like to discuss any aspects of McCloud for your fund, please contact Virginia Burke.

Recent events

Alison Murray attended the Cost Management, Benefit Design and Administration Committee (CMDDBA) meeting on 8 June 2020. There were a wide range of topics discussed including an update from the COVID-19 practitioners group, a McCloud update as well as an update from GAD in relation to the 2020 data collection exercise and the Section 13 report. Papers and meeting notes are available on the SAB website [here](#).

Research and Publications

The latest research and publications by Aon Thought Leaders:

- June investment market [update](#)
- Aon's [paper](#) on Decision Making in Complex & Volatile Times

About Aon

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Registered in England & Wales No. 4396810
Registered office:
The Aon Centre | The Leadenhall Building | 122 Leadenhall Street | London | EC3V 4AN

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Contact information

Scott Campbell

Senior Actuarial Consultant

+44 (0)117 900 4412

scott.campbell.2@aon.com

Virginia Burke

Senior Consultant

+44 (0)207 086 2639

virgina.burke@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

Aon

+44 (0)7884374550

karen.mcwilliam@aon.com