Local Government Newsletter

May 2018

Welcome to the May 2018 edition of the newsletter. I have kept hold of the editor's pen this month and I hope you enjoy reading it.

People News

Things have been quiet in the team over the last month in terms of people news – clearly the actuarial team have been enjoying the April accounting work so much they've not had time to do much else! Look out for news over the next couple of months of Scott's epic cycling challenge!

Talking points

Increasing regulator interest in outsourcing companies

Following the collapse of Carillion a number of our trustee clients, in particular those who manage schemes sponsored by public sector outsourcing companies, have been asked by the Pensions Regulator for a meeting to discuss how they are monitoring the sponsor's covenant. Whilst in the case of Carillion the exposure of the LGPS was very small relative to the size of the Scheme, lots of small contracts can start to add up if appropriate risk mitigations measures are not in place (including bonds or indemnities and agreements for the scheme employer to subsume the assets and liabilities post-exit). It is therefore a timely reminder that administering authorities and scheme employers should review their approach and ensure that they understand, and are comfortable with, the level of risk. Any scheme employers with sizeable contract(s) with individual contractors should consider commissioning specific covenant advice. Aon has the expertise to assist with this if required.

Pension Committee and Board Member Training

You will by now have received an invitation to our training events on the **5^{th} and 30^{th} of July in our Leadenhall Office in London**.

If you would like to book places now the cost is £300 plus VAT per person per day.

Please contact Michael Ferguson (copying in Christine Swain) to book places for your new members and officers, or you can access the invite here.

New Scotland Regulations

Following hot on the heels of last month's amendment regulations for the LGPS England & Wales, the Local Government Pension Scheme (Scotland) Regulations 2018 were laid on 2^{nd} May 2018, coming into force on 1^{st} June 2018 with some provisions backdated to earlier dates.

Many of the amendments were consolidations, corrections or updates as a result of changes to overriding legislation. However there are some more significant changes which Scottish funds will need to be aware of:

- Funds have been able to pay AVCs as UFPLSs since July 2016 under permissive power and this has now been confirmed in the Regulations.
- Assumed pensionable pay – Regulation 21 has been amended to allow employers to substitute either a higher or lower figure if they feel this better reflects the pay the employee would be receiving if at work, as well as a provision for calculation assumed pensionable pay for returning officers.
- Early retirement – the requirement to obtain employer's consent to draw benefits between the ages of 55 and 60 has been removed, so from 1st June 2018 all those who leave or have left the scheme since 1 April 2015 will be able to draw their benefits from age 55, reduced according to actuarial guidance from the Scottish Ministers.
- Exit credit – as with the England & Wales regulations, the concept of repaying an exit credit to employers has been introduced. Unlike the E&W regulations though, the Scotland regulations do not specify a time limit for this payment to be made.

- We also note a change in regulation 40(9)(a)(v) – the fraction previously mentioned was 49/240 and this has now changed to 39/240. Funds will wish to check with SPPA whether this change is intentional.

As a result of these changes Funds and employers will need to review processes, policy statements and literature to ensure the new Regulations are met. Funds will especially wish to liaise with their employers and Fund actuary in respect of the amendment allowing exit credits.

Scheme Advisory Board publishes its 5th annual report on the LGPS in England and Wales

On the 22nd of May the Scheme Advisory Board published its 5th annual report for the LGPS in England and Wales. The aim of the report is to provide a single source of information about the status of the LGPS for its members, employers, and other stakeholders. This report aggregates information supplied in the 90 fund annual reports, as at 31st March 2017.

Here are some key LGPS highlights for 2017:

- The total membership of the LGPS grew by 394,000 (6.9%) to 5.6m members in 2017 from 5.2m in 2016.
- The total assets of the LGPS increased to £263bn (a change of 21.2%). These assets were invested in pooled investment vehicles (52%), public equities (32%), bonds (7%), direct property (3%), as well as other asset classes (6%).
- The Local Authority return on investment over 2016/2017 was 19.5%. This was reflective of the better market conditions during the year and set against the UK Return of 22%.
- The scheme maintained a positive cash-flow position overall. Scheme income was lower than total scheme outgoings by £484m; this was excluding investment income, however.
- The funds all received unqualified external financial audit certificates from the Scheme's external statutory auditors.
- Over 1.6m pensioners were paid over the year. Fewer than 39 formal complaints about scheme benefit administration were determined and less than 13% were upheld by the Pensions Ombudsman. Overall the LGPS has had relatively few upheld complaints.

A link to the full report can be found here.

The Pension Regulator's latest governance and administration survey results

Last week the Pension Regulator published their latest public sector pensions survey report, the summary for which can be found here (full report is here).The Regulator has seen improvements in governance for the Fire scheme, but the news is not so positive for the LGPS, with the statement, "*We also see signs that the process improvements have stalled in some Local Government Schemes*". The LGPS was also the group least likely to respond to the survey and the Regulator is "*concerned about the risks of disengagement*". The Regulator summarised: "*Because of the specific challenges faced by the Local Government schemes, we expect to focus casework on this group in the coming year*."

Some of the Regulator's key findings are as follows;

Data

The regulator has made it clear that they expect all funds to do an annual data review, although the proportion of LGPS funds carrying out a data review in the previous 12 months fell from 83% to 74%. The survey raises concerns for the Regulator about how effective some of the data reviews have been, as 28% of LGPS funds who carried out a review apparently found no issues with their data.

Annual Benefit Statements

This year 45% of LGPS schemes issued 100% of their benefit statements by the 31 August deadline, which is no improvement on the previous year. The regulator recognises that the LGPS is a multi-employer scheme with a much larger number of members and so this deadline is a challenge. However the Regulator goes on to say that funds are expected to have made significant progress by now and will have much less tolerance for shortcomings this year.

Administration standards/reporting

The Regulator has made it clear that funds and pension boards should focus on administration as a key influence on data quality and member outcomes. They have expressed disappointment that a third of LGPS administrators operate without service level agreements in place and that only 13% of LGPS funds use penalties where service or contractual standards are not met.

With regard to Board meetings the regulator has state that administration should be a feature of every local pensions board meeting and currently only 70% of LGPS Boards have this as an agenda item at every meeting.

Enforcement

The regulator warns that while they wish to be seen as a "critical friend", they are more likely to use their enforcement powers this year. Where they open cases they will work with the funds involved to resolve gaps in their governance processes. When considering action or setting fines, they will take into account the fund's co-operation with them and their efforts to put things right. You can find further information on their monetary penalty policy here.

Industry developments

BT begins process to dispute changes to GMP increases

BT has contacted the Government following changes to the way Guaranteed Minimum Pensions (GMPs) are increased in public sector pension schemes. According to reports, BT's lawyers have sent a “letter before action” to the Treasury to warn that the company will seek judicial review unless the changes are reversed. BT's concerns relate to part of its pension scheme which retains a link to the civil service scheme, dating back to the period prior to the company's privatisation. BT argues that the planned changes will see £100m added to its pension scheme “with greater rises likely in the future”.

A BT spokesman said: “The Government has taken a decision about how benefits are increased in public sector pension schemes, and by implementing it in a particular way they have created an unintended impact on the BT Pension Scheme. We have started a legal process as we believe there are fairer ways for the Government to meet its commitments, without creating this impact on BT's private sector pension scheme and we hope the Government will reconsider the route they have taken.”

Joint committee to call for TPR to be abolished following Carillion failings

It was reported in the press recently that MPs are expected to call for The Pensions Regulator to be scrapped following its failure to safeguard Carillion pensions during the firm’s collapse. A joint inquiry by the Work and Pensions Committee and the Business, Energy and Industrial Strategy Committee saw the release of its report, in which it was expected to recommend the abolishment of TPR for a more powerful body which would include the Pension Protection Fund (PPF).

What we've been talking to our clients about

Section 13

The Government Actuary's Department (GAD) provided us with details of the proposed flags for the funds Aon advises as actuary and we assume that they will have done the same for the other 3 firms. We have subsequently had calls with John Bayliss and representatives from MHCLG with a number of our affected funds as part of their engagement process. None of our funds was included in the first phase (which we understand includes those receiving a red flag or 3 or more amber flags) for which GAD was proposing a face-to-face meeting rather than a call.

The discussions have largely been very helpful although the introduction of a new element – core spending - to the calculation of the "asset shock" and "liability shock" metrics has proved slightly controversial. We are still in discussions with GAD and some administering authorities on whether these metrics could be made more robust by ensuring the change in the deficit is calculated in a way which is more consistent with the core spending figures (or vice versa). If you would like to know more about our discussions with GAD and MHCLG please get in touch.

If you haven't received any information from GAD or your actuary, don't panic, you should be able to assume that means your fund will not be flagged under any of GAD's metrics.

LGPS Pay and Organisational Survey

As reported in last month’s Newsletter, colleagues from Aon’s Public Sector Team and specialist Talent, Reward and Performance Practice are working in collaboration with the West Yorkshire, Merseyside and London Borough of Lambeth Pension Funds to capture and collate data on the organisational and pay structures of LGPS funds. We have had a very positive response to the survey and thank you to all administering authorities who took the time to complete and return it. Depending on when you are reading this, there may still be time for you to submit your authority’s response if you haven’t already done so. A summary of the results of the survey will be shared with the Scheme Advisory Board and participating administering authorities in due course.

The survey closes on 1 June 2018.

Payment of exit credits on exit

Following the introduction of the requirement to pay a surplus (“exit credit”) on exit to an employer exiting on or after 14th May 2018, we have been in dialogue with MHCLG to understand their perspective on what options are available to administering authorities in circumstances where the new Regulations do not sit well with existing agreements. One example is where a scheme employer and contractor have entered into contractual arrangements which aren't compatible with an automatic refund of any surplus. Another is where a scheme employer has offered to “subsume” the assets and liabilities in return for being allocated any surplus on the subsumption basis (which generally leads to much lower liabilities than where the liabilities are becoming orphan. Please let us know if you are interested in the outcome of our discussions. We are already assisting administering authorities in updating their Funding Strategy Statement and employer policy documents, as well as considering specific cases where the new regulations may have unintended consequences. As suggested in April’s Newsletter we strongly recommend administering authorities ensure their employers are aware of these changes. We can assist with any communication with employers, including as part of an employer training session, Newsletter or other communication.

Preparation for the 2019 valuation and submission of annual return to TPR

The year-end exercise is already well underway and many administering authorities are reporting improved performance by employers, in terms of earlier submission of year-end returns. The key test is of course the accuracy of that data and we have already scheduled data validation exercises for our actuarial clients as a dry run for the 2019 valuation. This will help administrators focus on the key issues and employers before 2019 valuation data needs to be submitted and will facilitate early discussions on what course of action to take if there is no improvement in the data provided by employers in 2019. Whilst the accuracy of valuation data is of course really important (we would say that!) there is a lot of other data that scheme managers are required to hold. TPR is increasing its focus on public sector schemes and administering authorities will need to include information on when they last reviewed their data and their data score (i.e. the existence and accuracy of both common and scheme-specific data) in this year’s scheme returns. With the SAB guidance on what constitutes scheme-specific data and how it should be measured, due out in mid-June, our Data Quality in the LGPS webinar on 28 June, at which we will be joined by colleagues from SAB and the Pensions Regulator, is ideally timed to provide ideas and support for administering authorities in completing their annual returns. More details are provided below.

General Data Protection Regulation

As part of our preparations for implementation of GDPR we have been reviewing the data provided for actuarial calculations and in particular via the Universal Data Specification. Readers for whom Aon is the Fund Actuary should have seen our email dated 18 May 2018 setting out our initial conclusions. We subsequently asked for this to be included in the pre-SAB meeting of the fund actuaries and we are now working with the other actuarial firms to determine what data is required for interim valuation actuarial calculations and what should be removed.

New 21st Century Trustee Material Released

The Pension Regulator has released the latest in a series of communications aimed at improving standards of governance amongst trustees. This month they have provided their guidance on risk management, which can be found here.

Recent events

PLSA Local Authority Conference – Cotswolds 21st – 23rd May

The annual PLSA conference took place from the 21st to the 23rd of May. Alison Murray and Laura Caudwell attended.

Key themes from the conference were, perhaps unsurprisingly, pooling, cost transparency and data quality. The Minister was clear that his number one priority is making a success of pooling and appeared to suggest an aspiration of a 10%-15% allocation to infrastructure in line with what he said was the international average, although he was also very clear that there would be “no arbitrary targets”. Both the Minister and Cllr Philips, Chair of the Scheme Advisory Board, mentioned forthcoming consultations on the participation of academies and on Fair Deal which we understand are expected “later this year”. Other presentations included that from Lesley Titcomb, Chief Executive of the Pensions Regulator, who summarised some of the key findings of their recent survey (see separate article above) and emphasised that they will be focusing on data quality in the LGPS, and will continue to fine any fund not submitting the annual return, and from Martin Clarke, Government Actuary, who hinted that our worst fears in relation to cost management may have come true, with the HMT process indicating downwards cost pressures but the LGPS SAB process suggesting upwards cost pressures. In addition, whilst the focus to date has very much been on investment costs, there were suggestions that administration may be next in Government's sights with speakers and delegates alike recognising that there needs to be greater consistency between funds on the information required from employers, and on how data quality is measured.

Cost Management Committee meeting

Scott Campbell attended this meeting on behalf of Aon on 24th May.

The main items discussed were the provisional results of the SAB cost control mechanism, the 50/50 scheme awareness project, an update of recent equality cases as well as updates on a number of current issues, including late retirement factors, exit payments and the amendment regulations.

The agenda and supporting papers can be found here and minutes will be published in due course.

Academies Funding Working Group

Scott Campbell attended this meeting on behalf of Aon on 24th May.

The discussions at this meeting covered the asset transfer on conversion of academies as well as considering different options available in relation to contributions payable by academies. The discussions and investigations are ongoing and a summary of findings will be published once completed.

Upcoming Events

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

We are hosting the Cardiff roadshow on 7th June and will be attending and presenting at a number of the other workshops that are being organised by MHCLG and GAD. We hope to see many of you there.

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

In our next webinar we will be 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.

This webinar will be on 28th June 2018, timed for just after the new SAB guidance on consistent measurement of scheme-specific (conditional) data is issued, but allowing time to follow the guidance in data testing before the 2018 scheme returns are due in September.

All our webinars are free to attend, and this one will be aimed at individuals involved in the administration of Local Government Pension Scheme (LGPS) Funds, as well as those responsible for the administration and governance.

You should have received an invitation to this webinar by email, and a link to the invitation and registration page can be found by clicking here.

Blog spot

The latest articles from the Aon Hewitt Retirement and Investment Blog

- Weekly Update-30 April 2018
- Weekly Update-8th May 2018
- Weekly Update-14 May 2018
- Weekly Update-21 May 2018

Contact Information

Michael Ferguson
Senior Consultant
+44 (0)31 456 3020
michael.ferguson@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 Consultancy
+44 (0)771 101 6707
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