Local Government Newsletter

March 2018

Welcome to the March 2018 edition of the newsletter.

Once again, I hope the recent bad weather hasn't caused too many problems. After my comments last month that we hadn't really been affected Bristol, we experienced a lot of snow over the first weekend of March. Fortunately people who weren't able to get in to the office were able to work from home to ensure there was only minimal disruption to our work.

In other news, we've just had two new joiners to the team – Marek Barnes and Pete Miles. Look out for a detailed introduction to Marek and Pete in future newsletters.

Finally, I'll be passing on the newsletter editor duties to another member of the team from April but hopefully you've enjoyed reading the last 3 newsletters.

Sam

Please note if you wish to continue receiving the monthly newsletter and notifications of upcoming events and services we kindly ask that you click [here] and give consent. This is required by the new GDPR regulations that come into effect in May 2018. This will take only a moment but is essential to keep us connected.

Talking points

Employer risk and funding strategy

Preparation for the 2019 valuations is beginning in earnest with many administering authorities reviewing their employers with a view to improving their categorisation of employer risk and how this fits within their overall risk register and governance framework. The timing is critical since ultimately administering authorities should be considering if and how to reflect their assessment of the risk posed by employers in their funding strategy. If any changes are to be made to funding strategy it is important that these are adequately communicated to employers – in our experience changes (even if not popular with the employers affected) can be implemented smoothly as long as employers feel they have been part of the process and understand what the administering authority is trying to achieve.

If you'd like further information on how we can help please get in touch with Joel Duckham, Chris Darby or Alison Murray.

Data quality and improvement plans

The case for good quality data is cast iron – scheme managers need to pay out the right benefits to members and it's important that valuation liabilities are calculated as accurately as possible in order to set appropriate employer contributions. With the 2019 valuation looming and the Pensions Regulator materially increasing its focus on record keeping within the public sector schemes (not to mention SAB, MHLG and GAD getting in on the act), now is the time to ensure you understand the quality of your own membership data and how it can be improved. We have heard that in some cases due to resources being redirected to ensure delivery of the Government's pooling agenda, data quality may even have fallen since the 2016 valuation. One example is that a backlog of unprocessed leavers should count as a "fail" under the Regulator's common data checks, because those members don't have the correct status assigned to them.

It is vital that Funds carry out an assessment of data quality and put in place a Data Improvement Plan to address any identified issues. We are already talking to a number of administering authorities about annual data validation exercises, and how our team of former LGPS administrators can provide support in prioritising the resolution of issues in the data improvement plan and practical help in resolving the data errors, so please do get in touch if this is of interest to you.

Business planning

The Pensions Regulator's 21st Century Trustee campaign (see 21st Century Trusteeship | The Pensions Regulator) has provided some useful guidance in order to raise standards of Fund governance. Business planning is one of the ten areas of focus within the Pension Regulator's campaign (under the section "clear purpose and strategy"), and given the time of year, all administering authorities (or scheme manager for police and fire schemes) should be thinking about what their key priorities will be over the forthcoming years, which in turn will feed into their resourcing and budgeting. These are some of the key elements of a good business plan.

In some cases, we find that a forward plan of Pension Committee business or list of "business as usual" items for the upcoming year is all that is in place. While this is certainly better than nothing, we believe good business planning should focus on how the overall objectives of the fund will be met and how any upcoming challenges or new risks will impact the activities that will be carried out, and we'd suggest splitting these by key areas of activity such as investment, funding, administration and communications. Ideally a business plan will cover Fund activities over the next three years.

We have been supporting a number of administering authorities in developing their business plans, including hosting business planning sessions to assist in identifying objectives, priorities and timescales. If you'd like to discuss this with us please contact Laura Caudwell, Michael Ferguson, Karen McWilliam or your usual contact.

Review of contributions for employers due to exit

As part of their overall governance framework many administering authorities are considering reviewing the contributions for short-term employers before the next formal review of the Rates and Adjustments Certificate from 1 April 2020. As a minimum we would suggest that you identify all employers which are expected to exit before 31 March 2020, either because their contract is expected to end or they are closed to new members and the last active member(s) is expected to retire. Depending upon how the funding target is set and how their membership is changed it may be that their current contributions are materially out of line with what any expected exit deficit will be.

Implementing contribution changes now may be in the interests of the fund (if the employer is under-contributing – reducing the risk of an unmet exit deficit) or the employer (if the employer is now in surplus and reducing contributions will reduce the risk of a surplus on exit from which they can't benefit). Where contractors are involved we would encourage administering authorities to engage with the relevant scheme employer to confirm their views.

Pension Committee and Board Member Training

In last month's newsletter you may remember we mentioned the induction training events we are running on **5th and 30th of July in our Leadenhall Office in London**.

Watch out for full details which will be issued by email in the second week of April. Places will be allocated on a first come-first served basis and numbers are strictly limited. You don't have to wait until April however - 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.

Governance reviews

There are many benefits from having robust governance arrangements in place, not least:

- robust risk management that can assist in avoiding issues arising or at least reducing their impact
- ensuring resources and time are appropriately focussed
- timely decision making and implementation of change
- an agreed direction of travel, understood by all involved.

One area of work that we have carried out for a number of administering authorities is a governance review. This considers whether the administering authority meets appropriate legal requirements as well as standards in statutory guidance, as well as reviewing the arrangements against best practice. It can clearly identify areas of weakness or non-compliance to provide an action plan for the future.

Now that the Local Pension Boards are well and truly installed, and asset pooling enters its final phase of implementation, it is a good time to consider whether your governance arrangements are fit for purpose. If you'd like to know more, please contact Michael Ferguson, or Karen McWilliam.

Cyber Insurance

As one of the world's largest insurance brokers, Aon places a huge number of cyber policies, and we are exploring how these could be used by pension schemes. Cyber insurance is common for companies, but many of those policies do not extend to, or cover the issues required by, the pension scheme.

We have been running workshops with schemes to help trustee boards identify their schemes' key threats and to consider practical actions by working through real-life scenarios. Each workshop generally takes around half a day and can be tailored to suit the scheme's preferences.

For more information on this, please contact your usual consultant.

[Cyber Resiliance workshop]

Employer Debt Amendments

Following last year's consultation, the Occupational Pension Schemes (Employer Debt and Miscellaneous Amendments) Regulations 2018 will come into force from 1 April 2018.

This amendment permits trustees of multi-employer schemes to defer crystallisation of the equivalent of the exit debt in certain conditions and we can see parallels with the LGPS.

We produced a [spotlight on the consultation] in May 2017 with our views.

Industry developments

Lifetime Allowance

The Finance Act 2004 (Standard Lifetime Allowance) Regulations 2018 have been laid, confirming that the Lifetime Allowance increases to £1,030,000 with effect from 6th April 2018. Funds should ensure that their procedures and literature are updated to reflect the new amount for anyone retiring or transferring-out on or after that date.

Divorce under Scottish Law

A recent legal case has changed how pension rights are assessed for divorce under Scottish law. It has always been the case that under Scottish law, only the pension rights accrued during the period of the marriage can be shared. This has previously been understood to mean any period of active pension scheme membership while the member was married – for example, if a member joined the scheme in 1995, married in 2000, retired in 2005 and divorced in 2015, the CETV would be adjusted by 5/10 (dividing it by the 10 years of active membership and multiplying by the 5 years of active membership while married). However, a recent case has challenged this. The Supreme Court decision in the McDonald case was that all membership during the period of the marriage should be taken into account, including periods while the member was a deferred or pensioner member. This has the effect that in the above case instead of the CETV being adjusted by 5/10, it should be adjusted by 15/20, giving a much larger proportion of the CETV to be included in a pension sharing order.

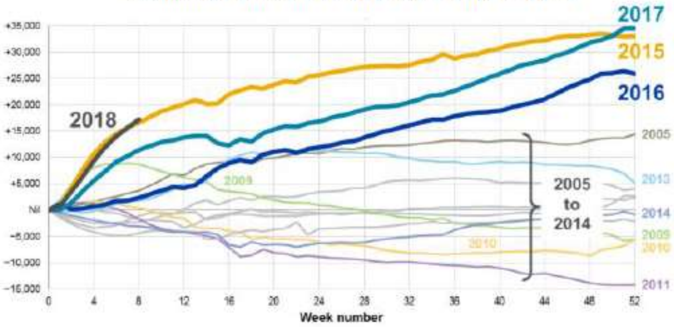
This case sets a precedent and the change in approach will affect all funds if they have a member divorcing under Scottish law, so the LGA are now discussing this with the Scottish Public Pensions Agency (SPPA). Funds in England and Wales and Northern Ireland should therefore also be aware of this and ensure that their systems and literature are updated accordingly.

Updated mortality projections model, 'CMI_2017'

The CMI ('Continuous Mortality Investigation', supported by the Institute and Faculty of Actuaries) has recently published its updated standard mortality projections model, 'CMI_2017'.

Population mortality experience in 2017 continued to exhibit lower levels of mortality improvements, continuing the recent trend, and as such CMI_2017 typically produces lower life expectancies, and hence lower liability values compared with previous versions.

Chart 1: Cumulative deaths in England & Wales by week compared with the average over 2005 to 2014



Aon calculations using ONS data.

If Fund Actuaries adopt the new CMI model for the 2019 valuations in most cases this is likely to lead to lower expected future improvements compared to the 2016 valuation and this will serve to reduce Fund liabilities. However, the new model is more flexible and actuarial judgement is required. In particular, it is important to consider how your fund's membership compares to the general population and hence how much – if at all – to adjust the CMI model for use with your Fund.

We are working with our longevity experts (including Tim Gordon who is also Chair of the CMI Mortality Projections Committee) to consider how the model should be applied to the LGPS funds where Aon is the Actuary. For more information on this, including the potential impact on your Fund, please contact your usual consultant.

Recent events

Aon Seminars - Hot Topics in the LGPS

A huge thanks to those of you who attended our "hot topics" seminars in Birmingham, Leeds and London. Feedback was extremely positive and we were delighted with the level of engagement from attendees. If you weren't able to attend and would like a copy of the slides, which include the latest on mortality trends and improving fund governance (including record keeping) please get in touch with Laura Caudwell or your usual contact.

Academies Funding Working Group

Becky Durran attended this meeting on 14 March in place of Scott Campbell who was enjoying the heat in Borneo. The discussions at this meeting focussed on the asset transfer on conversion of academies. In due course a summary will be put on the SAB website of the progress of the Working Group and any findings.

Upcoming Events

SAB Cross Pool Open Forum for Committee and Board Chairs – London - 27 March 2019

The Scheme Advisory Board is hosting this event for Pension Committee and Local Pension Board Chairpersons to help share information about the asset pooling arrangements across the LGPS and to consider the governance requirements relating to the pools. Karen McWilliam will be attending as the Chair of the Clwyd Pension Fund Board and looks forward to meeting the many other Chairs attending on the day.

LGA: Meeting GDPR and TPR's data requirements conference - London - 29 March 2018

This relates to the Firefighters' Pension Scheme. Laura Caudwell and Nicky Russell will both be attending.

Blog spot

The latest articles from the Aon Hewitt Retirement and Investment Blog

- Weekly Update - 05 March 2018
- Weekly Update - 12 March 2018
- Weekly Update - 19 March 2018
- Sources of Return in Active Commodity Management

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