

MAY, 2016

LGPS CURRENT ISSUES

NEWS IN BRIEF



2016 ACTUARIAL VALUATION (ENGLAND AND WALES)

We are now firmly passed 31 March 2016, the effective date of the next round of actuarial valuations for English and Welsh Funds.

We are in the process of scheduling and attending meetings with all Fund officers to discuss initial strategies and provide advice. Work is currently underway on providing indicative results to all of our Funds, based on a roll forward approach from the previous valuation, for discussions during these initial meetings.

For several months, work has also been ongoing in order to create a Universal Data Extract. The primary aim of the extract is to produce the membership data required for the 2016 actuarial valuation exercises in England and Wales, but it is also intended to produce data required for other employer related calculations. It is hoped that the Universal Data Extract will therefore improve the efficiency of data being provided by Funds to their actuaries when calculations are required.

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Where requested, data quality testing / cleansing exercises are currently in progress to ensure smooth running of the valuation calculations once the data extracts are submitted (expected to be in July / August 2016 for the majority of English and Welsh Funds).

We will keep you up-to-date on the latest progress on your Fund's 2016 actuarial valuation. Any queries regarding timings of the various stages should be directed to your usual Mercer contact.



PENSIONS TAXATION

As reported, the 2016 Budget contained few immediate changes to the pension tax regime.

Although a summary of the responses to the consultation "Strengthening the Incentive to Save" was published, it contained no real conclusions or commentary from Treasury. A premise of the consultation was that people did not save enough for retirement, possibly because they find the current system of tax relief confusing or do not fully understand pensions. The announcement in the Budget of a new Lifetime ISA (LISA) for the under 40s introduces yet another retirement savings option into the mix.

LISA looks very similar to the Pension ISA (PISA), one of the options being considered by Treasury. Although there is no lock-in of money saved in a LISA, the disincentive to withdraw the money before age 60 other than for the purposes of buying a first home (5% penalty and loss of the Government incentive) makes it appear like an alternative to pension savings. Indeed, for some it may be more tax efficient than paying additional contributions into a pension scheme.



EQUITABLE LIFE DEVELOPMENTS

As highlighted in previous editions, Equitable Life is increasing the annual management charges it applies to various funds, and also halving its overall fund range, with assets being disinvested and reinvested in one or more of the remaining funds. Whilst we would expect that the majority of LGPS members with Equitable Life policies to not be affected (given they will be invested in With-Profits funds which are not subject to any of the changes announced), LGPS Funds, which have members with Equitable Life Policies, still need to consider what action they should take.

In particular, administering authorities need to be aware that any automatic reinvestment performed by Equitable Life, could be deemed to be an investment decision by the administering authority on behalf of members.

We have issued a separate update to administering authorities setting out the changes and we are now currently in the process of liaising with them in order to first consider the extent to which members are invested in the affected funds, with a view to then preparing suitable communications for members informing them of the position.



SCHEME ADVISORY BOARD UPDATE

Following the appointment of Cllr Roger Phillips as chairman of the Local Government Pension Scheme Advisory Board (SAB), and Jon Richards from Unison as vice chairman, a message was issued in April on forthcoming matters.

This included the invitation for nominations to fill three statutory non-voting positions to be sent to Association of Local Authority Treasurers (ALAT), the Pension and Lifetime Savings Association (PLSA formerly NAPF) and the Trade Union Congress (TUC). Further considerations will take place at the next meeting of the SAB on if and how it may wish to appoint advisors or other observers.

In addition, there will be two sub committees chaired by members of the SAB: Cost management and Scheme Design and secondly Investment, Engagement and Governance, while the Deficits Working Group will be reconstituted.

SAB will also be publishing its third annual report this month, based on data collated from all 89 Funds in England and Wales.



ACADEMIES

The 2016 Budget saw the Chancellor confirm his plans to force all schools in England to convert to academies by 2022.

However, following strong opposition from teachers, education experts, MPs and councillors, including the threat of industrial action by head teachers, concessions have since been announced where high performing schools can now make the choice to convert.

The government has however said it is still planning on compelling academy conversions in two areas:

- Where the local authority can no longer viably support its remaining schools because too many schools have already become academies.
- Where the local education authority consistently fails to meet a minimum performance threshold across its schools.

As not a complete climbdown, it is clear the government still intends to push academy conversions in certain areas. Therefore, English LGPS Funds should still be prepared for more academy conversions in the future.



EUROPEAN UNION REFERENDUM

As you will no doubt be aware, the European Union (EU) Referendum is to be held on 23 June 2016.

We have previously highlighted the impact the Referendum may have on the financial markets and that volatility and uncertainty in the markets will almost certainly have a knock-on effect on funding positions of pension schemes. Decisions on how best to take this into account when considering the results of the triennial actuarial valuations of LGPS Funds in England and Wales will need to be made and we will discuss this matter further with Fund officers as the valuation year progresses and the outcome of the Referendum becomes known.



PUBLIC SECTOR EXIT PAYMENTS

In the March 2016 edition of LGPS Current Issues we provided details on the most recent consultation in respect of reforms to public sector exit payments, which aims to reduce the overall cost of exit payments and achieve greater consistency with the private sector.

Mercer has responded to the consultation and we will update you when the government's response becomes available. Please contact your usual Mercer contact if you would like a copy of our response.

It is safe to say the government still has the overall area of public sector pay and exit packages well in its sights, and more can be expected (e.g. the promised review of sickness absence has yet to emerge). We will keep you informed of any further developments in this area.



INVESTMENT POOLING IN THE LGPS

The proposed pooling reforms for the LGPS were debated in the House of Lords last week. Professional Pensions has reported that Labour peers called on the government to ensure the pooled funds will conduct their investment strategies only in the interests of their members.

There are many challenges ahead, there is still much emphasis on reducing investment manager fees and structuring portfolios; but these issues are really just the tip of the iceberg. There are a plethora of underlying, “hidden” costs which should be considered, alongside the potentially unlimited costs that could be incurred if the operational aspects of a pool are not properly risk managed.

We would be happy to provide our comments on risk management. Please contact Joanne Holden (joanne.holden@mercer.com, 0161 837 6514) or Andy Farrington (andy.farrington@mercer.com, 0161 837 6528) for more information.

The next deadline for Funds/pools to consider is 15 July 2016. By this date, they will have had to make a final submission to the government describing the proposed structure and governance of any pooling arrangement, what costs (and importantly savings) are expect, and also how this will be implemented e.g. transition profile for the assets involved. Unlike the initial submissions, final submissions need to be on an individual pool basis only.



STATE PENSION AGE REVIEW

The 2014 Pensions Act requires the results of an independent review of the State Pension age to be published at least every six years, with the first review to be completed and a report published by 7 May 2017. The Government has just published the terms and conditions of the first review.

The purpose of the review is to make recommendations to the Secretary of State for Work and Pensions on future State Pension age arrangements. The review should consider whether the current position (that is, the State Pension age increasing over time) is affordable in the long term, fair to current and future generations of pensioners, and consistent with supporting fuller working lives. If not, it should consider the alternatives.

The terms and conditions state that the review “is to have regard to variations between groups”. There are as yet no further details on the form that this will take, but the document has led to a large amount of press speculation on which groups could be considered and the possibility of further increases to State Pension ages for these groups. The review will also “consult widely” as part of its remit and so opportunities for further discussion and comment are expected during the process.

Whilst this review is very relevant to the LGPS given the retirement age link to the State Pension Age, the Government has said that the review and subsequent report will not affect the current timetable for increases to the State Pension age, which will take place between now and 2028.



CODE OF PRACTICE ON INCENTIVE EXERCISES

The Incentive Exercises Monitoring Board has published Version 2 of the Incentive Exercises for Pensions code of good practice. The code applies to all new incentive exercises made available to members on or after 1 February 2016. Exercises made available to members prior to this date will continue to fall under Version 1.

Version 2 introduces a proportionality threshold under which there is no requirement to provide advice or for a member to take guidance. The threshold is £10,000 for transfers

and full commutation exercises, and £500 p.a. of pension affected by a pension increase exchange.

This proportionality threshold is a useful mechanism for Funds and employers wishing to conduct bulk trivial commutation exercises to reduce liabilities and administration costs, as it potentially removes the requirement to pay for financial advice for the member, where the member's pension is trivial, which significantly increases the appeal of such exercises.

The 2016 valuations mark an ideal time for Funds which have not yet previously considered such exercises to assess the liabilities that can be extinguished through trivial commutation and we are able to incorporate such analysis in our valuation calculations.



NEW REGULATIONS RELATING TO PENSION FLEXIBILITIES

Following a consultation and call for evidence, the Department for Work and Pensions has published the Government's response relating to pension flexibilities and laid regulations before Parliament, which came into effect on 6 April 2016. This consultation was to ensure that the pension flexibilities introduced in April 2015 were operating as intended in certain circumstances. The Government response highlights various changes that have been made to the original proposals and notes that the introduction of some changes have been delayed. The key points are as follows:

- Disclosure of information requirements – the regulations introduce a statutory requirement for schemes to issue generic risk warnings “as a second line of defence” in certain situations where a member wishes to take flexible benefits. The Pensions Regulator has previously issued good practice guidance encouraging use of these warnings and so many schemes will already be including them within their member communications.
- Pension sharing orders on divorce – it is clarified that the “advice” requirements relating to the transfer of safeguarded rights do not apply at the point a pension sharing order is implemented, even when this involves a transfer out of the original scheme. However, ex-spouses who become members of the scheme in their own right following implementation of a pension sharing order will be subject to the same advice requirements as other members if they seek to transfer out at a future date.
- Pension attachment (or “earmarking”) orders on divorce – the original intention that a scheme would be required to write to a former spouse when the member applies to take flexible benefits has been delayed in recognition of the complexity of the issues involved.



NEW FAIR DEAL

As reported in previous editions, DCLG have formed a working group, made up of the LGA, Trade Unions and practitioners, to consider how the principles of the new Fair Deal might apply for the LGPS – in the spirit as it applies to the other public sector schemes.

Whilst there has been no major developments to report on we are aware of work going on behind the scenes. Our current expectation is that there is likely to be further news on progress in the autumn. We will, of course, update you when we know more.

DATES TO REMEMBER

DATE	ISSUE	SUMMARY
6 May 2016	Abolition of contracting out	This is the deadline for employers to have notified employees of change in contractual terms (as a result of the abolition of contracting-out)
23 June 2016	European Referendum	The referendum on whether the UK will opt out of the EU will take place on this date.
5 July 2016	Abolition of contracting out	This is the deadline for administering authorities to have notified active members of their change in contracted-out status.
15 July 2016	Investment pooling	Deadline for funds to have formally submitted their proposals to the government for investment pooling with other funds.
30 September 2016	Actuarial valuation	Deadline for membership data to have been submitted to GAD as part of the LGPS cost management analysis.
31 March 2017	Actuarial valuation	Deadline for the 2016 England and Wales actuarial valuation exercises to have been formally signed off by the fund actuary. Effective date of the Scottish LGPS actuarial valuations.
6 April 2017	Scottish Income tax	From this date, the Scottish Parliament will have the power to set all income tax rates and bands above the personal allowance for non-savings and non-dividend income for Scottish taxpayers.
7 May 2017	State Pension Age	Deadline for publication of the first report on the independent review of the State Pension age.

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