LGPS CURRENT ISSUES

NEWS IN BRIEF

IN THIS ISSUE

HOT TOPICS

PENSIONS TAXATION SEMINARS 2018 – For LGPS officers and administrators, it will soon be pension saving statements season again (with deadlines of 31 August and 6 October respectively). This brings with it the usual raft of queries from members expecting to be provided with information, not least so they can fill in their HMRC self-assessment correctly. Not only can the **line between providing information and advice be sometimes blurred** depending on the questions being asked, from discussions we've had with officers and feedback from seminars, it's clear that queries from members and employers regarding the Annual Allowance, Tapered Annual Allowance and Lifetime Allowance have become an onerous burden for LGPS Funds at this time of year.

To assist funds deal with these challenges and the associated risks, we are again running information sessions for individuals potentially affected. These include a full range of assistance from general educational sessions, triage sessions through to one on one individual financial advice.

The sessions will run throughout Q4 and to express your interest, please contact Clive Lewis (0151 242 7297) or your usual Mercer consultant.

NEW "S3" SERIES MORTALITY TABLES – In the last edition of current issues we reported that life expectancy improvements were slowing down and that LGPS funds could expect to see reductions in liabilities of around 2% as a result. Since then the Institute and Faculty of Actuaries' (IFoA's) Continuous Mortality Investigation (CMI) is currently consulting on its proposed new "S3" Series mortality tables for pension schemes. The "S1", "S2" and "S3" tables are based on the experience of occupational pension schemes with "S3" being the most recent.

In the absence of any Fund specific mortality analysis, the impact of moving to the "S3" tables will be an increase in male life expectancy at 65 of 1.5% and an increase in female life expectancy of 3%. At a headline level, the improvement in life expectancy suggested by the new "S3" tables would appear to conflict with the comments made in the last edition that life expectancy improvements are slowing down, leading to lower LGPS liabilities. However, due to differences in the underlying data used to produce them, the "S3" tables are not derived consistently with the "S2" tables and are, therefore, not directly comparable.

Crucially, it appears that that increases in life expectancy improvements being evidenced in the S3 tables are due to the public sector data from outside the LGPS sector (i.e. a greater portion of NHS, TPS and Civil Service data is being used in the analysis than previously). LGPS funds therefore need to be careful to avoid automatically reflecting this inflation without scheme-specific consideration; doing so would be most likely to over-stating the value placed on liabilities.

COMPETITION AND MARKETS AUTHORITY PROBE – On 18 July 2018, the Competition and Markets Authority (CMA) published provisional findings from its Market Investigation into the UK's investment consultancy and fiduciary management markets. The CMA's report, whilst recognising the markets' many positive features, proposes remedies to address some concerns it has identified. These include:

- an obligation on pension scheme trustees to run a competitive tendering process when first moving to fiduciary management, and
- introducing disclosure requirements on firms relating to fees and performance.

The CMA has invited feedback on its proposals, by 24 August 2018 with a final report due in March 2019.

EXIT CREDITS TAX POSITION CONFIRMED - Until now there had been some uncertainty over the potential tax treatment of an exit credit payment to an employer where at the exit date, that employer's assets in the Fund exceeded its liabilities. On 23 July 2018, MHCLG received confirmation from HMRC there will be no tax charge on the payment and that there is no requirement for the scheme administrator of the pension scheme to report the payment to HMRC.

This announcement was somewhat surprising as it does not mirror the position for private sector occupational DB schemes (where refunds are subject to a free standing tax charge of 35%). It does also seem slightly anomalous in some cases, because a tax-paying body such as a private sector contractor will benefit from tax relief on its contributions to the Fund but will not have to pay a tax charge on any exit credit it receives. There is therefore an extra reason for the announcement to be welcomed by some LGPS employers who may benefit from the new exit credits provisions.

£95K EXIT PAYMENT CAP – The issue of exit payment caps in the public sector continues to drag on….The proposed £95k exit payment cap would apply to redundancy payments that are paid to the employee and also the additional cost to the employer of early payment of retirement benefits. Quantifying the value of the enhanced pension is presenting MHCLG with the biggest headache as there is currently no standardised way of doing this across all LGPS funds. Currently MHCLG are gathering information from across the sector to examine the various methods in use, with a view to potentially recommending a standardised process in future.

DATA QUALITY – This continues to be a hot topic and one that is receiving lots of attention from The Pensions Regulator (TPR) under its new public sector governance remit. This is the first year that funds will have to record their common and scheme specific data scores on the annual scheme return. In addition TPR has confirmed that it will be "visiting" 23 LGPS funds with a view to assessing the data quality, seeking improvements in the quality of data available. Of course scheme data also relies on the level of engagement from the employers and we are currently using our data quality tool to work with our funds to facilitate better employer engagement in this regard.

EQUITY RISK MANAGEMENT – Most Funds have enjoyed a material increase in their funding levels in recent years, primarily as a result of strong equity returns versus their liabilities. We all know that equities are volatile and with equities being such a significant contribution to expected return (and risk) for LGPS Funds a reversal in markets from their record highs could undo all the recent gains very quickly. Managing equity risk is therefore important to help lock in recent funding level gains, improve stability and, perhaps most importantly, reduce the risk of unexpected increases in contribution rates. However, in managing this risk funds also need to make sure they continue to capture enough upside to keep the cost of future service benefits affordable.

Mercer has been working with a number of Funds to put in place equity protection strategies to help lock in these recent gains while allowing access to sufficient equity upside to keep accrual costs affordable. As well as the traditional methods, we have been pioneering some dynamic rolling strategies that adapt to market conditions to offer a potentially improved balance between risk reduction and access to upside on a longer term basis to help control employer contribution rates well into the future.

INTEREST RATES – The Bank of England recently raised interest rates by 0.25% to 0.75%. This should have come as good news to Fund's who value their liabilities on a gilt based discount rate. However, a combination of the markets anticipation of the rise and the dovish language used by the MPC resulted in a fall in long term yields and an increase in liabilities for those Funds who might have been expecting to make gains in funding levels and expected returns on assets. The move just goes to show the uncertainty and different moving parts (particularly trader sentiment) in market pricing and the need to think about the risks such changes have on Funds.

REMINDERS

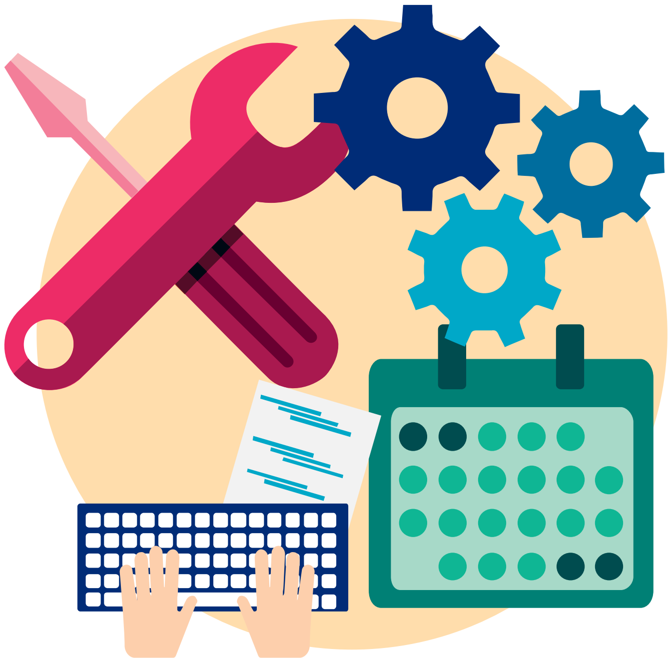
LOCAL GOVERNMENT PENSION SCHEME (AMENDMENT) REGULATIONS 2018 – Our previous Newsalert summarised the LGPS Regulations that came into force on 14 May 2018, (noting that some of the Regulations have effect from 1 April 2014). As a reminder, it is now important for Funds to review their policies to ensure that they allow sufficiently for the introduction of exit credits, as well as communicate the changes to employers to alert them to the changes and highlight the importance of reviewing any commercial agreements in light of the new Regulations.

LGPS AVC CLUB – Many Funds have already expressed their interest in our new **"LGPS AVC Club"**, an independent monitoring and governance service set up by Mercer's specialist AVC team. The club is open to all LGPS funds who wish to reduce the cost and governance burden associated with these arrangements. Participation in this new club will avoid the unnecessary duplication of costs of undertaking AVC reviews and will therefore entitle member Funds to a material discount for our AVC monitoring reports due to the greater efficiencies coming through. For more information about joining the club, please contact david.r.barker@mercer.com (0207 178 3392) or your usual Mercer consultant.

OTHER DEVELOPMENTS ON REGULATIONS AND CONSULTATION

SECTION 13 - The GAD is expected is expected to publish its formal Section 13 report on the 2016 LGPS valuations in September. There is currently an ongoing dialogue on content between actuaries, GAD and some Funds who are mentioned in the report. It remains to be seen how many of these comments are taken on board by GAD when the final report is published.

TIER 3 EMPLOYERS – As mentioned in our previous Newsalert, having gathered the results of the surveys, Aon confirmed at the Scheme Advisory Board meeting in February that they are ready to analyse this and the interview data and provided an update on progress. A draft report was expected at the 27 June 2018 meeting for consideration by the Board. More information will be provided as it becomes available and further details on the project can be found here.



DATES TO REMEMBER

DATE	ISSUE	THE LATEST
31 August 2018	Benefit statements	Deadline for Benefits Statements
6 October 2018	Savings statements	Deadline for Pensions Saving Statements
1 January 2019	HMRC brief on VAT and treatment of pension fund management services provided by insurance companies.	Date by which, where an insurance company provides pension fund management and administration services, only the services for schemes classed as "special investment funds" will continue to be treated as VAT exempt.
1 January 2019	Plan Amendment, Curtailment or Settlement (IAS19)	Date after which member states must adopt the new EU directive covering occupational pensions.
13 January 2019	IORP II	Date by which member states must adopt the new EU directive covering occupational pensions
March 2019	Brexit	It is expected that the UK will formally leave the EU by the end of this month.
6 April 2019	Auto-enrolment	The minimum contribution rates for auto-enrolment will rise to 3% employer, 5% employee on this date.
2018	Tier 3 Employers	Outcome of the Tier 3 employers review
2018	Academies	Outcome of the academies review
2018/2019	Regulator powers	Consultation on changes to the Pensions Regulator's Funding Code of Practice and strengthening its scheme funding and anti-avoidance powers has now started.
2019	Pensions Dashboard	These are expected to go live some time in 2019

MEET SOME OF THE TEAM

THINGS YOU MAYBE DIDN'T KNOW

Name: Peter Gent
Role: Senior Investment Consultant and Actuary
Joined Mercer: November 2017
Place of Birth: Wirral (it's not Liverpool)
Favourite Film: About Schmidt – Jack Nicholson playing an actuary – mind blown
Dream Holiday Destination: New Zealand – rugby and mountains – what's not to like?
Favourite take away – Sushi – 10+ years living in London and Surrey has changed me
Best thing you did this summer so far: Bought a fan and a paddling pool

Name: Ciaran Shanahan
Role: Wealth Analyst
Joined Mercer: September 2015 (it has gone fast!!)
Place of Birth: Northampton
Favourite Film: Law Abiding Citizen and as a child Toy Story
Dream Holiday Destination: Caribbean (I am going in December)
Favourite take away – Salt and Pepper Chicken, Salt and Pepper Chips, Fried Rice and Curry Sauce
Best thing you did this summer so far: Built a wardrobe (don't class myself as very DIY handy)

Name: Traci Bennett
Role: Wealth Analyst
Joined Mercer: July 2017
Place of Birth: Nova Scotia, Canada
Favourite Film: 10 Things I Hate About You and National Lampoons Christmas Vacation
Dream Holiday Destination: Ontario or Halifax, so I can see my family.
Favourite take away – Shake Shack - a wrap, chips and a milkshake
Best thing you did this summer so far: Bought a new house!

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