

# LGPS CURRENT ISSUES

## NEWS IN BRIEF

### NEW FAIR DEAL IN THE LGPS

On 10 January the MHCLG published its latest consultation on the [“New” Fair Deal](#), concerning the introduction of greater pensions protection for employees of LGPS employers who are compulsorily transferred to service providers. The consultation closes on Thursday 4 April, and we will be responding in due course as well as setting out our views to clients so that they can frame their own responses.

This latest consultation is long overdue, with the government having issued its New Fair Deal guidance back in 2013 and the MHCLG having had an initial consultation in 2016. As well as covering Fair Deal, it also includes a proposed miscellaneous amendment which will affect some employers who seek to end their participation in the Fund on merger.

We will shortly provide a more detailed view on the implications and practicalities to assist Funds in responding to the consultation. In the meantime, if you have any queries in this area please contact us.

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## INDEXATION AND EQUALISATION OF GUARANTEED MINIMUM PENSIONS

The consultation discussed in our November issue on indexation and equalisation of GMP in public service pension schemes has concluded. The government has been implementing an “interim solution” on *indexation* between 6 April 2016 and 5 December 2018. The outcome of this consultation is that this solution will be extended for a further two years and four months. i.e. to extend the full indexation window to those reaching state pension age between 6 April 2016 and 5 April 2021. During this period, the government will investigate the possibility of an alternative long-term methodology, known as “conversion”. The response paper to the consultation can be found [here](#).

As reported in November, it has been mooted that this may potentially remove the need to consider a separate *equalisation* exercise, as any indexation solution may solve the bulk of the GMP equalisation issue at the same time. We will provide further details once this is known.

## UPDATE FROM THE LGPS AVC CLUB – PRUDENTIAL AND EQUITABLE LIFE CHANGES

The AVC landscape continues to change and, during 2019 there will be significant changes at both Prudential and Equitable Life. Prudential will be writing to LGPS Funds shortly to communicate the withdrawal of most of their existing lifestyle strategies. At Equitable Life, all investments are to be transferred to Reliance Life later this year following closure of their With-Profits Fund, and the Equitable Life With-Profits Fund investments are expected to be enhanced by 60%-70%. Hence, from a governance perspective we would recommend that LGPS Funds affected by these changes consider the AVC arrangements they currently have in place and take regulated investment advice.

By participating in the LGPS AVC Club, Funds will be able to better understand the changing AVC landscape, monitor their own AVC arrangements and provide members with the best possible service in a cost-efficient way. Further details can be provided by your usual Mercer consultant.

## LGPS COST CAP MECHANISM

On 21 December 2018 the LGPS Scheme Advisory Board (SAB) published its paper on cost management.

The LGPS in England and Wales has a separate cost management process which is completed prior to finalisation of the HMT public sector cost cap calculations.

Under this initial phase, the SAB are proposing an improvement to benefits equating to 0.5% of payroll, taking the cost back up to the long term target of 19.5% of payroll. The proposals are broadly as follows:

- Removal of Tier 3 ill Health
- A minimum lump sum death in service benefit of £75,000 per member (regardless of salary)
- Enhanced early retirement factors for all members who are active on 1st April 2019 in respect of their final salary-linked membership only
- Lower employee contributions for those with salaries at the lower end of the contribution band scale

The HMT cost cap process will be completed once the outcome of the above proposals and subsequent consultation is known.

However, on 30 January 2019 the Government published a written statement which announces a pause in the cost cap process for public service pension schemes pending the outcome of the application to appeal the McCloud case to the Supreme Court. A copy of the judgement can be found here: [Judgment](#)

The statement can be found here: [Statement](#)

Although the statement gives no timescales for the outcome of this case we understand it could be late 2019 or early 2020 before we know.

The LGPS Advisory Board (SAB) will now consider whether, given this announcement, it should withdraw the benefit change recommendations made to MHCLG as a result of its own cost cap process.

We understand that the LGPS could, if McCloud is upheld, be required to make changes to the underpin (potentially expanding this to cover more members). Such changes would need to be taken into account in a revised SAB cost cap result as this could potentially increase rates materially.

## THE BRAND NEW S3 SERIES...MORTALITY TABLES

In December 2018, the CMI (Continuous Mortality Investigation) published a new series of mortality tables - the S3 series.

The S3 series is a set of mortality tables based on the mortality experience of large private **and** public sector defined benefit occupational pension schemes between 2009 and 2016. The S3 tables are expected to replace, over time, the S2 tables, which were based on occupational pension scheme experience between 2004 and 2011 (and which excluded data from public sector schemes).

The two sets of tables are not directly comparable because they are based on experience over different periods of time and different schemes. Hence, a straight switch from an S2 table to the corresponding S3 table would not be appropriate. However, if a such a switch was done, without any scheme-specific adjustments, then in general (and depending on the table being used) adopting the S3 tables would result in longer life expectancies and an increase in liabilities of around 1% to 3%. This largely reflects the fact that the pensioner life expectancy in public sector pension schemes is higher than in private sector schemes.

When setting mortality assumptions, standard tables often need to be adjusted, using scheme specific data, to reflect the expected mortality for the scheme. Changing from the S2 to the S3 tables will alter how a scheme's mortality assumption is expressed but, provided the current assumption is up to date, it should not affect estimates of period life expectancies (that is, the experience expected within that scheme at a given point in time). To ensure this, when adopting the S3 tables, consideration will be needed as to what adjustments are required to reflect scheme-specific characteristics and this will be carried out as part of our demographic analysis for the 2019 valuations.

## PENSIONS DASHBOARD – A REALITY?

On 3 December 2018, the Department for Work and Pensions (DWP) published [‘Pensions Dashboards – working together for the consumer’](#), a feasibility report and consultation which invites views on a range of questions relating to the creation of pensions dashboards. The closing date for the consultation was 28 January 2019.

The DWP’s favoured option is, initially, a single, non-commercial, Government sponsored dashboard hosted by the Single Financial Guidance Body (SFGB) and delivered (and largely paid for) by the pensions industry. The SFGB is replacing the Money Advice Service and Pension Wise services and the advice section of the Pensions Advisory Service.

The first dashboard is to include State Pension figures (initially by provision of a link to the [www.gov.uk](http://www.gov.uk) site, [‘Check your State Pension’](#)), and will include a Pension Finder Service, with compulsion for pension providers to supply data.

The SFGB will be responsible for delivering the initial Pensions Dashboard, leading a small Steering Group with representatives of the pensions industry, consumer bodies and Government. It is proposed that working groups and stakeholder advisory groups will be used to ensure the best and most up-to-date solutions can be accessed and that the development stays on course. Phased-in delivery is expected, starting in 2019, with Master Trusts and some DC schemes being first. Other arrangements are expected to follow over the next 3-4 years.

The Government is proposing that all ongoing costs (apart from changes to legislation and the provision of State Pension information) will be met by industry via a levy, although it has committed £5 million to help start the project. The consultation paper invites comments on who should pay the levy and how it should be calculated.

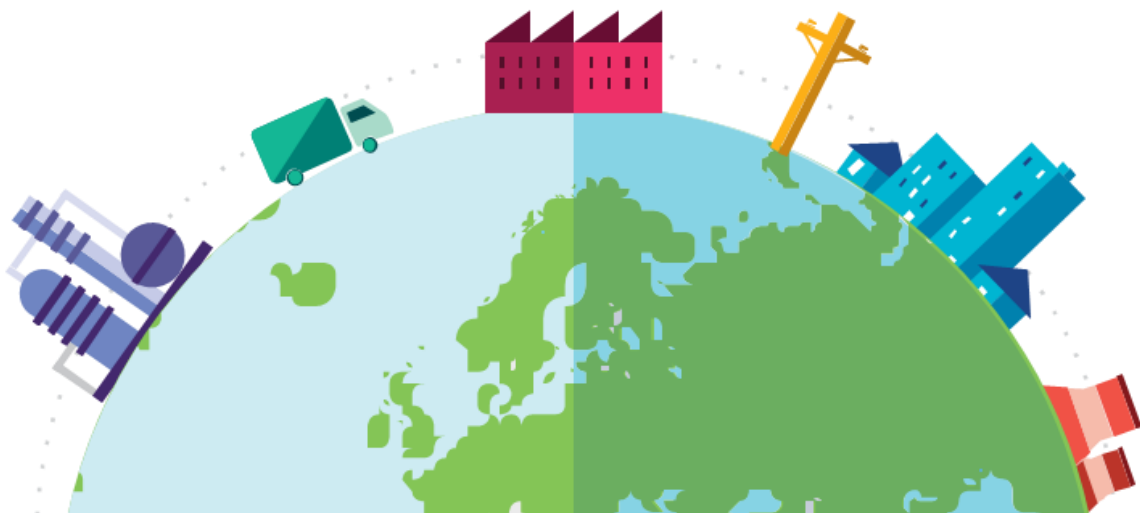
# OTHER DEVELOPMENTS ON REGULATIONS AND CONSULTATIONS

## TECHNICAL AMENDMENTS TO BENEFITS CONSULTATION

As mentioned in our November issue, the MHCLG issued a small consultation on a number of amendments to the provisions of the LGPS. The three main sections of the consultation were:

- Amendments to benefits payable to same-sex married or civil partners in order for them to receive the same benefits on survival as a widow
- Power to issue statutory guidance to the Secretary of State
- Early access to benefits for deferred members of 1995 Scheme

The consultation has now closed and in December, the MHCLG issued a response to the consultation, with most of the responses being positive. The original consultation and the response paper can be found [here](#).



# DATES TO REMEMBER

DATE	ISSUE	THE LATEST
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.
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 if a plan amendment, curtailment or settlement occurs, a full remeasurement is mandatory under IAS19.
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 March 2019.
31 March 2019	Actuarial Valuations	For all LGPS Funds in the England and Wales, the next actuarial valuation effective date will be 31 March 2019.
6 April 2019	Auto-enrolment	The minimum contribution rates for auto-enrolment will rise to 3% employer, 5% employee on this date.
6 April 2019	Change in the Lifetime Allowance (LTA)	The LTA for 2019/20 increases from £1,030,000 to £1,055,000
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:** Susan Greenwood

**Role:** Investment Consultant

**Joined Mercer:** 2007

**Place of Birth:** Liverpool

**Favourite film:** The English Patient

**How did you spend the holidays?:** Chasing kids around

**What was your favourite Christmas present?** Chocolate

**Did you make a New Year's resolution and was it?:** No – I can't stick to them!



**Name:** Will Dunn

**Role:** Wealth Analyst

**Joined Mercer:** August 2016

**Place of Birth:** Douglas, Isle of Man

**Favourite film:** Inception

**How did you spend the holidays?:** Stayed in the Lake District for a couple of days

**What was your favourite Christmas present?** Indoor skydiving tickets

**Did you make a New Year's resolution and was it?:** Get over my fear of heights



**Name:** Kieran O'Connor

**Role:** Wealth Analyst

**Joined Mercer:** September 2017

**Place of Birth:** Whiston

**Favourite film:** The Departed

**How did you spend the holidays?:** Gorging on festive food

**What was your favourite Christmas present?** Socks – you can never have enough!

**Did you make a New Year's resolution and was it?:** Yes, to run a longer distance each week, every week. So far, so good.

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