

LGPS CURRENT ISSUES

NEWS IN BRIEF

IN THIS ISSUE

- [News in Brief](#)
- [Dates to Remember](#)
- [Meet some of the Team](#)
- [Contacts](#)

ACTUARIAL VALUATION - UPDATE

As you will be aware, work is now in full swing for the 31 March 2019 actuarial valuations. Membership data has been received and most Funds will now have received snapshot figures providing an indication of what lies ahead.

Generally, we are seeing improved funding levels, reflecting strong investment returns since the 2016 valuations and a slowdown in the rate of future improvements in life expectancy. However, the indications for lower expected investment returns going forwards, combined with the impact of the McCloud Judgment have tempered this and are likely to lead to a higher rate of primary (future benefit accrual) contributions, all else remaining equal. The actual position will depend on the specific circumstances of the Fund including any investment strategy changes and membership movements.

Whilst there have been further developments in relation to the McCloud Judgment (see article below), considerable uncertainty remains and a definitive conclusion on what this means for Scheme benefits and the impact on Cost Management is not expected ahead of the 2020 deadline for completing the 2019 valuations. The SAB's view remains that the current benefit design as set out under the existing LGPS Regulations should be used to set employer contribution rates, but that Funds and employers should be mindful of the potential extra liabilities when setting their contribution rates at the 2019 valuation. The full impact of McCloud/Cost Management would then be reflected in the next valuations (expected to be 2022). Funds will therefore need to consider their policy for dealing with the uncertainty and document this. In order to support Funds, your Mercer Actuary will be preparing figures showing the impact of a McCloud scenario in addition to providing results based on the current Scheme.

A key feature of the 2019 valuations will be one of uncertainty (particularly in light of Brexit and McCloud issues) and this serves to highlight the importance of considering overall risk as part of the valuation process. One area for consideration by Funds will be whether improved funding levels could provide an opportunity to reduce investment risk, leaving the Fund better protected going forwards. Any investment strategy changes would need to be fully integrated with the funding strategy and your Mercer Consultant would work with you to achieve this.

There is a busy period ahead as we work with Funds to complete the 2019 valuations. As a reminder, the key next steps will be to:

- arrange preliminary results meetings in September/October to discuss the preliminary valuation results and book meeting(s) for the Employer consultation exercise;
- draft updated Funding Strategy Statements (incorporating admission/termination/McCloud policies, etc.) and plan the forthcoming consultation exercise;
- review/develop the risk management framework, gather information and carry out additional analysis as needed, e.g. covenant assessments, asset/liability modelling, investment strategy reviews, etc.



MCCLLOUD AND COST MANAGEMENT – FURTHER DEVELOPMENTS

On 27 June the Supreme Court denied the Government's request for an appeal in the McCloud and Sargeant age discrimination case ("McCloud") and the Government subsequently confirmed on 15 July that remedies relating to the McCloud judgment will need to be made in relation to all public service pension schemes. The SAB Q&A relating to the McCloud Judgment can be found [here](#). Whilst this is no surprise, the details of how the LGPS will need to be changed are yet to be confirmed (it will go back to the Employment Tribunal for remedy) and this will take time.

As stated above, Fund's will need to consider their policy on how the effects of McCloud will be taken into account for the ongoing valuations. Further considerations relate to the treatment for accounting (FRS/IAS) figures and any employer exits that arise in the interim until the remedy is confirmed. With regards to accounting, audit firms are now requiring some allowance for the potential impact of McCloud for all but the minority of cases (where the impact can be argued to be immaterial). Mercer has devised a tiered approach for undertaking the additional calculations for Employers, depending on the level of detail required. Full details have been circulated to Funds, please ask your usual Mercer consultant if you require further information.

For Employer exits, in determining their policy on the allowance for McCloud, Funds will need to consider wider issues including the covenant of the Employer in question and whether the termination involves a refund to the Employer or a payment to the Fund. Your Mercer consultant will work with you to advise you on your options and areas of risk. Our overarching view is that the impact of the potential McCloud liabilities should be allowed for in some way that is appropriate.

CMA ORDER ON FIDUCIARY MANAGEMENT AND INVESTMENT CONSULTANTS

On 10 June the Competition and Market's Authority (CMA) published the Investment Consultancy and Fiduciary Management Market Investigation Order 2019. In summary, the Order defines Fiduciary Management (FM) services and obliges pension schemes to formally tender for such services. It also obliges pension schemes to set objectives for their Investment Consultancy (IC) providers as well as placing a variety of new obligations on FM and IC service providers.

It potentially has consequences for LGPS pools, however on 29 July the DWP published a consultation on regulations to enact the provisions of the CMA Order which explicitly rules out the LGPS as falling under scope of the obligations in relation to FM service providers. The requirement to set objectives for IC providers remains, with a deadline for doing so of 10 December 2019.

On 31 July 2019 TPR published guidance on the implementation of the CMA order which similarly seems to reflect the position that the LGPS is within scope only of the IC strategic objectives requirement. Administering Authorities should take note of the DWP consultation and TPR's guide "Setting Objectives for the Providers of Investment Consultancy Services" available [here](#) and consider whether to respond.

The SAB has published a briefing note providing further information regarding the order, available [here](#).

DATA COLLECTION FOR GAD SECTION 13 REVIEW

GAD's data collection requirements are now finalised and include some additional items from those requested 3 years ago. Administering Authorities should expect to receive confirmation shortly (if they haven't already done so) of the spreadsheet that needs to be completed and will be asked to request the information from their Actuary. The deadline for providing the information (including the funding position on the standardised Section 13 basis) is not until 30 April 2020. Membership data is also being requested by GAD directly.

UPDATE ON MHCLG CONSULTATIONS

It's been a busy spring and summer so far with consultations on exit payments, New Fair Deal and valuation cycles. We will provide an update on developments in future Current Issues, for now a brief recap of the proposals is set out below (if you would like further information please contact your usual Mercer Consultant).

- **£95K cap on exit payments:** the proposed limit to the value of settlement payments that are made to employees when they leave an employer. Payments are normally a lump sum cash payment or shares/share options, but for employers participating in the LGPS, settlement payments will also include the value or "strain" of taking an unreduced pension for members over age 55.
- **New Fair Deal:** Employees whose employment is outsourced from a "Fair Deal employer" will be guaranteed to be able to access the LGPS. The option of the new employer establishing a "broadly comparable" scheme as an alternative will, in effect, become redundant.
- **4-year valuation cycle:** not just as it says on this tin, this consultation also includes proposals for interim valuations, more flexibility for dealing with termination payments, modifications to exit credits and removing the requirement for further education corporations, sixth form college corporations and higher education corporations in England to offer membership of the LGPS to their non-teaching staff for new entrants.

FOCUS ON GOVERNANCE

TPR REPORT ON PUBLIC SERVICE PENSION SCHEMES

In July, the Pension Regulator (TPR) published its report on its fourth annual governance and administration survey, undertaken in November and December 2018. 195 of the 207 public service pension schemes completed the survey. This response rate of 94% covers 99% of total membership. TPR's detailed report is available [here](#) and commentary on results [here](#).

TPR has concluded that the survey findings support its assessment that the top risks in the public service pension schemes landscape are around governance, record keeping and member communications. Cyber security is also identified as a significant issue requiring attention. TPR further comments that the locally administered schemes appear to find it particularly hard meeting their governance and administration responsibilities. It suggests that pension boards, scheme managers and scheme advisory boards examine ways in which collaboration and sharing of resources can deliver better governance and administration.

TPR has also released its 2019-2022 corporate plan. This includes further comment that administration is a particular issue among public service schemes, potentially driven by poor data, with the complexity of the Scheme and time and resources indicated as barriers to improvements. TPR will focus on administration and data management among public service schemes, aiming to strike the right balance of support and education, but notes it will use its powers where there is persistent failure to improve.



SAB PUBLISHES GOOD GOVERNANCE REPORT

The SAB commissioned the governance report to examine the effectiveness of current LGPS governance models and alternatives or enhancements to existing models to strengthen LGPS governance.

The key proposals from the report were for an approach which specifies minimum standards including robust conflict management, assurances on administration/other resources, explanation of policy on employer/scheme member engagement and regular independent review of governance. Enhanced training requirements for S151s and S101 committee members, updated guidance and better signposting to requirements were also proposed.

The project team are now working on a plan to implement the proposals which will be presented to the SAB in November. Scheme stakeholders will be given the opportunity to comment on the Board's recommended implementation plan before any formal approach is made to MHCLG Ministers for changes to the Schemes' regulations or guidance.

PASA LAUNCHES DB TRANSFER GUIDANCE

On 8 July 2019 the Pensions Administration Standards Agency (PASA) launched DB transfer guidance. The guidance includes templates for documents to use at different stages of the transfer process and aims to:

- improve member experience through quicker, safer transfers;
- improve efficiency for administrators; and
- improve communications and transparency in processing transfers.

Although compliance is voluntary, it is anticipated that the pensions ombudsman will reference it when reviewing complaint cases as a source of what 'good practice' looks like.

EQUITABLE LIFE UPDATE

In last time's Current Issues, we provided details of Equitable Life's intention to transfer all policies to Utmost Life and Pensions Limited (formerly Reliance Life), with the transfers taking place during the latter part of 2019. As part of the transfer deal, the Equitable Life With-Profits Fund will close and will be disinvested, initially into a deposit fund, but then into unit linked funds.

Funds should have by now received their voting packs on the transfer to Utmost Life and conversion of the With-Profits fund to unit linked multi-assets funds. LGPS Funds with a large amount of Equitable Life With-Profits Fund investments will have a large voting representation. Administering Authorities, as the policyholders, will need to assess which way to vote based on their membership profile. Following the result, regulated investment advice will need to be taken to determine where members' funds should be invested (this may be Utmost but alternative providers should also be considered as part of this). Administering Authorities will also need to consider how changes will be communicated to members and the timing of the communications.

We would be happy to support LGPS Funds in making the necessary decisions in relation to the above, including the provision of regulated investment advice where appropriate.

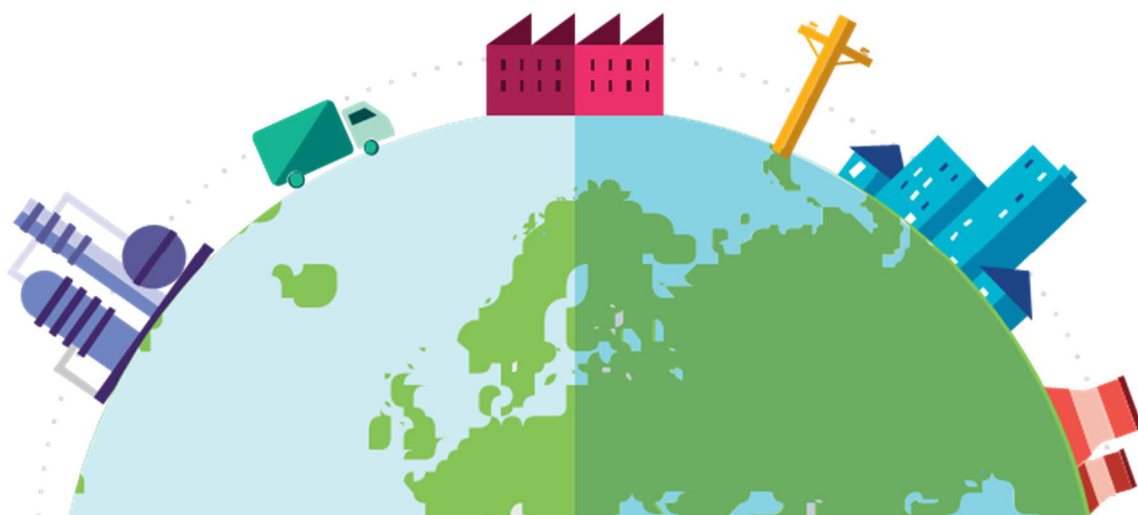
LATE RETIREMENT FACTORS

MHCLG has issued revised late retirement guidance and factors, effective from 1 September 2019. The new methodology removes the 'cliff edge' effect which reduced the value of LGPS benefits held by members who were over their Normal Pension Age (NPA) when the factors last changed in January 2017. The new guidance and updated factor spreadsheet that includes the new factors is set out on the [actuarial guidance](#) page of <http://www.lgpsregs.org/>.

SURVIVOR GUIDE PUBLISHED

The LGPC have published a technical guide covering survivor benefits in the LGPS, reflecting changes in survivor benefits for civil partners and the spouses of same-sex marriages, brought about by the LGPS (Miscellaneous Amendment) Regulations 2018. The guide can be found on the [guides and sample documents](#) page of <http://www.lgpsregs.org/>.

MHCLG plans to introduce statutory guidance for Administering Authorities, in respect of past trivial commutation and transfer payments that are affected by the change in survivor benefits for civil partners and same sex spouses.



DATES TO REMEMBER

DATE	ISSUE	THE LATEST
Summer 2019	UK Stewardship Code	Final version of the code expected to be published
31 August 2019	Benefit Statements	Deadline for Funds to issue annual benefits statements to members
6 October 2019	Pension Savings Statements	Deadline for issue to members
October 2019	Equitable Life	Voting on transfer decisions by eligible policyholders
October/November 2019	4 year valuation cycle consultation	Government response to consultation expected
2019	Pensions Dashboard	Expected to go live in 2019 (under review)
31 March 2020	2019 Actuarial Valuation	Deadline for formal reports and rates and adjustments certificate to be signed off by Fund Actuary
6 April 2020	Lifetime Allowance indexed in line with CPI	The LTA for 2020/21 to increase from £1,055,000 in line with CPI increases
30 April 2020	GAD data collection	Deadline for providing information to GAD for the Section 13 review
5 April 2021	Abolition of DB contracting out	End of the 5 year period during which an employer may use its overriding power to amend a scheme to reflect the abolition of contracting out.

MEET SOME OF THE TEAM

THINGS YOU MAYBE DIDN'T KNOW



Name: James Hunter

Role: Fund Actuary

Joined Mercer: 2006

Place of Birth: Nottingham

What do you enjoy most about your role? Working with clients and colleagues (although I am also partial to a spreadsheet).

Favourite film: Always used to be the Godfather, but my kids are gradually converting me into a Marvel movies fan.

What is your favourite holiday destination and why? Hmm... either a Greek island or a nice ski resort, depending on how energetic I'm feeling. Both provide a total contrast to the stresses of daily life!



Name: Karen Scott

Role: Market development manager

Joined Mercer: 2017

Place of Birth: Leeds

What do you enjoy most about the role? The diverse nature of it - no two days are the same. Also the broad spectrum of colleagues and clients that I work with.

Favourite film? Point Break

What is your favourite holiday destination and why? Lagos, Portugal. Authentic Portuguese town, incredibly welcoming people, gorgeous beaches, amazing food and wine – what's not to love!



Name: David Morrison

Role: Actuarial Analyst

Joined Mercer: 2014

Place of Birth: Liverpool

What do you enjoy most about your role? The challenge. I'm a problem solver at heart and there's always something to solve!

What is your favourite film? Shrek (the first one). Loved it since I was a kid. I can pretty much recite the whole film off by heart.

What is your favourite holiday destination and why? California – in 2016 I went on a road trip from San Diego up to San Francisco, onto Yosemite National Park and then finishing in Las Vegas. Some of the highlights included seeing Humpback whales breaching in Monterey, Sky Diving in Las Vegas and seeing the famous sunset over Santa Monica beach. Needless to say, I'd do it all again in a heartbeat!

CONTACTS



Paul Middleman
paul.middleman@mercer.com
0151 242 7402



Leanne Johnston
leanne.johnston@mercer.com
0161 837 6649



Steve Turner
steve.j.turner@mercer.com
01483 777035



Nigel Thomas
nigel.thomas@mercer.com
0151 242 7309



Kieran Harkin
kieran.harkin@mercer.com
0161 957 8016



Peter Gent
peter.gent1@mercer.com
0151 242 7050



Nick Buckland
nick.buckland@mercer.com
020 7528 4188



Clive Lewis
clive.lewis@mercer.com
0151 242 7297



John Livesey
john.livesey@mercer.com
0151 242 7324



Karen Scott
karen.scott@mercer.com
07584 187645



Susan Greenwood
susan.greenwood@mercer.com
0151 242 7220



Jonathan Perera
jonathan.perera@mercer.com
0151 242 7434

This edition of LGPS: Current Issues is for information purposes only.

The articles do not constitute advice specific to your Fund and you are responsible for obtaining such advice. Mercer does not accept any liability or responsibility for any action taken as a result of solely reading these articles.

For more information about other training or advice about how any article in this issue relates to your Fund, please contact your usual Mercer consultant.

Mercer retains all copyright and other intellectual property rights in this publication.

Visit us at www.uk.mercer.com

Copyright 2019 Mercer Limited. All rights reserved