

LGPS CURRENT ISSUES

NEWS IN BRIEF

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ACTUARIAL VALUATION - UPDATE

As we commented on in our August update, 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.

In terms of results at individual employer level, longer term employers who had a significant asset base at the last valuation have tended to follow the pattern above, with average contributions showing a decrease. For less mature employers, with lower assets in 2016, the results are more volatile and this can be compounded by significantly by membership profile changes.

Funds can expect full results across the employer base throughout Quarter 4.

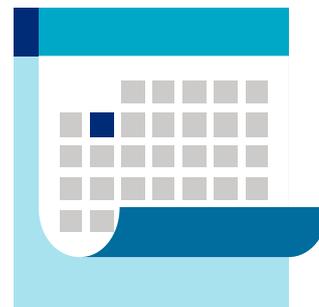
MCLOUD AND IMPACT ON VALUATIONS

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, including the LGPS. However, it is highly unlikely that the remedy will be known before the 31 March 2020 deadline for finalising the 2019 valuation.

As reported in August, 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. In addition, MHCLG has confirmed that it expects each LGPS fund to explicitly state in its valuation report and/or Funding Strategy Statement how it has allowed for the McCloud ruling. In particular, where contribution rates are being reduced, funds should be clear about how they have taken the McCloud ruling into account before making the decision to reduce rates.

Although an exact remedy is unclear, for the purposes of the 2019 valuations, we have estimated the potential impacts of any McCloud remedy by assuming the 1/60ths final salary underpin applied to all members who were active in the Scheme in April 2012 (not just those within 10 years of retirement). At the whole of Fund level this has typically shown increases to overall liabilities of 1% and an additional 1% of salary to the future service rate.

At individual employer level these results can vary significantly depending on the membership profile of the employer. For employers with a significant proportion of active members and a young membership profile these costs can increase to 5% of liabilities and 5% on the future service rate (and higher in some extreme cases where salary increases have been high). Our individual results schedules will highlight these figures to aid discussions between the administering authority and the employer as to whether to begin to fund for the McCloud impact now and remove the risk of unbudgeted contributions being required once the remedy is known.



VALUATION CYCLES

It now seems highly likely the next round of local valuations for English and Welsh LGPS funds will be 31 March 2022. We will therefore certify 3 years' worth of contributions at the 2019 valuations. What happens to the valuation cycle after 2022 remains subject to consultation, although the 2022 valuation could well be the last one done under the three-yearly cycle.

EQUITABLE LIFE UPDATE

Following the Policyholders' Meeting and Extraordinary General Meeting on 1 November 2019 Equitable Life has confirmed that the proposals on the Scheme and Change to the Articles were passed by an overwhelming majority.

The Equitable Life press release can be found at: <https://www.equitable.co.uk/media/65470/news-release-post-policyholders-meeting-and-egm.pdf>



High Court approval will be sought at the hearing starting on 22 November 2019 with the ruling expected by 30 November 2019. If approved, the proposal is expected to take effect from 1 January 2020.

The next task for Funds to consider, is where the With-Profit fund assets will be reinvested within Utmost Life. Given Counsel's opinion of the Administering Authority's "fiduciary responsibility" towards the members, formal / regulated investment advice is certainly recommended. We certainly do have some concerns about the default "Investing by Age Journey" being put forward by Utmost for some member groups. If Funds do not want to follow the proposed default, they will need to make investment choices and advise Equitable Life by 13 December 2019 for the changes to be in place by 1 January 2020. (Note: Assets will be initially invested in the Secure Cash Fund where the uplift will be applied).

CMA ORDER - REMINDER

A reminder that the requirement to set objectives for investment consulting providers remains, with a deadline for doing so of 10 December 2019.

The SAB has published an updated briefing note providing further information regarding the order, available [Here](#)

OFFICE OF TAX SIMPLIFICATION MAKES RECOMMENDATIONS

The Office of Tax Simplification (OTS), the independent adviser to government on simplifying the UK tax system, published a review on 10 October 2019 making recommendations to "improve people's experience of the tax system at key events in their lives". The review covered a wide range of areas of taxation, including the High Income Child Benefit Charge, the operation of PAYE, how individuals can assist others with their tax affairs and tax education. Recommendations relating to pensions include:

- The Government should consider the removal of differences in outcomes between "net pay" and "relief at source" tax relief for low earners.
- HM Revenue & Customs should help to ensure that the tax consequences of decisions about pensions are clear to individuals.
- The Government should continue to review the annual allowance, lifetime allowance and money purchase annual allowance against their policy objectives.

It is not clear yet whether any of the recommendations will be implemented and, if so, when. For some of them, to do so would require legislation and parliamentary time, which is currently in short supply. Any changes in the short term could have been expected to be announced in the Government's next Budget, which had been set for 6 November 2019 but, at the time of writing, has been postponed. The forthcoming General Election this year is likely to introduce a further period of delay.

DATES TO REMEMBER

DATE	ISSUE	THE LATEST
6 October 2019	Pension Savings Statements	Deadline for issue to members
November/December 2019	4 year valuation cycle consultation	Government response to consultation expected
30 November 2019	Equitable/Life	High Court ruling
10 December 2019	CMA legally binding order	Effective date for CMA order to set strategic objective with investment consultancy providers
12 December 2019	General Election	Britain goes to the polls (again!)
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.

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

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