

# Current issues in the LGPS

December 2021

*The next edition of Current Issues will be published in early February. However, to keep us going in between, look out for our '2022 LGPS priorities' publication early in the New Year. We hope you and your family enjoy the festive break.*

## Another month closer

We're one month closer to the 2022 valuations in England & Wales and the level of preparatory work is increasing. In addition to putting in place a detailed timetable for the year ahead, we have been working with funds to review the funding assumptions, discuss the outcome of data cleansing exercises and explore the contribution strategy for long-term, stabilised employers. The next couple of months will be equally busy with a focus on reviewing the employer database and identifying areas for more in-depth covenant analysis. Busy times ahead!

PS if you're already sick of parties and shopping, why not relax instead and listen to our latest valuation [podcast](#) which explores a commonly asked question – is my 100% funded the same as my neighbour's 100% funded?

## Catch-up with GAD & DLUHC

We recently met with GAD & DLUHC to catch-up on current issues and look ahead to the 2022 valuations in England & Wales. Areas of discussion included the draft 2019 Section 13 report outcomes (the final report should be published before Christmas), if and how McCloud could be allowed for at the 2022 valuations, incorporating climate change risk in funding strategies and the funding approach for future new academies. There were no substantive outcomes or actions for funds.

## The journey to net zero

COP26 may have come and gone but the focus on climate risk and consideration of net-zero investment strategies remains for pension funds. Knowing what actions can be taken and how they can be best implemented can be a daunting task for pension funds. At our virtual "[COP26 and the journey to net zero](#)" event on 9 November (yes right in the midst of COP26-mania!) we delved into the detail. For LGPS specifically, our Panel discussion explored a number of key themes including the practical steps that LGPS Funds can take in collaboration with their peers, Pools and asset managers. Watch both the opening address from our in house RI expert and our in-depth LGPS stream [here](#) at a time convenient to you.

## McCloud eligibility

In our [Conference Highlights](#) from the South West Pension Managers' Torquay event, we noted that there had been some discussion at the conference about eligibility of LGPS members for the McCloud remedy. The question posed was whether we can expect the eligibility criteria to be extended to match those in the other public sector schemes, which includes members who were deferred on 1 April 2012, have some CARE service and do not have a disqualifying break. We'll keep our eyes peeled for any firmer updates about this.

## Amendments to the Scottish LGPS Regulations

Launched by SPPA on 1 November 2021, this [consultation](#) proposes a number of amendments to the scheme in Scotland, primarily around the early release of benefits from age 55 for leavers prior to April 2015, changes to

survivor benefit provisions and flexibilities when dealing with exiting employers. Our response to this consultation will be available shortly and shared with Scottish fund contacts.

### Reasons for good data

There are plenty of reasons why Funds will need good data, from Pensions Dashboard and McCloud to planning for the administration function of the future. Funds may find the new [PASA guidance](#) on Data Management useful. Building on the Guidance PASA released in March 2021 the latest document considers ongoing data management and controls around pension scheme records.

### Tackling pension scams

On 30 November 2021 changes came into effect introducing new legal restrictions on an individual's right to a transfer. These changes remove an individual's automatic right to a transfer and provide a number of steps that schemes must put in place in respect of any transfer taking effect on or after 30 November 2021 to satisfy themselves that a member's entitlements are not at risk. You will need to ensure you have robust processes in place to comply with these new requirements - further details can be found in our [60 second summary](#) on the topic.

### Allowing for changes to the normal minimum pension age (NMPA) on transfers

While on the subject of transfers, administering authorities should ensure they appreciate the transfer implications resulting from the expected increase in the NMPA to 57 from April 2028. Any individual with an actual or prospective right to retire earlier than age 57 on 4 November 2021, and who meets an initial "[entitlement condition](#)" as defined by HMRC, may retain the right to a protected pension age not just in their existing scheme, but also on transfer to another arrangement. Your Fund will need to consider not only the implications for existing members with protected retirement ages, but also how the protections are honoured for any transfers into the Fund.

### Here today, gone tomorrow?

Everyone expected inflation to rise earlier this year given the sharp fall in prices in March 2020. Some expected it to rise further as demand picked up, exposing structural problems on the supply side. Few predicted consumer prices would rise as rapidly as they have – 4.2% is the latest reading in the UK - driven upwards by higher energy prices, supply chain constraints and labour shortages which will take time to clear. Will higher inflation persist? We still believe it will prove transient, and that central bank intervention to control inflation, if it proves necessary, will be effective. But we acknowledge the risks of persistently higher inflation have risen. Given this, we suggest that funds review the impact of inflation on their liabilities and the effectiveness of the protection afforded by their asset portfolios.

### Events round up

November has been a busy month for events and conferences in the LGPS. On 30 November, we ran our own webinar looking at the future of LGPS administration, including the changing needs of members and what the ideal administration service looks like. In case you missed it, you can [catch the session by registering on-demand](#).

Following a virtual conference in 2020, we were pleased to see the return of **the Pension Managers' Conference** in Torquay. You can find the summary from each session in our [Conference Highlights](#).

There was a round-table held immediately prior to the recent [Room 151 LGPS Investment Forum](#), on the topic of actuarial valuation expectations in 2022. Douglas Green was the actuary in room, with various senior LGPS officers: you can read a summary of their thoughts [here](#).

### National differences in COVID-19 mortality

DB pensioners living in the UK suffered pronounced increased mortality in the first and second waves of the COVID-19 pandemic. However, the magnitude of these waves was experienced very differently in England, Scotland and Wales. Club Vita explored this data in their recent "[Top Chart](#)" blog. As we approach the 2022 valuations in England and Wales, we will be relying on Club Vita analysis to set longevity assumptions that reflect

the specific characteristics of the membership. We will also be carefully monitoring the longer lasting effects of the pandemic, and how this is impacting pensioner life expectancy, across different regions of the UK.

### **In brief...**

The House of Commons rejected Lords' amendments to (largely) retain the full 'triple lock' on State pension increases in April 2022. The effect is that basic and new State pensions next year will increase by the higher of 2.5% or the increase in prices, rather than earnings—and we already know that the relevant CPI increase was 3.1%.

## Appendix

### Another month closer

<https://www.hymans.co.uk/insights/podcasts/is-my-100-funded-the-same-as-my-neighbours-100-funded/>

### The journey to net zero

[https://www.hymans.co.uk/insights/webinars/cop26-and-the-journey-to-net-zero/?utm\\_source=hootsuite&utm\\_medium=linkedin&utm\\_campaign=Responsible+Investment](https://www.hymans.co.uk/insights/webinars/cop26-and-the-journey-to-net-zero/?utm_source=hootsuite&utm_medium=linkedin&utm_campaign=Responsible+Investment)

### McCloud eligibility

[https://www.hymans.co.uk/media/uploads/Conference\\_Highlights\\_-\\_Pension\\_Managers\\_Conference\\_16-17\\_Nov\\_2021.pdf](https://www.hymans.co.uk/media/uploads/Conference_Highlights_-_Pension_Managers_Conference_16-17_Nov_2021.pdf)

### Amendments to the Scottish LGPS Regulations

<https://pensions.gov.scot/local-government/scheme-governance-and-legislation/consultations>

### Reasons for good data

<https://www.pasa-uk.com/wp-content/uploads/2021/11/PASA-Data-Controls-Guidance-FINAL-1.pdf>

### Tackling pension scams

<http://clients.hymans.co.uk/sites/CIMKB/InterimCIMKB/60%20Second%20News%20Summaries/2111%20new%20conditions%20for%20transfer%2060SNS.pdf>

### Allowing for changes to the normal minimum pension age (NMPA) on transfers

<https://www.gov.uk/hmrc-internal-manuals/pensions-tax-manual/ptm062210#what-is-right-to-take-benefits>

### Events round up

<https://event.on24.com/wcc/r/3526387/43ACBF4BD01E179733D940AEB93A906E>

[https://www.hymans.co.uk/media/uploads/Conference\\_Highlights\\_-\\_Pension\\_Managers\\_Conference\\_16-17\\_Nov\\_2021.pdf](https://www.hymans.co.uk/media/uploads/Conference_Highlights_-_Pension_Managers_Conference_16-17_Nov_2021.pdf)

[https://www.hymans.co.uk/media/uploads/Conference\\_Highlights\\_-\\_Room151\\_LGPS\\_Investment\\_Forum\\_16\\_Nov\\_2021.pdf](https://www.hymans.co.uk/media/uploads/Conference_Highlights_-_Room151_LGPS_Investment_Forum_16_Nov_2021.pdf)

<https://www.room151.co.uk/blogs/room151-roundtable-lgps-valuations-and-risk-2022/>

### National differences in COVID-19 mortality

<https://www.clubvita.co.uk/news-and-insights/top-charts-21-10-differences-in-covid-19-impact-on-pensioners-in-england-scotland-and-wales>