

Current issues in the LGPS

August 2022



Reclassification of Further Education colleges?

As outlined in our recent [60 Second Summary](#), the Office of National Statistics are currently reviewing whether FE colleges in England should be reclassified as public sector bodies (currently private sector). Whilst reclassification itself will not materially alter the covenant of these bodies (e.g. the Insolvency Regime will still apply), the Department for Education has commissioned GAD to undertake a review of the LGPS and the FE Sector. One of the options being considered is an FE Guarantee, similar to the guarantee already provided to Academy trusts. This would be a significant and welcome move for LGPS funds, easing concerns about these employers' covenant and potentially triggering a change to their funding strategy for the 2022 valuations. There are still a few ifs, buts and maybes before such an outcome so keep an eye out for further information.

Updated Academy trust guarantee

On 21st July the Government confirmed that it would continue to provide a guarantee to the LGPS in respect of Academy trusts. The [ministerial statement](#) sets out the limit of the guarantee (£20m p.a., with any excess requiring Treasury approval) and their expectation that administering authorities recognise the strength of the guarantee by funding all Academies equitably with LEA schools. This commitment will be of comfort for English funds going into the 2022 valuations and considering the funding strategy for this very large employer group.

The 3 D's - Data gathering, Data cleansing and Data submission

The 2022 Valuation Data season is upon us... Not the most exciting part of any actuarial valuation ("What is?" we hear you cry!), but data is the foundation of any triennial valuation. Without reliable data, the results are meaningless. The steps involved in collecting data move from funds collecting data from employers, to funds cleansing the data and finally to funds submitting data to their actuary. All of these steps are vital and the sooner the process begins, the better. Our latest [60 Second Summary](#) on valuation data summarises the key parts of the process, provides hints and tips for officers and points out how we can help!

Freshen up your FSS

Changes to LGPS Regulations mean that Funding Strategy Statements have become increasingly unwieldy and under-utilised by employers. With relatively few regulatory updates needed, this is a good time to refresh the document to recognise the diversity of employers, increasing complexity of the LGPS and widening range of uses. We are working with several funds now to restructure the FSS to make this more practical, accessible and usable to employers. This should help facilitate improved knowledge and engagement with employers, starting with the consultation alongside valuation results. For more information on this, please see our [60 Second Summary](#).

The evolution of LGPS training

Our Governance and Administration consultant Andrew McKerns provided his thoughts on the momentum that training has gathered in the LGPS in the past 5 years for Committee and Board members in this [Room151 article](#). Andrew discusses what approaches funds have taken during that time and what has proved successful. He also looks ahead to the future and what that holds for training requirements. One of the topics mentioned in the article is the National Knowledge Assessment, aimed at gauging knowledge levels of LGPS Committees and Boards. You can register your interest to find out more information about the 2022 assessment [here](#).

Annual allowance training

We know from speaking with many funds that supporting scheme members to understand the annual allowance and their personal responsibilities to account for any tax charge can be a challenge. We also know that those scheme members can find the subject daunting too. With the 2021/22 Pension Savings Statement exercise on the horizon, we are offering online training to scheme members on 30 August to provide an understanding of the annual allowance and how it might affect them. For further information or to register your interest, [click here](#).

McCloud updates

DLUHC has recently updated administering authorities on the expected timetable for further consultations during 2023 on the implementation of the McCloud remedy for the LGPS, encouraging Funds to take steps toward implementing the remedy once the Government's response to its 2020 consultation is published later this year. Recognising the ongoing situation the Pensions Ombudsman (TPO) has also released a [factsheet](#) outlining its approach to any complaints linked to McCloud (and Sargeant). Good communication with members on the progress of the remedy is key if you want to avoid TPO intervention, with TPO only looking to investigate those cases where maladministration resulting from lack of proper member engagement is the main issue, and not the delays caused by the machinery of Government.

InflationWatch

The latest edition of our quarterly publication, [InflationWatch](#), has just been published. Headline CPI inflation reached 9.4% in June, the highest level since inflation targets were introduced in 1992. This is higher than consensus forecasts as we feared might be the case last quarter. Prices continue to rise due to supply chain issues, increasing input costs, tight labour markets and sterling weakness; factors which are likely to push inflation higher in the short-term. At the same time economic growth is weakening and monetary policy is tightening very rapidly, which means inflation is likely to peak by the end of 2022, and thereafter we expect it to fall faster than currently forecast.

Effective stewardship: Getting the most from your asset managers

Many asset owners have spent time considering and updating their stewardship policies in recent years as the focus on responsible investment has grown. [In this guide](#), we provide practical tips to help you engage with your asset managers and fulfil your stewardship responsibilities.

Summer capital markets update

Catch up on the latest in markets with our [summer capital markets update](#). As inflation and interest rates continue to climb and growth begins to slow, we share the latest trends on government bonds, credit, equities and property.

Podcast: Hymans Robertson on...Investment – 2022 mid-year market update

It's been a pretty wild first half of the year for global markets. With conflict between Russia and "the West", rampant inflation, Kate Bush in the UK Top 40 and Top Gun at the box office, investors could be forgiven for thinking we're in 1986 rather than 2022. In this [podcast](#), host Ben Farmer is joined by Chris Arcari (Head of Capital Markets, Hymans Robertson) and Karen Ward (Chief Market Strategist, J.P. Morgan Asset Management) for a look back at the key market events and trends from the first half of the year, a discussion on the outlook for the rest of 2022 and beyond, and a debate on whether the death of the "balanced" portfolio has been overegged.

Accessing the latest longevity data insights

In order to set appropriate baseline longevity assumptions for the 2022 England and Wales valuations, we use Club Vita life expectancy tables (known as VitaCurves). VitaCurves are tailored to fit each individual fund member and therefore take account of the fund's specific demographic characteristics. The latest edition of VitaCurves is now ready, giving us the most recently available data on pensioner longevity across defined benefit schemes to inform our assumptions. This is the first edition of VitaCurves to include a COVID-19 pandemic period, calibrated to mortality data spanning January 2018 to December 2020. Your Fund actuary will make an appropriate adjustment to recent data to avoid the longevity assumptions being skewed by excess deaths due to COVID-19. We'll continue

to carefully monitor the changing situation to understand how any lingering after-effects of the pandemic impact future pensioner life expectancies.

In brief...

- Paul Scully has been confirmed as the new minister with responsibility for the LGPS, following Kemi Badenoch's resignation in early July as Minister of State at DLUHC.
- Changes also at the Pensions Ombudsman, with CMS partner Dominic Harris replacing the outgoing Anthony Arter.
- The [Public Service Pensions \(Employer Cost Cap and Specified Restricted Scheme\) Regulations 2022](#) will, from 3 August 2022, widen the cost-control corridor (which sets the tolerance for variation in employer costs, as a percentage of pensionable earnings) from 2% to 3% of the target cost. The change is intended to be in place for the 2020 cost cap valuation.
- Peter MacRae has some thoughts on planning for climate change in this [Public Finance article](#)
- We will be at the LGC Investment Conference 8-9 September 2022. To book your place, [click here](#).

Appendix

Reclassification of Further Education colleges?

<https://www.hymans.co.uk/insights/research-and-publications/publication/sixty-second-summary-education-sector-in-the-lgps/>

Updated Academy trust guarantee

<https://hansard.parliament.uk/Commons/2022-07-21/debates/2207212400017/AcademyTrustAndLocalGovernmentPension>

The 3 D's - Data gathering, Data cleansing and Data submission

<https://www.hymans.co.uk/insights/research-and-publications/publication/the-3-ds-data-gathering-data-cleansing-and-data-submission/>

Freshen up your FSS

<https://www.hymans.co.uk/insights/research-and-publications/publication/sixty-second-summary-is-it-time-for-a-more-accessible-usable-and-practical-fss/>

The evolution of LGPS training

<https://www.room151.co.uk/local-government-pension-scheme-investment/training-momentum-gathering-pace-in-the-lgps/>

<http://web.hymans.co.uk/hymanscouk-atwsv/pages/fsr2kfqeey7paanoodv7g.html?PageId=9376247d50f1ec11bb3c000d3a8755ee>

Annual allowance training

<http://web.hymans.co.uk/hymanscouk-atwsv/pages/iovk1wiie2c5qanoodzdg.html?PageId=d7e48b220802ed1182e5000d3a8759a2>

McCloud updates

https://www.pensions-ombudsman.org.uk/sites/default/files/publication/files/Mcloud%20factsheet%20July%202022_1.pdf

InflationWatch

<https://www.hymans.co.uk/insights/research-and-publications/publication/inflationwatch-july-2022/>

Effective stewardship: Getting the most from your asset managers

https://www.hymans.co.uk/insights/research-and-publications/publication/effective-stewardship-getting-the-most-from-your-asset-managers/?utm_campaign=Oktopost-DB+Responsible+Investment&utm_content=Oktopost-LinkedIn&utm_medium=social&utm_source=LinkedIn

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<https://www.hymans.co.uk/insights/research-and-publications/publication/capital-markets-update-summer-2022/>

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In brief...

[Public Service Pensions \(Employer Cost Cap and Specified Restricted Scheme\) Regulations 2022](#)

<https://www.publicfinance.co.uk/opinion/2022/07/dont-let-weather-distract-you-climate>

<https://investmentsummit.lgcplus.com/lgcinvestmentpensionssummit/en/page/home>