

Current issues in the LGPS

July 2022



Cost cap: breaking news

The Government Actuary's Department has just published the results of the 2016 (2017 in Scotland) Cost Cap Valuations for the LGPS in England & Wales, Scotland and Northern Ireland. The results show that there is no breach of the Cost Cap ceiling or floor, mainly due to the inclusion of McCloud costs. Further information can be found in our [60 second summary](#).

4 valuation notes for the price of 1

As we move further into the valuation year in England & Wales, some of our consultants discuss [four different areas](#) of risk and how they can be managed at the 2022 valuation. The insights and suggested actions will be helpful for making sure your funding plans at the 2022 valuation help achieve the best possible funding outcomes for all employers.

And talking of funding...

The fourth webinar in our LGPS 2022 Valuation series took place on 20 June. The session focused on topical areas of your funding strategy and how to effectively manage these risks, including setting a strategy which is clear and transparent for your employers; getting the most out of your Funding Strategy Statement; and reviewing and optimising your investment strategy. You can [catch the recording on-demand here](#).

How technology will support the 2022 valuations

Our Head of LGPS Valuations recently [reflected](#) on the role that technology will play in delivering the 2022 LGPS valuations, and how much has changed in just over a decade. The pace of change continues to increase - it may not be long before actuaries are taking a leaf out of ABBA's book and turning up in hologram form!

Significant announcements in Education sector

Education sector employers form a significant and growing proportion of LGPS liabilities. The recent DfE news and ONS announcements therefore have important implications for funds. In particular, the ONS classification review of Further Education bodies and a potential DfE guarantee require careful consideration as part of the 2022 valuations. Read about this, and the latest on academies, in our [60 Second Summary](#).

Preparing for Pension Saving Statements

Calculating pensions tax for individual members can be a tricky area of practice. In this [60 second summary](#), Ian Colvin provides a steer on some of the complex areas that funds have to decipher ahead of issuing this year's annual allowance Pension Savings Statements.

Oversight of investment consultants and fiduciary managers

On 6 June 2022, the Government published [draft regulations](#) which will largely transpose the provisions of the Competition and Markets Authority (CMA) Order on the oversight of investment consultants and fiduciary managers into law. Responsibility for monitoring compliance will pass from the CMA to the Pensions Regulator. There are only minor differences between the original provisions of the Order and the new regulations. The new regulations will cover only private sector pension schemes. We understand the Department for Levelling Up, Housing and

Communities (DLUHC) is planning to consult on the provisions of the CMA Order later this year. In the meantime, we presume that the original provisions continue to apply to LGPS funds.

TCFD – a sign of things to come for the LGPS?

While we await the consultation setting out how TCFD will be implemented within the LGPS, the DWP has [confirmed](#) that in-scope private sector schemes will need to report a forward-looking “portfolio alignment” metric to set out the extent to which their investments are aligned with the Paris Agreement goal of limiting global temperature rises. Schemes can choose from *binary type measures*, *benchmark portfolio models*, and *implied temperature rise models*. Our early preference is binary type measures, such as the number of companies with science-based net zero targets, because of their relative simplicity and ease of taking action to influence.

FRC proposes climate risk requirements for actuaries

As the importance of climate change risks continues to grow, the Financial Reporting Council (FRC) is [consulting](#) on proposed changes to Technical Actuarial Standard 100 which would require actuaries to include climate change and ESG-related risks in the course of their work. Climate scenario analysis is a key recommendation of TCFD, and this is a perfect opportunity for actuaries to illustrate the risks that climate change presents for LGPS Funds.

Onto COP27

The 27th session of the UN Climate Change Conference (COP27) takes place in Sharm El-Sheikh in Egypt in November. COP26 saw nations adopt the [Glasgow Climate Pact](#), aiming to turn the 2020s into a decade of climate action and support. COP27 will continue the drive to turn the pledges made into definite actions.

Hymans Robertson on... Investment – Direct Lending, a decade on

Private debt has become a staple within the investment strategies of UK Defined Benefit pension schemes in the ten years since institutional investors took their first tentative steps into the asset class. In this [podcast](#), host Ben Farmer is joined by Penny Cochrane, Senior Investment Research Consultant, and James Greenwood, CEO of Permira Credit for a look at how direct lending has evolved over the last decade, the role these assets can play in your investment strategy, the current market outlook, and what the future might hold for private debt.

NKA 2022 launching soon!

Following the success of the [2020 LGPS National Knowledge Assessment](#) for Pension Committee and Pension Boards, we are delighted to announce the launch of the 2022 National Knowledge Assessment. The assessment will go live in September and will provide funds with a benchmarked knowledge and skills position for their Committee and Board against the 2020 results and other participating fund results. Please get in touch with [Andrew McKerns](#) if you would like to discuss your fund's involvement.

Today's challenges, tomorrow's opportunities

The PLSA has published a [research report](#) entitled “The Local Government Pension Scheme: Today's Challenges, Tomorrow's Opportunities” which draws on the expertise of many who work in the LGPS and which involved a survey, interviews and roundtables with LGPS members. The report delivers 24 recommendations grouped around the themes of the regulatory and operating environment, employers, Scheme members, and the sustainability of systems and people.

PLSA conference in the Cotswolds

The lovely June weather allowed delegates at the PLSA conference to shine a light on diverse topics such as the work of the SAB, PLSA's new research project, investing in inflammatory times, climate risk, governance, administration, pooling and more. You can find a copy of the conference highlights [here](#).

The LGPS Success Story

We recently hosted our first in-person LGPS Governance, Administration and Projects event. Our event was an opportunity to celebrate, share and think about the next challenges for the LGPS. It was great to see so many of you there, but if you weren't able to join us then there's good news! We've recorded each of our sessions which you can [watch on-demand at any time](#). We've also pulled together a summary of our sessions which you can [download here](#).

In brief....

- The pensions and financial inclusion minister, Guy Opperman, has suggested that defined benefit public sector pensions, where the risk is underwritten by taxpayers, are not sustainable and should be reformed.
- The Government has announced that the 'triple lock' will be applied to increases in state pension payments next year. The latest annual rate of CPI inflation, measured in May 2022, is 9.1%.
- The Pensions Regulator has updated its [Corporate Plan](#), to set its priorities for 2022 - 2023 and look ahead to 2023 - 2024.
- The latest [Whole of Government accounts](#), covering 2019/20, have been published. The biggest liability on the Government's balance sheet relates to public sector pensions, which has been measured as a net amount of around £2.2trn.
- Trustees of 3 private sector schemes - BT, Ford and M&S - have launched a judicial review over the Government's decision to replace RPI with the housing cost-based version of the Consumer Prices Index, known as CPIH, from 2030.

Appendix

Cost cap: breaking news

<https://www.hymans.co.uk/insights/research-and-publications/publication/sixty-second-summary-cost-cap-results-breaking-news/>

4 valuation notes for the price of 1

<https://www.hymans.co.uk/insights/research-and-publications/publication/managing-risk-at-the-2022-valuations/>

And talking of funding...

<https://event.on24.com/wcc/r/3818755/423F477B74B3E19D9C0ECC5C0A93E285>

How technology will support the 2022 valuations

<https://www.room151.co.uk/local-government-pension-scheme-investment/lgps-valuations-the-digital-journey/>

Significant announcements in Education sector

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

Preparing for Pension Saving Statements

<https://www.hymans.co.uk/insights/research-and-publications/publication/sixty-second-summary-preparing-for-annual-allowance-pension-saving-statements/>

Oversight of investment consultants and fiduciary managers

<https://www.legislation.gov.uk/ukdsi/2022/9780348235777>

TCFD – a sign of things to come for the LGPS?

<https://www.gov.uk/government/consultations/climate-and-investment-reporting-setting-expectations-and-empowering-savers/outcome/government-response-climate-and-investment-reporting-setting-expectations-and-empowering-savers>

FRC proposes climate risk requirements for actuaries

<https://www.frc.org.uk/getattachment/43ac03b6-f183-4d29-8210-956814446ef6/-.aspx>

Onto COP27

https://unfccc.int/sites/default/files/resource/cma2021_10_add1_adv.pdf

Hymans Robertson on... Investment – Direct Lending, a decade on

<https://www.hymans.co.uk/insights/podcasts/direct-lending-a-decade-on/>

NKA 2022 Launching soon

<https://www.hymans.co.uk/insights/research-and-publications/publication/lgps-national-knowledge-assessment-report/>

Today's Challenges, Tomorrow's Opportunities

<https://www.plsa.co.uk/Portals/0/Documents/Policy-Documents/2022/LGPS-Report-2022-Executive-Summary.pdf>

PLSA conference in the Cotswolds

https://www.hymans.co.uk/media/uploads/PLSA_Conference_Highlights_13-15_June_2022.pdf

The LGPS Success Story

<https://event.on24.com/wcc/r/3804728/230462D6EF218BBEC1C918C48822D705>

https://www.hymans.co.uk/media/uploads/The_LGPS_Success_Story_-_Conference_Highlights.pdf

In brief...

<https://www.thepensionsregulator.gov.uk/en/document-library/corporate-information/corporate-plans/corporate-plan-2022-24>

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1080609/Whole_of_Government_Accounts_2019-20.pdf