

Current issues in the LGPS

March 2022

Equal opportunities

The UK Government published its long-awaited [white paper](#) on Levelling Up on 2 February 2022. The goal is to spread opportunity more equally across the regions. The paper includes an ambition for LGPS funds to invest up to 5% of assets in projects that support local areas. Our [Briefing Note](#) looks at what roles the LGPS and Government could play to realise this ambition. It also includes comments from DLUHC that clarify how the 5% limit may work in practice; spoiler - the 5% should be considered a minimum requirement, not a maximum!

Russia's invasion of Ukraine

The rapidly deteriorating situation in Ukraine is rightly dominating headlines and our thoughts are with those caught up in the humanitarian crisis. The initial reaction to the invasion has seen falls in equity markets, with some particularly volatile movements in individual sectors and stocks, and sharp rises in the price of some commodities. Our [60 Second Summary](#) considers further the impact on market movements. We are of course close to the 2022 valuation date in England and Wales. The current situation is fluid and volatile, and we will continue to monitor this and identify emerging economic themes over the coming weeks. Our advice will keep in mind that the LGPS is an open pension scheme with a long-term time horizon. We recognise that there have been, and will continue to be, exceptional events in the environment within which the Fund operates, and your fund actuary will help you to navigate this situation and ensure your funding plans are based on long-term expectations.

2022 valuations in England and Wales – one month to go!

With the magical 31 March date fast approaching, we have been busy preparing for the next round of triennial valuations. As ever, nothing in the LGPS stands still and there have been plenty of changes to allow for. New things for 2022 include building the cost of the McCloud remedy into liabilities and contributions, considering how to allow for Covid-19 in longevity assumptions, incorporating climate risk into funding advice, and helping funds update their funding strategies for new LGPS flexibilities. Plenty to think about, and the valuations haven't even really begun!

TCFD-layed – but climate risk must be a part of the 2022 valuations

We understand that the long-awaited DLUHC consultation on mandatory TCFD-style disclosures in the LGPS has been delayed again, and won't be issued this financial year. However, the recent [Section 13 report](#) on the 2019 valuations includes Climate Risk as an "emerging issue", and GAD have indicated that they will expect all funds to consider it in their 2022 valuation reports and/or funding strategy statements. We covered climate risk (and Section 13) in our [recent webinar](#), explaining how we propose to incorporate it into our funding advice to all our clients this year. Speak to your usual Hymans contact if you want to learn more.

McCloud and pensions tax

HMRC is consulting on [draft legislation](#) that will allow members to instruct their scheme administrators to use the mandatory scheme pays mechanism to pay annual allowance charges arising from changes to historical pension input amounts. The change is prompted by the need to implement the McCloud remedy in public service pension schemes, which in some cases will require historic Pension Input Periods to be revisited (it's worth noting that the new rules are not limited to only changes caused by McCloud). Scheme administrators will have three months (or until 6 October following the end of the relevant tax year, if later) in which to provide members with revised 'pension

savings statements', or rectify other information supplied with respect to members' annual allowance positions, following receipt of additional data. The scheme administrator would then have another three months in which to deliver the related event report to HMRC. The consultation closes on 15 March.

McCloud and Pensions Dashboards

The grandly named [Public Service Pensions and Judicial Offices Bill](#) is currently winding its way through parliamentary process. Our [60 Second Summary](#) considers how it will affect the LGPS, and also contains actions for funds on the back of the recently launched [Pensions Dashboards consultation](#).

Cyber risk and pandemics

Cyber risk and pandemics have never been in the news so much. Read our [Room151 blog](#) about ways in which you can maximise your chances of predicting and planning for the next big pandemic-style event or cyber-attack.

Aligning investments with UK foreign and defence policy

The Government has introduced an amendment to the PSPJO Bill (also mentioned above) giving it power to produce guidance that constrains those who manage local government and indeed private sector pension schemes from taking investment decisions that conflict with UK foreign and defence policy. We note various mechanisms already exist to achieve this eg official sanctions. The effectiveness of the proposed guidance will depend on key details which are not yet known, notably:

- How broad will their scope be?
- Specificity, ie will the guidelines apply to individual issuers or whole categories of investment?
- Will the guidelines have retroactive effect?
- Will they require positive action – eg divestment - or have negative effect – ie prohibiting divestment for other reasons.

Two other amendments - requiring compliance with the Glasgow 2021 Climate Pact and divestment of fossil fuel stocks by 2030 - were not put before the House and so will not be included in the Bill.

Reviewing the State Pension Age

The DWP has begun a [statutory review of State Pension age](#) (SPA). It has commissioned reports from GAD and a team led by Baroness Neville-Rolfe. A key outcome of this review is whether the SPA increase to 68 should be brought forward from 2046 to 2039. Commenting on the latest [national population projections](#) issued by the ONS, [Club Vita](#) noted that the outlook for future life expectancies has been downrated compared to projections underpinning the previous review. Using the new projections, and the previous review's approach of seeking to maintain a 2 to 1 ratio of the years in adult life spent before and after SPA, would suggest no immediate need for the rise of SPA to 68 to be brought forward. A [call for evidence](#), seeking views on the metrics to be considered when setting the SPA, is open until 25 April. The latest review must be published by DWP before 7 May 2023.

LGC Investment Seminar

We're looking forward to supporting this year's LGC Investment Seminar at Carden Park on 24-25 March. Catherine McFadyen will be joining Nick Buckland, Euan Miller and Neil Mason to examine the actuarial landscape for the LGPS. [Click here to book your place](#).

In brief...

- Following the retirement of Jeff Houston, Jo Donnelly has been appointed as Head of Pensions at the Local Government Association. Jo has experience of public service pensions through prior roles at HM Treasury and at the Department of Health (NHS Pension Scheme).
- DLUHC have announced they are looking to appoint 5 new people to the pensions team in the next few months.

- Word coming out of the Department for Levelling Up, Housing and Communities (DLUHC) is that the LGPS can expect a consultation before parliament rises in the summer, and it is scheduled to be a bumper one! Following delays to individual consultations over 2021, the planned consultation will cover a number of areas including climate risk (in particular the Task Force for Climate-related Financial Disclosures (TCFD) requirements), the Government's 'levelling up' agenda, CMA requirements and LGPS Pooling.

Appendix

Equal opportunities

<https://www.gov.uk/government/publications/levelling-up-the-united-kingdom>

<https://www.hymans.co.uk/insights/research-and-publications/publication/levelling-up-and-the-role-of-the-lgps/>

Russia's invasion of Ukraine

<https://www.hymans.co.uk/insights/research-and-publications/publication/russia-ukraine-macroeconomic-update/>

TCFD-layed – but climate risk must be a part of the 2022 valuations

<https://www.gov.uk/government/publications/local-government-pension-scheme-review-of-the-actuarial-valuations-of-funds-as-at-31-march-2019/lgps-england-and-wales-section-13-report-31-march-2019-executive-summary>

<https://www.hymans.co.uk/insights/webinars/themes-for-2022-valuation-a-spotlight-on-climate-risk/>

McCloud and pensions tax

<https://www.gov.uk/government/consultations/draft-legislation-the-registered-pension-schemes-miscellaneous-amendments-regulations-2022>

McCloud and Pensions Dashboards

<https://bills.parliament.uk/bills/3032>

<https://www.hymans.co.uk/insights/research-and-publications/publication/sixty-second-summary-updates-on-mccloud-and-the-pensions-dashboard/>

<https://www.gov.uk/government/consultations/pensions-dashboards-consultation-on-the-draft-pensions-dashboards-regulations-2022>

Cyber risk and pandemics

<https://www.room151.co.uk/blogs/astrology-the-lottery-and-predicting-the-next-big-risk/>

Reviewing the State Pension Age

<https://www.gov.uk/government/news/second-state-pension-age-review-launches>

<https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationprojections/bulletins/nationalpopulationprojections/2020basedinterim>

<https://www.clubvita.co.uk/>

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1052886/independent-review-of-state-pension-age-call-for-evidence.pdf

LGC Investment Seminar

<https://investmentseminar.lgcplus.com/inv/en/page/delegate-packages>