

# Current issues in the LGPS

November 2021



## SAB cost cap update

The England & Wales Scheme Advisory Board [confirmed on 15 October that they are not recommending any benefit structure changes](#) based on the outcome of their 2016 cost management process (which is separate from the centrally run HMT process). This confirms the SAB's approach that was set out in their [letter to DLUHC](#) in August 2021, and is likely to be welcomed by employers (no increase in the cost of benefits) and fund administration teams (no implementation of backdated benefit changes). The SAB restated its determination to revisit Tier 3 ill-health provisions and the contribution rate payable by the lowest paid members. Consideration of these potential future benefit changes will be done separately from any cost management process.

## HMRC announce McCloud tax measures

Despite the (usual) warning of pension tax changes for the Autumn Budget 2021, the Chancellor announced very little that would impact the pension industry. However, on the same day as the Budget, HMRC announced a variety of [measures](#) on the issue of McCloud and the potential impact to individual public sector scheme members. The expectation is these measures will exempt members “*from the tax that may be due on the compensation they receive*” and protect members from both annual and lifetime allowance tax impacts. The policy paper suggests the changes will “*limit the administrative burden*” for members and we hope this will be true for LGPS funds as well!

## Here before you know it

It's now less than 6 months until the 2022 valuations in England & Wales. With this in mind, we held a webinar at the start of October with a panel of our experts discussing what the 2022 valuations may have in store from a funding and investment perspective. We also discussed some practical hints and tips to manage what is always a time and resource consuming exercise. You can access a recording of the webinar by registering [here](#).

## Get a GrIP on your investment strategy

With actuarial valuations around the corner, many funds will also be reassessing their investment strategies. Long-term investment strategy is often touted as the most important financial decision a Committee will make. However, the huge variety of investment types mean this can be a very complex process. We have therefore produced a [reminder of our framework](#) that makes this important decision simpler, where different types of investments are classed into three categories based on the role they perform. This helps to focus the big, impactful decisions on what is important to the Fund.

## Hot investment topics for your next strategy review

Iain Campbell has selected [five hot topics](#) to consider in your investment portfolios, reflecting a number of historic biases in LGPS asset allocations that are now clashing with current market conditions. These hot topics cover UK equity weightings, whether there is value left in private markets, the issue with gilts, outdated methods of value investing and the investment risks around climate change, with recommendations of how to review each of these issues.

## The LGPS in numbers: 3 things you already know (and 5 you may not)

The DLUHC's annual statistical release contains some interesting figures for the English & Welsh LGPS as a whole. Spoiler alert: assets, expenses, membership, benefits and employer numbers are all up. Douglas Green's [blog](#) draws out some unexpected, as well as expected, messages we can glean from this.

## Climate Change

### Greening the financial system

On 18 October, the Government published its [roadmap](#) to sustainable investing- please read our [60 Second Summary](#) for a high-level overview of its contents. Whilst there is no immediate action required right now, it would be prudent for funds to review their stewardship activities against this roadmap to ensure they are on track to meet requirements come 2023, the date government plans to review progress.

### TCFD – latest news

The Task Force on Climate-related Financial Disclosures (TCFD) has [published](#) its fourth annual status report. Within the UK, TCFD reporting was brought within the remit of occupational pension schemes this year under a phased approach (see next article!). To date, the LGPS has not been captured by the regulations and guidance, but a consultation is expected to be launched shortly by the DLUHC (who have taken on the responsibility from the now defunct MHCLG).

### And the regulations continue

You can be forgiven for feeling that at every turn there is new or updated guidance in relation to climate change. On 1 October 2021 the new [Climate Change Governance and Reporting Regulations 2021](#) came into force, applicable to trustees of large occupational pension schemes. It introduces new reporting requirements in line with TCFD recommendation and gives a flavour of what could be to come for LGPS funds. Furthermore, no sooner had these regulations come into force, a [consultation](#) was launched to amend them! This seeks views on proposals to measure and report on the Paris alignment of investment portfolios i.e. to report a portfolio alignment metric.

### Climate Change – an actuarial ‘deep dive’

A lot of the focus when it comes to managing climate risk is understandably on assets. However, we know all too well that climate risk also affects pension liabilities. Earlier this month the Joint Forum on Actuarial Regulation (JFAR) [announced](#) the formation of a task force to carry out a deep dive on the science of climate change, aimed at improving the level of engagement and incorporation of climate change in all aspects of actuarial work. Conclusions from this undertaking are expected in Q2 2022.

## Is it time to review your AVC provider?

For many years Prudential have been seen as the dominant provider of AVCs to LGPS Funds, providing the facility to the majority of funds. However, many funds have been experiencing a less than satisfactory service, despite reassurances from the Pru that steps are being taken to improve matters. Much has changed in recent years, particularly with greater emphasis placed on responsible investment or on-line member access; areas where the Pru seem to have fallen behind market expectations. As a result we've seen renewed interest from funds asking if any other providers are entering the market. If you need a hand with reviewing your current AVC provision please get in touch.

## Making a regulatory list and checking it twice!

We're not talking about Santa but it's time to get planning for the 2022 regulatory agenda. So what do we expect over the next few months?

- A new consolidated TPR Code of Practice, possibly along with DLHUC guidance or regulations following the Good Governance project.

- Some LGPS Funds are already complying voluntarily with TCFD but now is the time to make sure you have factored this into governance and training plans.
- Pensions dashboards are inching closer and data will need to be in good shape, when dashboards become available, to minimise disruption. Draft regulations from the DWP are expected late this year or early in 2022.

The last two years have shown the value of expecting and preparing for both the expected and the unexpected, so good risk management is key.

### Driving data in a new direction

The Department for Digital, Culture, Media and Sport is running a public consultation on UK data protection reform. "[Data: a new direction](#)" sets out proposals aimed at reducing barriers to innovation and international data flows, easing the compliance burden on organisations and improving the delivery of public services through better data sharing. There are also plans to reform the Information Commissioner's Office. These are ambitious plans, which need to achieve good outcomes for people and organisations, maintain high standards of privacy and avoid jeopardising the current EU adequacy decision. A tall order! The consultation closes on 19 November.

### A mix of new Scottish regulations

The SPPA is [consulting](#) on draft [Local Government Pension Scheme \(Scotland\) \(Amendment\) Regulations 2021](#). These cover a medley of changes:

- A clarifying rule allowing deferred members of earlier schemes to retire from age 55, and introducing a similar option for pension credit members;
- fixing a problem with the statutory underpin calculation;
- equalizing survivors' pensions;
- allowing deferred debt agreements, inter-valuation changes to employer contributions, and the spreading of exit payments; and
- correcting an error in the employer cost cap provisions.

The consultation closes on 7 January 2022.

### Events round up

#### LGC Investment Seminar Scotland (21-22 October)

With COP26 on the horizon at the other end of the M8, climate change featured regularly at LGC's Scottish investment conference in Edinburgh. The key points from each session are summarised in our [conference highlights](#).

#### COP26 and the journey to net zero - how to play your part

World leaders arrived in Glasgow this week to progress the goals of the Paris Agreement and accelerate plans to reach net zero. [Join](#) us on Tuesday 9 November for a virtual event where we will set the scene on how financial institutions can take action. For the LGPS specifically, we will bring net-zero targeting to life via an engaging Panel discussion featuring in-house experts and experienced professionals from funds and pools. They'll explore the practical steps that funds can take to successfully navigate the transition.

#### Together, using technology to build better financial futures

Technology has the potential to radically transform the world for the better. So, how do we ensure that we're using technology in the right way to deliver a better financial future for generations to come? [Join our virtual event on Thursday 18 November](#) where we'll bring together experts from a broad range of disciplines. We'll explore the role technology plays within long-term savings, now and in the future.

### Upcoming industry events

Following a virtual conference in 2020, we're pleased to see the return of the **Pension Managers' Conference** in Torquay. The two-day event takes place 16-17 November and provides the opportunity to consider a range of current topics and issues in the LGPS. We'll be running a workshop session looking at new ways of working – we hope to see lots of you there. You can [apply to attend here](#).

We'll also be attending and speaking at **Room151's LGPS Investment Forum**. Taking place on 16 November at The London Stock Exchange, this year's forum will focus on fund valuations, asset allocation and risk management, COP26, TCFD reporting, plus lots more! You can [register your place here](#).

### In brief...

- The ONS has announced that the annual rate of CPI inflation at September 2021 was 3.1 per cent. This number will be used for pension increases in the LGPS in April 2022.
- The Pensions Ombudsman's office has published a two-page guide to [Communicating with Members](#), in which it uses its experience to give tips that will help pensions providers resolve disputes informally and avoid ending up dealing with a complaint to the Ombudsman.

## Appendix

### **SAB cost cap update**

<https://www.lgpsboard.org/index.php/projects/cost-management>

<https://www.lgpsboard.org/images/CM/SABtoLH180821.pdf>

### **HMRC announce McCloud tax measures**

<https://www.gov.uk/government/publications/taxation-of-public-service-pension-reform-remedy>

### **Here before you know it**

<https://event.on24.com/wcc/r/3436289/5EC52213ED8D820F23B3D14B86FDFDB1>

### **Get a GriP on your investment strategy**

<https://www.hymans.co.uk/insights/research-and-publications/publication/sixty-second-summary-growth-income-and-protection/>

### **Hot investment topics for your next strategy review**

<https://www.hymans.co.uk/insights/blogs/blog/5-hot-investment-topics-in-the-lgps/>

### **The LGPS in numbers: 3 things you already know (and 5 you may not)**

<https://www.hymans.co.uk/insights/blogs/blog/lgps-national-statistics-3-things-you-may-have-spotted-and-5-you-may-not/>

### **Greening the financial system**

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/1026224/CCS0821102722-006\\_Green\\_Finance\\_Paper\\_2021\\_v5\\_Bookmarked\\_48PP.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1026224/CCS0821102722-006_Green_Finance_Paper_2021_v5_Bookmarked_48PP.pdf)

<https://www.hymans.co.uk/insights/research-and-publications/publication/sixty-second-summary-a-roadmap-to-sustainable-investing/>

### **TCFD – latest news**

[https://assets.bbhub.io/company/sites/60/2021/07/2021-TCFD-Status\\_Report.pdf](https://assets.bbhub.io/company/sites/60/2021/07/2021-TCFD-Status_Report.pdf)

### **And the regulations continue**

<https://www.legislation.gov.uk/ukSI/2021/857/introduction/made>

<https://www.gov.uk/government/consultations/climate-and-investment-reporting-setting-expectations-and-empowering-savers/climate-and-investment-reporting-setting-expectations-and-empowering-savers-consultation-on-policy-regulations-and-guidance>

### **Climate Change – an actuarial ‘deep dive’**

<https://www.frc.org.uk/news/october-2021/joint-forum-on-actuarial-regulation-announces-clim>

### **Driving data in a new direction**

<https://www.gov.uk/government/consultations/data-a-new-direction>

### **A mix of new Scottish regulations**

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

[https://pensions.gov.scot/sites/default/files/2021-11/Draft\\_The\\_Local\\_Government\\_Pension\\_Scheme\\_%28Scotland%29\\_%28Amendment%29\\_Regulations\\_2021.pdf](https://pensions.gov.scot/sites/default/files/2021-11/Draft_The_Local_Government_Pension_Scheme_%28Scotland%29_%28Amendment%29_Regulations_2021.pdf)

**LGC Investment Seminar Scotland (21-22 October)**

[https://www.hymans.co.uk/media/uploads/Conference\\_Highlights\\_-\\_LGC\\_Investment\\_Seminar\\_Scotland\\_21-22\\_Oct\\_2021.pdf](https://www.hymans.co.uk/media/uploads/Conference_Highlights_-_LGC_Investment_Seminar_Scotland_21-22_Oct_2021.pdf)

**COP26 and the journey to net zero – how to play your part**

<https://event.on24.com/eventRegistration/EventLobbyServletV2?target=reg20V2.jsp&eventid=3434552&sessionid=1&key=0E68271DC16100218EC743D56E39BCA6&groupId=2954038&sourcepage=register>

**Together, using technology to build better financial futures**

<https://event.on24.com/eventRegistration/EventLobbyServletV2?target=reg20V2.jsp&eventid=3415508&sessionid=1&key=3E0FFAF3C35BDEABCCBDD03F75C5240E&groupId=3034395&sourcepage=register>

**Room151's LGPS Investment Forum**

<https://www.surveymonkey.co.uk/r/LGPS151>

**Pension Manager' Conference**

<https://swcouncils.gov.uk/events/pension-managers-conference/>

**In brief...**

[https://www.pensions-ombudsman.org.uk/sites/default/files/publication/files/Final%20TPO%20Communications%20guidance\\_0.pdf](https://www.pensions-ombudsman.org.uk/sites/default/files/publication/files/Final%20TPO%20Communications%20guidance_0.pdf)