



Current issues in the LGPS

July 2020

Early retirement strain factors and the £95k cap

Over the past few months, we have been awaiting the outcome of the previously proposed £95k exit cap legislation, which would limit the amount of benefit paid to a leaver from a council or academy. Despite the intention of HMT to bring forward the legislation before summer recess (21 July) it has now been paused and due to various issues and uncertainty around the legislation it is unlikely to be brought in anytime soon. As such, we would advise any Funds who have not yet reviewed their early retirement factors following the 2019 valuations to revisit this.

Preparing for McCloud

It is still expected that the consultation on the McCloud remedy will be issued before Parliament's summer recess (21 July). To help funds get on the front foot we'll be [hosting a webinar](#) on 14 July designed to help you prepare for the administrative challenge that McCloud will provide. We've also prepared a McCloud briefing note – download [here](#).

2020 Cost Cap valuation data requirements

The Government Actuary's Department's letter of 9 June 2020 to all English & Welsh administering authorities clarifying the intention of and comments in their 2019 membership data reports issued in April 2020 will have been welcomed. The 2019 exercise served as GAD's dry run for the next cost cap valuation of the E&W LGPS (assessed as at 31 March 2020). LGPS funds will need to submit membership data to GAD in Autumn 2020 as part of this valuation. If you have any concerns about GAD's comments in your 2019 data report or how to prepare for the 2020 data submission please get in touch with your usual Hymans Robertson contact.

Corporate Insolvency & Governance Act 2020

The [Corporate Insolvency & Governance Act 2020](#) gained Royal Assent on 25 June 2020, with most provisions coming into force the following day, although with retrospective effect in some cases. The Act is intended to help companies that get into financial difficulty, by providing for a moratorium during which creditor activities will be restricted (amongst other measures). As mentioned in last month's Current Issues, the changes have potential adverse implications for LGPS funds, including:

- *Contributions* - the possibility of a 40-day moratorium in which the company will not pay any creditors pre-moratorium debts (including current and/or deferred pension contributions).
- *Wind-up petitions* – if a company enters the moratorium period, winding-up petitions from the fund will be prevented.
- *Additional security* – if the fund has agreed additional protections (e.g. charge on fixed assets, etc), they will not be able to trigger these arrangements, submit any claim or enforce the arrangement, as a result of the non-payment of contributions.

Overall, the intent behind the legislation is for a company to avoid an otherwise inevitable insolvency and come out the other side stronger (and hopefully in a better position to manage any pension shortfall). However, the changes highlight the importance of early and regular employer engagement, improved covenant information and possible pre-emptive action where a fund has particular concerns.

Regulator's COVID-19 guidance update

On 16 June the Pensions Regulator updated the COVID 19 guidance for pension schemes on its website. Included in the updates are the following;

“You should also ensure that your members, particularly the most vulnerable, remain able to contact your administrators. You should bear in mind that some of your members may not feel confident using the internet and will rely on postal or telephone services.”

“Reducing the burden on administrators by limiting any non-critical demands and queries. It may take some time for services to return to normal and to resolve any issues which arise while resources are constrained. You should continue to work closely with your administrators in that time and agree a robust but pragmatic plan for delivery.”

The full guidance can be found [here](#).

Cost Transparency Initiative launches additional tools

The Pensions and Lifetime Savings Association (PLSA) has added [new tools](#) to the resources available as part of the Cost Transparency Initiative (CTI). The guidance framework was originally set up for institutional investors such as schemes and asset managers to gain better understanding of their investment costs and charges. Additional tools include new and updated templates covering LDI and real estate investments, as well as updated guidance on private equity mapping, case study resources, and webinars.

Exit Credits

In March 2020, the exit credit regime in England & Wales was amended to give administering authorities the discretion to determine the final exit credit taking into account the size of the surplus, the part of the surplus arising from employer contributions, information from the ceding employer and any connected employer and ‘any other relevant information’. There is a material level of ambiguity in respect of these items which presents challenges to administering authorities in terms of how they are considered and applied. Any disputes are to be routed through IDRPs which is expected to determine whether the rule of law and your own policies have been applied appropriately. As a result, we are engaging with SAB, LGA and MHCLG with a view to providing greater clarity in how administering authorities can demonstrate they have applied the requirements of the Regulations.

2019 RI Stewardship Survey

We recently published the results of our second stewardship [survey](#) where the key finding of our research is that levels of transparency and disclosure need to improve. As interest in Responsible Investment has grown, so the need for ready access to information to facilitate understanding and challenge by asset owners has also grown. Whilst we have seen some improvements, including managers adding resource, it remains clear that more can still be done. It remains incumbent on asset owners including pension committees to continue to provide scrutiny of both managers and pools to drive improvements in practices and demand accountability for the actions that are being taken.

Your virtual LGPS conference during lockdown

It's been some months since the last LGPS face-to-face event, and likely a few months more before the next one. So we hope you've been finding our fortnightly “Keeping the LGPS Connected” webinar series helpful. Over the eight sessions to date, with the variety of LGPS fund speakers and topics, it's added up to your own virtual conference. Read Douglas Green's blog [here](#) for a summary of what's been covered so far and what to look forward to over the summer.

Appendix

Preparing for McCloud

<https://www.hymans.co.uk/insights/research-and-publications/publication/how-many-active-members-were-there-in-the-lgps-in-2012/>

Corporate Insolvency & Governance Act 2020

<https://www.gov.uk/government/publications/corporate-insolvency-and-governance-bill-2020-factsheets/overview-of-the-bill>

Regulator's COVID-19 guidance updates

<https://www.thepensionsregulator.gov.uk/en/covid-19-coronavirus-what-you-need-to-consider/scheme-administration-covid-19-guidance-for-trustees-and-public-service>

Cost Transparency Initiative launches additional tools

<https://www.plsa.co.uk/Policy-and-Research-Investment-Cost-Transparency-Initiative>

2019 RI Stewardship Survey

https://www.hymans.co.uk/media/uploads/RI_2019_StewardshipSurvey.pdf

Your virtual LGPS conference during lockdown

<https://www.hymans.co.uk/insights/blogs/blog/keeping-the-lgps-connected/>