

Current issues in the LGPS

October 2020

LGPS early retirement / redundancy packages hit

In an unexpected turn of events, the Government's well-trailed £95k cap on public sector exit packages has been upstaged by MHCLG proposals for wider exit pay reform. This wider reform will impact English & Welsh local authority employees (and others) taking redundancy over age 55. In effect the member will be forced to choose only two out of the three current elements of an early retirement package: (1) full pension, (2) immediate payment of pension, (3) Statutory and Discretionary redundancy pay. Our [summary note](#) gives more detail, and this [Briefing Note](#) brings the proposals to life with some worked examples. Meanwhile, after sitting on the consultation bench for five years, the £95k cap is being pressed ahead, with an expected implementation date across the whole public sector of 21 October. How that fits with the existing LGPS Regulations, which give members full pension entitlement on redundancy over age 55 regardless of pension size, is yet to be clarified.

More powers to manage employer risk

The [Local Government Pension Scheme \(Amendment\) \(No. 2\) Regulations 2020](#) were brought into force on 23 September 2020 in England and Wales. The new regulations formally allow 1) under certain circumstances, funds and employers to review contribution rates between valuations, 2) spreading of exit debts, and 3) management of cessation costs via the introduction of 'deferred employer status' and 'Deferred Debt Agreements'. Our [60 Second Summary](#) provides more detail, and guidance is expected from MHCLG with input from SAB and CIPFA. Please liaise with your Fund Actuary before using the new powers to put appropriate policies in place and ensure they are reflected in your Funding Strategy Statement.

Materially uncertain on property?

The long-term impact of COVID-19 is still unknown. However, one immediate impact from an investment perspective was the introduction of material uncertainty clauses (MUCs) on UK property valuations. Last month the Royal Institute of Chartered Surveyors (RICS) announced that MUCs have been lifted from the vast majority of UK property. Since the announcement many UK property funds that had suspended trading have resumed normal dealing, although managers are under no obligation to re-open their funds. What remains uncertain is the level of trading we will see in the market, and whether investors are rushing to sell down holdings or buying in at prices below net asset value.

Club Vita: monitoring COVID-19 case rates and mortality statistics

From the outset of the pandemic, Club Vita has monitored the [mortality statistics](#) both directly and indirectly attributable to COVID-19. Whilst this continues, analysis has expanded to include [COVID-19 cases](#) by region across the UK. As data emerges on new case numbers over the next week or two, it will be interesting to see if the local and national restrictions slow the spread of the virus. If not, tighter restrictions may need to be implemented to mitigate the effects of a second wave. Club Vita has embarked on some innovative analysis that will provide funds with COVID-19 insights at the fund level, across regions and the socio-economic spectrum. More details will be announced shortly but, if you have any queries, don't hesitate to contact us.

Employer angles: it's raining Regulations!

With autumn and the change of seasons underway, there has been no shortage of changes to LGPS regulations that have a direct impact on employers. Firstly, the reform to exit packages pay mentioned above will have a significant impact on any affected employers who are planning redundancy exercises. These will affect strain costs to be paid by employers and benefits received by members. Secondly, the McCloud remedy will lead to increased employer costs and the requirement to supply historic data. There are some points to think about [here](#) in our consultation response. And finally, new flexibilities in England and Wales have been introduced to help manage an employer's exit from the LGPS, and should be welcomed by employers who "can't afford to stay and can't afford to leave". The new regulations update also allow funds and employers to revise contribution rates between formal valuation under certain circumstances. For more details, please see our summary note [here](#). We'll be running a webinar about these changes on Tuesday 3 November. More information and the link to register will be available shortly.

McCloud update

In late September the Scheme Advisory Board in England and Wales published its [draft McCloud consultation response](#). The response only serves to emphasise the scale and complexity of the McCloud exercise. We have completed a McCloud initial analysis report for a number of clients, detailing the potential resourcing requirements involved in the project. Any funds who have not already done so may wish to consider our McCloud Starter Pack which provides a framework to help you to identify and manage the risk of McCloud, allowing you to deliver the project as efficiently as possible. Please contact your usual Hymans consultant if you wish to discuss further.

Scottish valuations: Look after the pennies, the pounds look after themselves

The LGPS is funded at employer level. Ensuring that each employer's funding plan reflects its own individual circumstances and level of risk, whilst communicating valuation results in a clear and concise manner, will result in a successful funding outcome for the whole fund. The latest webinar in our 2020 valuation series was on Monday 5 October and focused on effective employer risk management and communication. A copy of the webinar recording is available in our [2020 Valuation Hub](#).

Support in educating your high earners on the annual allowance

You will hopefully have successfully issued pension savings statements to those scheme members impacted by the annual allowance. This should be the last year that tapering impacts your members (unless they are very highly paid), but we know from experience how confusing the annual allowance can be for members. We have provided extensive education sessions to higher earners - if you need a hand please get in touch with your usual Hymans' contact.

TPR COVID-19 guidance seeks to move to business as usual

TPR has recently updated its [COVID-19 guidance](#), reflecting a continued desire to move back to a more business-as-usual approach to its activities. From January 2021 schemes will now be required to revert back to the 90-day timescale for reporting late payment of contributions by employers to the Regulator. Funds will need to ensure any necessary changes are made to revert back to the usual timescale.

Another one bites the dust

After a short tenure as UK Local Government minister at MHCLG, Simon Clarke announced his resignation from Government on 8 September. He is succeeded by Luke Hall.

A downside to living longer

Back in 2014, the Government announced that it would raise the minimum age at which people could access pension benefits. Whilst no legislation has been forthcoming, [HMT confirmed](#) via Parliamentary questions that it still intends to raise the minimum pension age to 57 from 2028.

Upcoming events

Keeping the LGPS connected (8 October) - our ongoing “virtual LGPS conference” continues. [Join us on 8 October](#) where we’re delighted to be joined by Cory Blose from LGSS Pensions to discuss employer engagement, the latest Regulatory changes and how funds can respond to employer requests to revisit contribution rates.

LGC Investment Seminar Scotland (22 – 23 October) - now in its fifth year, the Scottish seminar has gone virtual and will focus on guiding your fund through post-pandemic investment challenges. We’re pleased to be chairing and presenting at this year’s event – look out for our session where we’ll share early results of the actuarial valuation and what it means for investment strategy. For more info and to book your place, [click here](#).

Appendix

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<https://www.hymans.co.uk/insights/research-and-publications/publication/consultation-on-exit-payments-in-local-government-95k-cap/>

https://www.hymans.co.uk/media/uploads/LGPS_Briefing_Note_-_Exit_pay_reform.pdf

Employer services: it's raining Regulations!

<https://www.hymans.co.uk/insights/research-and-publications/publication/response-to-mccloud-consultation/>

<https://www.hymans.co.uk/insights/research-and-publications/publication/management-of-employer-risk-regulations-2020/>

McCloud Update

http://www.lgpsboard.org/images/PDF/letters/SAB_DRAFT_MCLOUD.pdf

Look after the pennies, the pounds look after themselves

<https://www.hymans.co.uk/services/lgps-2020-valuation/>

Updates to TPR COVID guidance seeks to move to business as usual

<https://www.thepensionsregulator.gov.uk/en/covid-19-coronavirus-what-you-need-to-consider/covid-19-an-update-on-reporting-duties-and-enforcement-activity>

More powers to manage employer risk

<https://www.legislation.gov.uk/ukxi/2020/893/made>

<https://www.hymans.co.uk/insights/research-and-publications/publication/management-of-employer-risk-regulations>

A downside to living longer

<https://questions-statements.parliament.uk/written-questions/detail/2020-08-28/81494>

Club Vita: monitoring COVID-19 case rates and mortality statistics

<https://www.clubvita.co.uk/news-and-insights/covid-19-the-latest-picture-as-at-22nd-september-2020>

<https://www.clubvita.co.uk/news-and-insights/covid-19-latest-developments-in-cases-as-at-25th-september>

Upcoming events

<https://register.gotowebinar.com/register/7295991235519357456>

<https://investmentseminarscotland.lgcplus.com/>