

SEPTEMBER, 2016

# LGPS CURRENT ISSUES



## NEWS IN BRIEF



### 2016 ACTUARIAL VALUATION (ENGLAND AND WALES)

Work on the 2016 actuarial valuations of LGPS Funds in England and Wales is now well underway. Indicative results will have already been made available during initial meetings with Fund Officers, and actual whole fund and major employer results are now being communicated to our clients.

We will keep you up-to-date on the latest progress of your own Fund's 2016 actuarial valuation. Any queries regarding timings of the various stages should be directed to your usual Mercer contacts.

### SECTION 13 "DRY RUN" VALUATIONS

The Government Actuary's Department (GAD) was appointed by DCLG to report under section 13 of the Public Service Pensions Act 2013 about LGPS funding reviews and employer contribution rates to check that they meet the aims of Section 13.



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## ACTIONS TO CONSIDER

- Engagement with Colleges
- Review Admission and Termination Policies
- Communicate with employers regarding HMRC's online Lifetime Allowance registration site



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In particular, Section 13 requires GAD to report on whether four main aims are achieved:

- **Compliance;** whether a fund's valuation is in accordance with the scheme's regulations;
- **Consistency;** whether a fund's valuation has been carried out in a way which is not inconsistent with any other fund valuations within the LGPS;
- **Solvency;** whether the rate of employer contributions is set at an appropriate level to ensure the solvency of each pension fund, and
- **Long term cost efficiency;** whether the rate of employer contributions is set at an appropriate level, so far as it relates to each pension fund.

We are very comfortable with the output from the analysis for Mercer-advised Funds, and in most cases all measurements are green. In the isolated instances that are not, we have no concerns as the underlying funding plans are sufficiently robust that on further investigation it would be confirmed as in line with expectations.

Notwithstanding the limitations within the analysis, using a standardised reporting basis is helpful for comparing funds. However, it is only a comparison tool and should not be used to drive decisions as the standardised assumptions do not reflect the investment or risk profile of any particular LGPS Fund. Going forward your actuary will assess how your own Fund stands against these measures as part of the valuation process.

## BREXIT: A PENSIONS PERSPECTIVE



It is now approaching three months since the UK voted for "Brexit". Although the formal exit negotiations have still to begin, there has been a noticeable impact on economic markets as a result of the vote and administering authorities should consider the effect that this may have on their funds.

The UK's decision to leave the EU has resulted in significant volatility in equity and currency markets. Since the referendum, Sterling fell by over 10% against the dollar. Gilt yields immediately fell by over 50bps, and even more so since. Having increased in the run up to 23 June, equity markets immediately fell but then rallied, helped, perhaps, by the fall in Sterling. The table below gives an update to the end of last month.

Indicator	31-Dec-15	22-Jun-16	24-Jun-16	30-Jun-16	03-Aug-16	04-Aug-16	31-Aug-16
Nominal Gilt yield (10 year point)	2.04%	1.45%	1.23%	1.03%	0.92%	0.76%	0.66%
	(0bps)	(-58bps)	(-81bps)	(-100bps)	(-112bps)	(-129bps)	(-138bps)
FTSE350	3,494.5	3,489.4	3,399.0	3,573.9	3,659.5	3,717.0	3,753.3
	(0.00%)	(-0.15%)	(-2.73%)	(2.27%)	(4.72%)	(6.37%)	(7.41%)
FTSE All-World ex UK	270.8	274.0	286.2	299.8	310.4	316.2	319.6
	(0.00%)	(1.20%)	(5.72%)	(10.74%)	(14.66%)	(16.80%)	(18.05%)
AA Credit spread (15+ year) <sup>1</sup>	1.11%	1.04%	1.16%	1.14%	0.88%	0.83%	0.79%
	(0bps)	(-8bps)	(+5bps)	(+3bps)	(-23bps)	(-28bps)	(-32bps)
USD/GBP exchange rate	1.474	1.469	1.363	1.337	1.333	1.313	1.310
	(0.00%)	(-0.35%)	(-7.55%)	(-9.30%)	(-9.57%)	(-10.92%)	(-11.13%)

Press commentary has noted that the volatility in the market and fall in yields has had a direct impact on the funding positions of DB pension schemes and in particular that the immediate impact of the referendum will have caused a fall in funding levels for many UK pension schemes. Our approach to valuing liabilities is not directly tied to gilt yields, and although we anticipate some lowering of expected future investment returns, past investment performance relative to inflation has much more influence on your current funding position.

As noted earlier in this edition, the 2016 actuarial valuation is well underway. The impact on a particular LGPS Fund will depend on the assets held and scheme membership profile and your actuary will be discussing this with you as the valuation calculations are completed.

In that context we support the Pensions Regulator's recommendation that warns against knee-jerk reactions and focus should be on the longer term. TPR also notes that default investment arrangements for AVCs may in due course need to be reviewed and, in particular, communicating with members approaching retirement should be considered.



## INVESTMENT POOLING IN THE LGPS

The deadline for pooling submissions to the government has now long since passed. Whilst the pools have been continuing to develop their own plans, formal feedback has yet to materialise. It is our expectation that this along with draft Regulations will emerge before the end of the month.

Please contact Joanne Holden ([joanne.holden@mercer.com](mailto:joanne.holden@mercer.com) / 0161 837 6514) if you require any further information.



## UPDATE ON EDUCATION SECTOR EMPLOYERS

You may be aware of the [area-based reviews](#) of Further Education and Sixth Form Colleges taking place (the aim being to ensure that the right capacity to meet the needs of students and employers exist in each area, and are provided by institutions which are financially stable and able to deliver high quality provision). The [Skills Funding Agency's Early Intervention Strategy](#) is to engage with general further education (GFE) colleges where examination of their financial plans (or other ongoing indicators) suggests that they are at risk of failure.

Following on from this, there has been a recent [consultation](#) on its proposals to introduce procedures for further education and sixth-form colleges which become insolvent. Key messages within the consultation are:

- It will be clarified that the principles of the Insolvency Act 1986, which covers companies incorporated under the Companies Act, will also apply to colleges.
- A Special Administration Regime will be available to ensure that an insolvency practitioner would protect the interests of learners in an insolvent college.
- The proposals do not seem to affect the position of pension scheme liabilities. Any cessation debt would rank as an unsecured creditor.
- Academies fall outside the proposed new insolvency arrangements. Instead they are subject to the DfE financial monitoring and management arrangements.

Given all these, we are strongly recommending that Administering Authorities engage proactively with relevant employers, as we know many are. **A review of the Termination Policies should also be set in train**, ideally alongside the Funding Strategy Review, to ensure that Funds are well placed to address any issues as necessary.



## NEW FAIR DEAL

As previously reported, a [consultation](#) was published by the Department for Communities and Local Government (DCLG) setting out draft changes to the LGPS regulations to introduce [New Fair Deal](#) for staff in the LGPS who are compulsorily transferred to another employer. It is proposed that the existing LGPS regulations will be amended to allow all such staff to remain in the LGPS. This is likely to lead to an increased number of employers in the LGPS and it is important that Funds and letting authorities have clear and robust admission policies established. The proposals do not extend to LGPS Scotland and we await the Government's response.



## NEW PENSIONS AND LIFETIME SAVINGS ASSOCIATION LOCAL GOVERNMENT CONTRACTORS GUIDANCE

The Pensions and Lifetime Savings Association (PLSA) has published guidance aimed at helping employers understand what they need to know before joining the Local Government Pension Scheme (LGPS). The PLSA has published [a guide to navigating entry for local government contractors](#) and [an introduction to the LGPS aimed at scheduled bodies](#).



## HMRC LIFETIME ALLOWANCE PROTECTION - ONLINE MEMBER SERVICE

The online facility to register for Fixed Protection 2016 and Individual Protection 2016 is now open for individuals to access.

A summary of the various HMRC Lifetime Allowance protections, along with links to the online registration site and details of the information required to register can be found [here](#). We suggest that Administering Authorities proactively raise this with employers to ensure that all potentially affected members are made aware of this facility.

To recap, the option to apply for Individual Protection 2014 (which is available for anyone whose total benefits as at 5 April 2014 had a HMRC value in excess of £1.5m) remains open until 5 April 2017. From now on, this protection must also be registered via the new online service (accessible through the above link). The issue of pension tax is potentially a significant one for individual members and, following some of the changes made by Government, does not exclusively affect the highest earners. We would be happy to provide educational training, or direct advice to members as required, so please speak to your usual Mercer consultant if this would be of use to you.

## TPR DC CODE OF PRACTICE

The Pensions Regulator's new defined contribution code of practice and supporting guides came into force on 28 July, replacing the previous DC code and regulatory guidance originally published in 2013. The code focuses on the standards of conduct and practice that are expected to be met. The guides provide examples of best practice and suggested approaches that may be chosen, where appropriate for the circumstances of their scheme. Whilst primarily aimed at private sector schemes, managers of Public Sector Schemes should be aware of this given the linkage contained in the Public Sector Code and the use of AVC arrangements.

The DC code is divided into the following six sections, with each section supported by a guide:

- The Trustee Board
- Investment governance
- Scheme management skills
- Value for members
- Administration
- Communicating and reporting

The “quality features” that formed the backbone of the previous version have been dropped, although the underlying requirements are still very much part of the code.



## NEW PENSION TRACING WEBSITE LAUNCHED

There is currently an estimated £400 million in unclaimed pension savings in the UK. To help people find their lost savings, a new Department for Work and Pensions website has been launched by the Pension Tracing Service. The service is free and the database includes over 320,000 pension schemes covering workplace pensions, personal pensions, and the Civil Service, NHS, teacher or armed forces pension arrangements. If not already done so, Administering Authorities may wish to alert members to this new service.



## OFF-PAYROLL WORKING IN THE PUBLIC SECTOR

HMRC has carried out a consultation regarding off-payroll working in the public sector: reform of the intermediaries legislation. The Government is reviewing responses, but the proposals include changing the IR35 rules for workers who operate through an intermediary, such as their own limited company, in the public sector (including those that obtain work through third parties such as employment intermediaries etc). The government believes that public sector bodies have a duty to ensure the people working for them pay the right and full level of tax. Therefore, subject to some nuances, the proposal is from next April the responsibility for determining whether IR35 applies, and withholding tax if it does, will move from the worker's private service company to the public sector body (or the agency or other third party paying the worker's company).

# DATES TO REMEMBER

DATE	ISSUE	SUMMARY
30 September 2016	Actuarial valuation	Deadline for membership data to have been submitted to GAD as part for the LGPS cost management analysis.
31 March 2017	Actuarial valuation	Deadline for the 2016 England and Wales actuarial valuation exercises to have been formally signed off by the fund actuary. Effective date of the Scottish LGPS actuarial valuations.
6 April 2017	Scottish Income tax	From this date, the Scottish Parliament will have the power to set all income tax rates and bands above the personal allowance for non-savings and non-dividend income for Scottish taxpayers.
7 May 2017	State Pension Age	Deadline for publication of the first report on the independent review of the State Pension age.

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