LGPS CURRENT ISSUES

NEWS IN BRIEF

STOP PRESS - CARILLION

Construction giant Carillion has gone into liquidation threatening the loss of thousands of jobs. Carillion's problems were caused by losing money on big contracts and large debts being built up. Many LGPS funds are exposed to Carillion and it highlights the importance of employer covenant monitoring. We will be issuing a separate communication on the impact on LGPS funds and what funds can be doing to protect themselves.

AUTUMN BUDGET

There was very little on pensions in the autumn budget, with no changes announced to the current pension tax regime. Indeed there was very little on individual savings, with the focus, as far as individuals are concerned, on housing. For institutional investors, the Government will clarify its investment guidance to support pension funds investing in innovative firms. The Pensions Regulator will clarify guidance on investments with long-term investment horizons.

It was confirmed, however, that the Lifetime Allowance would increase (in line with inflation) to £1.03 million on 6 April 2018.

SECTION 13 – WHERE DO YOU SIT?

We have been working with GAD recently on its Section 13 calculations in respect of the 2016 actuarial valuations – GAD's report is expected to be published in May-June this year. In advance of this, we will shortly be providing funds with our own interactive database that compares the results of the 2016 actuarial valuations on 'like for like' assumptions for all England and Wales LGPS funds. It will provide an initial indication of where each Fund may sit in the Section 13 Report along with some broader commentary around funding trends and recommended actions.

BREXIT AND PENSIONS

While everybody will need to adopt a "watch and wait" approach on Brexit, funds should also take steps to understand the risks to employers, and where possible, take steps that anticipate and mitigate those risks.

IN THIS ISSUE

Withdrawal negotiations between the UK and the EU have been underway since June 2017 year, focusing on the financial settlement (the “divorce bill”), the Irish border and the future status of EU citizens. EU negotiators have made it clear that progress on these key areas must be made before trade talks can start. If no negotiated agreement is reached by the “leave” date of 29 March 2019, the UK will cease to be subject to the EU treaties, no transition arrangements will apply and future trade will be, by default, on World Trade Organisation (WTO) terms.

Businesses will face major challenges over the loss of open borders within the EU and in many sectors non-trade barriers, such as “passporting” issues for financial service providers, may also be problematic. There is no certainty yet on anything, even possibly the final exit date. In the meantime, what does this mean for funds and employers, and are there actions to be taken?

A key concern for funds are the investments and it is necessary that you monitor the effects Brexit is having on investment markets. Brexit-related risk is seen as adding to actual and potential market volatility, although it is important to view this in the context of the overall risk landscape.

In addition, employer covenant should be a major focus. The impact of Brexit on the employer’s prospects will depend on a wide range of specific circumstances including the sector the business operates in, its global trading patterns and its dependence on EU workers in its UK workforce. Funds should seek to engage with employers and attempt to understand, anticipate and where possible mitigate employer related risk.

Funds also need to be aware of key dates and announcements being made in the Brexit negotiations, particularly in relation to the 2019 actuarial valuations. Where Brexit developments have a material impact on investment markets or employer strength just before the contributions are due to be agreed and certified, it may be necessary to reappraise assumptions before going ahead.

PUBLIC SECTOR PAY CAP

The National Employers (who negotiate pay on behalf of 350 local authorities) have suggested that the majority of Local Government employees should receive a 2% salary increase for 2018 and 2019. This would apply for employees earning over £19,430, with those earning less than amount receiving a higher increase. National Employers said that this offer would increase the national pay bill by 5.6% over the two years covered by the offer. In response, local government unions said they would put it to their respective committees for consideration.

ACADEMIES GUIDE

An “LGPS Arrangements for Academies Guide” has recently been produced by the Department for Communities and Local Government (DCLG) and the Department for Education (DfE) and is intended for schools considering conversion to Academy status, Academy Trusts and Multi-Academy Trusts. The guide is not exhaustive but does contain advice as to where additional information can be obtained.

FROM QUANTITATIVE EASING TO QUANTITATIVE TIGHTENING

After almost a decade of monetary stimulus, the world's major central banks are starting to gradually pull back, led by the US Federal Reserve (the Fed). In response to low levels of unemployment and robust growth, the Fed recently announced a plan to gradually normalise its balance sheet over the coming years (referred to as quantitative tightening or QT). In November, the Bank of England (BoE) implemented its first rate hike since 2007 and the European Central Bank (ECB) has announced a reduction in the rate of asset purchases from January 2018. The pace and scale of the shift from quantitative easing (QE) to QT will be critically important for markets in 2018 and beyond.

As a result we currently have a preference for floating rate assets and are discussing these with our clients. If you would like any more information on this please contact your usual Mercer consultant.

STEWARDSHIP IN THE 21ST CENTURY

As the finance industry seeks to rebuild trust following the financial crisis, institutional investors increasingly need to recognize the importance of their role in acting as good stewards of the capital entrusted to them. This requires investors to have a clear set of beliefs in relation to environmental, social and corporate governance (ESG) issues as well as recognizing and managing systemic risks (such as climate change). An increasing number of investors will seek to reflect their values and to promote the social good when investing their assets.

For long-term asset owners, we are currently looking at three crucial components of a sustainable investment approach; a set of clear beliefs, strategic asset allocation consistent beliefs and consideration of the impact of climate change on the portfolio and ensuring that underlying managers integrate appropriate consideration of ESG issues within their investment processes. If you would like further information on how we can assist you in this area please contact your usual Mercer Consultant.

PREPARING FOR LATE CYCLE DYNAMICS

The later stages of a credit cycle typically present a challenging environment for investors, offering lower returns and greater risks than the early or mid-cycle periods.

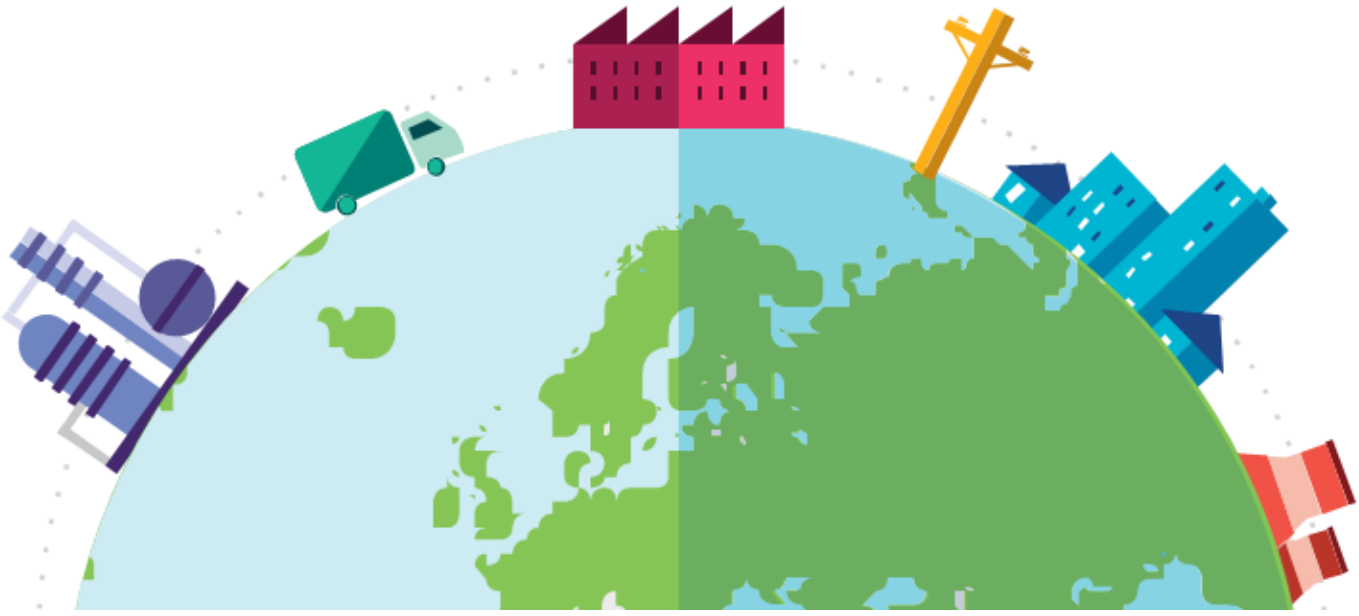
Although we expect the current economic strength (evident across much of the global economy) to continue into 2018, we believe that investors should start considering the ways in which they might prepare portfolios for the risks and opportunities that the late stage of this credit cycle might present.

TIER 3 EMPLOYERS

The Scheme Advisory Board appointed Aon Hewitt to assist them in their review of Tier 3 employers in the LGPS (tier 3 employers do not have tax-payer backing; i.e. colleges, universities, housing associations, charities, admission bodies that do not have a guarantee from a Council, etc). The SAB released three surveys on 27 November for completion by LGPS Administering Authorities, tier 3 employers and LGPS members employed by tier 3 employers. The survey closed on 31 December 2017.

UNISON CAMPAIGN

On the 10th of January, UNISON launched a campaign to encourage local government pension funds to divest from carbon and produced a step-by-step guide designed to help members of local government pension schemes push for changes in the investment of their funds. We are supportive of actions to integrate Environmental, Social and Governance (ESG) issues into the investment decision process. We prefer to assess the potential impact investment portfolios face from the transition to a low carbon economy. This involves not only assessing the potential negative impacts of carbon intensive industries, but also positively allocating capital to areas aligned with the transition to a low carbon economy. We have worked with clients for a number of years on integrating ESG into the investment process, and have produced a number of white papers on these issues including Preparing Portfolios for Transformation: Assessing the Prospective Investment Impacts of a Low Carbon Economy Transition.



OTHER DEVELOPMENTS ON REGULATIONS AND CONSULTATION

GENERAL DATA PROTECTION REGULATION

The GDPR introduces more stringent requirements than the existing UK data protection legislation. For example, individuals will need to give clear and affirmative consent for their personal data to be processed and there will be direct compliance obligations for data processors (such as scheme administrators), who will be liable for fines for non-compliance. The GDPR will apply directly to all member states from 25 May 2018.

The LGPC Secretariat circulated a legal opinion from the legal firm Squire Patton Boggs on 20 November 2017 regarding the implications of the EU's GDPR for the LGPS. The legal opinion is available here and includes the following:

- Whether member consent is needed to process the basic administration of the scheme
- Whether administering authorities can hold personal data when there is no remaining liability for an individual
- The legal power for administering authorities to share personal data with AVC providers
- The formal role each party has under GDPR – i.e. data controller, data processor or joint data controller

DATES TO REMEMBER

DATE	ISSUE	THE LATEST
2018?	Tier 3 Employers	Outcome of the Tier 3 employers review
2018?	Academies	Outcome of the academies review
3 January 2018	MiFID II	MiFID II becomes effective from this date.
15 January 2018	Scottish Regulations 2018	Deadline for response to the Consultation
31 January 2018	Tax	Voluntary Scheme Pays Deadline
1 February 2018	Auto-enrolment	The final staging date for employers to enrol workers into a workplace pension. This completes the phased rollout of auto-enrolment.
8 February 2018	Base rate	The Bank of England's Monetary Policy Committee will meet to decide whether or not to change the base interest rate from its current level of 0.5%.
13 March 2018	Spring Budget	Chancellor of the Exchequer Philip Hammond will deliver the 2018 Spring Statement.
31 March 2018	Actuarial Valuation	Deadline for the 2017 Scottish actuarial valuation exercises to have been formally signed off by the Fund actuary.
April 2018	Asset Pooling	LGPS funds must begin transitioning assets to the new investment pools
5 April 2018	Lifetime Allowance	Increase from £1m to £1.03m to match the Consumer Prices Index.
25 May 2018	Data protection	Date by which EU member states must comply with the new General Data Protection Regulation.
13 January 2019	IORP II	Date by which member states must adopt the new EU directive covering occupational pensions
March 2019	Brexit	It is expected that the UK will formally leave the EU by the end of this month.

MEET SOME OF THE TEAM -

THINGS YOU MAYBE DIDN'T KNOW

Name: Megan Fellowes
Role: Actuarial Technician Apprentice
Joined Mercer: April 2016
Place of Birth: Arrowe Park, Wirral
Favourite Film: Too many! All the Transformers/Fast & Furious'/Gladiator
Dream Holiday Destination: New York
Favourite Christmas Present: Earrings
New Year's Resolution: To be more fit and healthy!

Name: Mark Wilson
Role: Actuary, Public Sector Team
Joined Mercer: 2006
Place of Birth: Billinge, Merseyside
Favourite Film: The Bourne Ultimatum, Anchorman, A Few Good Men, Cool Runnings at Christmas!
Dream Holiday Destination: Hawaii but without the travel! It's my dream so can they move it to the North Sea?
Favourite Christmas Present: Individually wrapped bottles of IPA
New Year's Resolution: Trim beard more frequently

Name: Tim Birkett
Role: Covenant Consultant
Joined Mercer: 2010
Place of Birth: Leicester
Favourite Film: Terminator (not sure whether 1 or 2, definitely not 3 or 4 let alone 5)
Dream Holiday Destination: Peru then on to the Galapagos
Favourite Christmas Present: Amazon Firestick – so I can catch up on the Grand Tour
New Year's Resolution: Never to make resolutions – rather to make small lifestyle adjustments which will stick!

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