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REVISED (23 /3/21)

**Resources Department
Town Hall, Upper Street, London, N1 2UD**

AGENDA FOR THE PENSIONS BOARD

Members of the Pensions Board are summoned to attend a meeting which will be held via Zoom on **23 March 2021 at 6.00pm**.

Link to the meeting: <https://weareislington.zoom.us/j/92649905244>

Enquiries to : Mary Green
Telephone : (020) 7527 3005
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Despatched : 15 March 2021

Membership

Employer representatives:

Maggie Elliott (Vice-Chair)
Councillor Richard Watts (Chair)
(1 vacancy)

Scheme member representatives:

Mike Calvert
Valerie Easmon-George(+ vacancy for substitute)
George Sharkey

Independent member

Alan Begg

Quorum is 3, including at least one employer representative and one member representative

A. Formal matters

1. Apologies for absence
1. Declaration of interests

If you have a Disclosable Pecuniary Interest* in an item of business:

- if it is not yet on the council's register, you must declare both the existence and details of it at the start of the meeting or when it becomes apparent;
- you may choose to declare a Disclosable Pecuniary Interest that is already in the register in the interests of openness and transparency.

In both the above cases, you must leave the room without participating in discussion of the item.

If you have a personal interest in an item of business and you intend to speak or vote on the item you must declare both the existence and details of it at the start of the meeting or when it becomes apparent but you may participate in the discussion and vote on the item.

- *(a)** Employment, etc - Any employment, office, trade, profession or vocation carried on for profit or gain.
- (b)** Sponsorship - Any payment or other financial benefit in respect of your expenses in carrying out duties as a member, or of your election; including from a trade union.
- (c)** Contracts - Any current contract for goods, services or works, between you or your partner (or a body in which one of you has a beneficial interest) and the council.
- (d)** Land - Any beneficial interest in land which is within the council's area.
- (e)** Licences- Any licence to occupy land in the council's area for a month or longer.
- (f)** Corporate tenancies - Any tenancy between the council and a body in which you or your partner have a beneficial interest.
- (g)** Securities - Any beneficial interest in securities of a body which has a place of business or land in the council's area, if the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body or of any one class of its issued share capital.

This applies to all members present at the meeting.

3.	Notes of the previous meeting	1 - 4
B.	Non-exempt items	
1.	Pension administration performance	5 - 10
2.	Pension Fund administration cost 3-year forecast and cashflow	11 - 20
3.	Scheme Advisory Board -LGPS good governance review recommendations	21 - 30

C. Urgent non-exempt items

Any non-exempt items which the Chair agrees should be considered urgently by reason of special circumstances. The reasons for urgency will be agreed by the Chair and recorded in the minutes.

D. Exclusion of press and public

To consider whether, in view of the nature of the remaining items on the agenda, any of them are likely to involve the disclosure of exempt or confidential information within the terms of Schedule 12A of the Local Government Act 1972 and, if so, whether to exclude the press and public during discussion thereof.

E. Confidential/exempt items**F. Urgent exempt items**

Any exempt items which the Chair agrees should be considered urgently by reason of special circumstances. The reasons for urgency will be agreed by the Chair and recorded in the minutes.

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Agenda Item A3

London Borough of Islington

Informal Pensions Board - 8 December 2020

Minutes of an informal meeting of the Pensions Board held virtually via Zoom on 8 December 2020 at 6.00 pm.

Present: Maggie Elliott (Vice-Chair) and Councillor Paul Smith (Chair)

Observers: Councillors Paul Convery and Satnam Gill OBE

Note: There being no scheme member representatives present, the meeting was declared inquorate. However, members present decided to proceed to discuss the agenda items on an informal basis and to seek to have their recommendations confirmed at the next meeting of the Board.

Councillor Paul Smith in the Chair

101 APOLOGIES FOR ABSENCE (Item A1)

Received from Alan Begg, Valerie Easmon-George and George Sharkey.

102 DECLARATION OF INTERESTS (Item A2)

None.

103 MINUTES OF THE PREVIOUS MEETING (Item A3)

The members of the Board present noted the following:

(a) Minute 97(f) – that a letter of representation had been sent to MHCLG outlining the Board's concerns that even those staff on a modest salary would be affected by the introduction of the £95k exit payment cap.

(b) Minute 98 – that a letter of representation had been sent to the MHCLG requesting a delay to the implementation of the proposals in the McCloud consultation, from April 2022, in view of the administrative impact on the current work of the Council, especially considering the impacts of Coronavirus.

(c) Minute 99 (e) – that the current risk register, attached as Appendix B to the Forward Plan of business had been updated with agreed actions from the Covid-19 checklist. The register would be submitted to the Board every six months for review.

AGREED to recommend that the minutes of the meeting of the Board held on 15 September 2020 be approved as a correct record.

104 PENSION ADMINISTRATION PERFORMANCE (Item B1)

Members expressed disappointment that there had been no improvement in persons joining the scheme in the period from August to October 2020. Members suggested that an emphasis on the fact that the pensions scheme was a good deal for contributors, with contributions matched by the employer, should be publicised

to staff as part of the campaign to encourage applicants to join the scheme. The Deputy Pensions Manager noted that new Council webpages devoted to the Pension Scheme would be going live in January 2021 and he hoped they would be a useful tool in recruiting new participants.

AGREED to recommend that the following points be noted:

- (a) The number of members auto-enrolled into the Local Government Pension Scheme during the relevant period, as detailed in the report of the Corporate Director of Resources.
- (b) The information in respect of the Internal Dispute Resolution Procedure, compliments and complaints.
- (c) The new working arrangements for the Pensions Office and the impact that Coronavirus was having on Pensions services.
- (d) The initial impact of the public-sector exit payment cap by government on members.

105

DRAFT PENSION FUND ANNUAL REPORT 2019-20 (Item B2)

AGREED to recommend that:

- (a) The draft 2019/20 Annual Pension Fund report, attached as Appendix 1 to the report of the Corporate Director of Finance, be noted.
- (b) The 2019/20 Pension Fund Statement of Account, activities and performance, also as detailed in the report, be noted.

106

INVESTMENT STRATEGY STATEMENT UPDATE (FOR INFORMATION AND CONSULTATION) (Item B3)

Members noted that the report was due to be considered by the Pensions Sub-Committee later that evening and had been submitted to the Board for observations before the Sub-Committee made its decisions.

Members present were generally of the view that the report was satisfactory.

AGREED to recommend that:

- (a) The draft Investment Strategy Statement document, attached as Appendix 1 to the report of the Corporate Director of Resources, be noted.
- (b) The changes specified in paragraph 3.3 of the report to reflect the new strategic asset allocation approved at the September 2020 Pensions Sub-Committee be agreed and that officers be authorised to publish the Statement thereafter.

107

FORWARD PLAN OF BUSINESS (Item B4)

AGREED to recommend that:

- (a) The contents of the report of the Corporate Director of Resources be noted.
- (b) The updated risk register, attached as Appendix B to the report, be noted and that officers be complimented on its production and content.
- (c) The Pension Risk Register be reviewed by the Board every six months.

The meeting ended at 6.30 pm

CHAIR

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Report of: Corporate Director Resources

Meeting of	Date	Agenda Item	Ward(s)
Pension Board	23 rd March 2021		
Delete as appropriate			Non-exempt

SUBJECT: PENSION ADMINISTRATION PERFORMANCE

1. Synopsis

- 1.1 This report provides the Board with information on the administration activities of the Pension Administration. The information is in respect of the period from 1 November 2020 to 31st January 2021 and includes the number of LGPS members auto-enrolled into the scheme for this period.
- 1.2 The report also provides information regarding the Internal Dispute Resolution Procedure, compliments and complaints.

2. Recommendations

- 2.1 To note the number of members' auto-enrolled into the Local Government Pension Scheme during the relevant period.
- 2.2 To note the information in respect of the Internal Dispute Resolution Procedure, compliments and complaints.
- 2.3 To note the impact of the McCloud/Sargeant judgement on Local Government Pension Administration.
- 2.4 To note the revocation of the public-sector exit payment cap by HM Treasury.
- 2.5 To note High Court ruling on equalising past GMP transfers.
- 2.6 To note Government plans to increase the minimum pension age from 55 to 57.

3. Background – Statistics and key performance indicators

- 3.1 The membership profile at 1 November 2020 and 31 January 2021 is shown in the following table.

Category	Oct - 20	Jan - 21
Number of current active members	6,438	6,451
Number of preserved benefits	8,272	8,324
Number of Pensions in payment	6,013	6,131
Number of Spouses/dependants pensions in payment	995	987
Total	21,718	21,893

There have been modest increases in actives, preserved benefits and pensions in payment since the last quarter.

- 3.2 Key performance indicators from 1 November 2020 to 31 January 2021:

Process	Target days to complete	Volume	Target % Achievement	% Achieved within target days	Actual average days
Deaths	5	40	95%	100.00%	5.00
Retirement benefits	5	51	95%	87.00%	7.00
Pension estimates	10	72	95%	83.00%	12.00
Preserved benefit calculations	15	30	95%	77.00%	18.00
Transfer-in quotation	10	35	95%	94.00%	11.00
Transfer-in actual	10	28	95%	100.00%	8.00
Transfer out actual	12.5	32	95%	100.00%	12.00
Transfer out quotation	15	38	95%	98.00%	16.00
Legacy Cases - Valuation	=		=	=	=
All processes	=	439		81.00%	

- 3.3 There has been a marginal drop of 3% in overall performance from the 84.00% achieved in the last quarter in completed processes within the target days. This is largely due to the Christmas holiday period, resourcing gaps which we hope to fill in the next quarter and an increase of approximately 1.5% in total cases.

- 3.4 Number of members auto-enrolled into the LGPS from November 2020 to January 2021:

Month	Starters No.	Opt Outs	Opt Outs %
November	47	3	6.4
December	34	1	2.9
January	46	0	0
Total	127	4	3.1

- 3.5 The Pensions Office have received 3 communications thanking Pension Administration staff for their service and 1 complaint in relation to claiming ill-health retirement benefits during this period.

3.6 There are no Internal Disputes to report.

4. Impact of McCloud/Sargeant Judgment

- 4.1 In July of last year the MHCLG published their consultation on removing age discrimination within the Local Government Pension Scheme (LGPS) in response to McCloud/Sargeant judgement.
- 4.2 The Court of Appeal in December 2018 found in the McCloud and Sargeant cases, unlawful age discrimination in transitional protection arrangements. This was in relation to the Judicial and Firefighters' Pension Schemes when they moved from a final salary scheme to a care scheme. This ruling applied to all public service pension schemes. In relation to the LGPS, the age discrimination operates in the different treatment that exists between two groups of LGPS members:

Group 1 were members in service on 31st March 2012 and were within ten years of Normal Pension Age (NPA) on 1st April 2012, therefore benefiting from underpin protection and 'better off' than Group 2.

Group 2 were members in service on 31st March 2012 and were more than ten years from NPA, were not eligible for underpin protection and therefore 'worse off' than the protected members (as they were not guaranteed a pension of at least the level they would have received in the final salary scheme).

- 4.3 The remedies MHCLG proposes are extending the underpin to younger scheme members. Both groups will be given underpin protection from 1st April 2014 to 31st March 2022 (or to the members' underpin date, where this is earlier). And the introduction of revised regulations which will apply retrospectively to 1st April 2014.
- 4.4 The additional work that will be required is immense as it will involve the revisiting of transfer payments, recalculating deferred pensions, pensions in payment and death benefits. There will be an absolute need for additional resources for the Pensions Office.

It is also going to be challenging for all our small employers to provide the relevant data required to calculate the underpin for eligible members. There will be a need to consult with the Council's actuary on the types of assumptions to be made on incomplete data extracts if we do not receive clear guidance from MHCLG.

The Pensions Board will receive in June an estimate of the scope of this exercise in terms of the number of transfers, actives, deferreds, pensioners and death benefits that will be the subject of this retrospective review.

5. Revocation of the Public Sector Exit Payments Cap

- 5.1 On the 12th February the government announced via HM Treasury the revocation of the Public Sector Exit Payment Cap, sighting their concern for the unintended consequences of the legislation. The government is still looking at the issue of capping exit payments and HM Treasury will be consulting on new proposals at some future date. All employees who were affected by the cap have been contacted and any reduction to their benefits will be paid as appropriate.

6. Defined Benefit schemes must equalise past GMP transfers

- 6.1 On the 20th November 2020, the High Court ruled that pension schemes must equalise a member's guaranteed minimum pension (GMP) benefits at the time of calculating a cash equivalent transfer value (CETV). MHCLG has confirmed that GAD will issue guidance on the impact of the ruling for public service pension schemes. What this may mean is that the Pension Fund will need to revisit transfers processed since 1990 to assess if any additional value is due resulting from GMP equalisation.

7. NMPA is set to increase from age 55 to 57

- 7.1 The normal minimum pension age (NMPA) is the age at which most members of registered pension schemes can draw down on their pensions without incurring a tax charge for unauthorised payments. The government has recently published a consultation on the implementation of increasing the minimum pension age from 55 to 57. The Government's rationale for this increase is the rise in life expectancy. The Government has embedded certain protections within these proposals to protect the existing scheme's rights of members of any registered pension scheme. What this means in effect is that a member who has a right under the LGPS scheme rules at the date of consultation to access their retirement benefits at age 55 will be protected and no age increase will apply. It should be noted that the proposed date for implementation is not until 2028 and a new Government may decide to do things differently. The Pensions Office will however communicate the Government's intention to its member in guidance notes provided with the annual pension statements this year.

8. Implications

8.1 Financial Implications

8.1.1 The cost of administering the LGPS is chargeable to the Pension Fund.

8.2 Legal Implications

8.2.1 There are no specific legal implications in this report.

8.3 Resident impact assessment

8.3.1 The council must, in the exercise of its functions, have due regard to the need to eliminate discrimination, harassment and victimisation, and to advance equality of opportunity, and foster good relations, between those who share a relevant protected characteristic and those who do not share it (section 149 Equality Act 2010). The council has a duty to have due regard to the need to remove or minimise disadvantages, take steps to meet needs, in particular steps to take account of disabled persons' disabilities, and encourage people to participate in public life. The council must have due regard to the need to tackle prejudice and promote understanding.

8.3.2 In respect of this report, a Resident Impact Assessment is not being made because the contents of the report relate to processes that are strictly in accordance with the statutory Local Government Pension Scheme Regulations. The LGPS Regulations are made under the Superannuation Act 1972, and the Council has a statutory duty to comply with the LGPS Regulations.

8.4 Environmental Implications and contribution to achieving a net zero carbon Islington by 2030:

None applicable to this report. Environmental implications will be included in each report to the Pension Board Committee as necessary. The current agreed investment strategy statement for pensions outlines the policies and targets set to April 2022 to reduce the current and future carbon exposure by 50% and 75% respectively compared to when it was measured in 2016 and also invest 15% of the fund in green opportunities. The link to the full document is <https://www.islington.gov.uk/~media/sharepoint-lists/public-records/finance/financialmanagement/adviceandinformation/20192020/20190910londonboroughofislingtonpensionfundinvestmentstrategystatement.pdf>

9 Conclusion and reasons for recommendations

- 9.1 The report will be made to each meeting of the Pension Board and is provided in order to assess administration performance and dispute resolution. Members are to note resource implications of McCloud and the changes in regulation for the 95k cap, GMP and the consultation to increase the minimum age to 57.

Background papers:

None.

Final report clearance:

Signed by:



Corporate Director of Resources

Date 15 March 2021

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Report of: Corporate Director of Resources

Meeting of:	Date	Agenda item	Ward(s)
Pension Board	23 rd March 2021		n/a

Delete as appropriate		Non-exempt
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SUBJECT: PENSION FUND ADMINISTRATION COST 3-YEAR FORECAST AND CASHFLOW

1. Synopsis

- 1.1 This report is for the local pension board to review the Funds administration cost's 3 year forecast and annual cash flow, as part of its work programme objective to make recommendations on statutory and non-statutory policies and strategies.

2. Recommendation

- 2.1 To review the cash flow and forecast of administration cost attached as Appendix 1 and Appendix 1A.

3. Background

- 3.1 The Public Services Pensions Act 2013 requires the establishment of local pension boards for each Local Government Pension Fund. Each administering authority must establish a pensions board no later than 1 April 2015.
- 3.2 Local Government Pension Scheme (Amendment) Governance Regulations 2014 (the Governance Regulations) provide that Pensions Board will have responsibility for assisting the 'scheme manager' (the Pensions Sub Committee in Islington's case) in relation to the following matters:

To ensure compliance with:

- the Local Government Pension Scheme Regulation (LGPS),
- other legislation relating to the governance and administration of the LGPS, and
- the requirements imposed by the Pensions Regulator in relation to the LGPS to ensure the effective and efficient governance and administration of the scheme.

3.3 The Pensions Sub -committee is the decision making body of the Fund and the Pension board can only advise or make recommendations to the Pensions -Sub Committee

The Pension Board should therefore be mindful;

- Its work plan should take account of the Fund's own work programme and seek to add value
- Servicing the Pension board will consume Fund management resources and time
- Senior Fund officers servicing the pension Board may on some fund performance issues be personally compromised and conflicted
- Some work items required may need the use of specialist external consultancy resources rather than using the officers servicing the Fund.

The 3 year Forecast of Pension Fund Admin Cost and Annual Cashflow

3.4 A 3 year forecast for pension administration cost including investment management has been prepared based on actuals to month ten in 2020/21. As planned, the Council prepaid its 3 year deficit lump sum of £27m in April 2020. The fund is forecasted to remain in net negative cashflow position and will have to call on investment income to meet expenditure in the region of £18m a year.

3.5 The 2021/22 cashflow plots the monthly income and expenditure expected and best use of surplus cash to minimize cost and investment capital. This is a monitoring tool to avoid disinvestment and for future investment strategies to generate enough investment income to meet future cashflow requirements.

3.6 Members are asked to review the cashflow and budget forecast.

4. Implications

4.1 Financial implications

Any cost associated with the governance of the fund will be treated as administration cost and charged to the Fund.

4.2 Legal Implications

The Public Services Pensions Act 2013 requires the council to establish a local pension boards by 1 April 2015. The board must comply with the requirements of the relevant Legislation.

4.3 Environmental Implications and contribution to achieving a net zero carbon Islington by 2030:

Environmental implications will be included in each report to the Pensions-sub committee as necessary. The current agreed investment strategy statement for pensions outlines the policies and targets set to April 2022 to reduce the current and future carbon exposure by 50% and 75% respectively compared to when it was measured in 2016 and also invest 15% of the fund in green opportunities. The link to the full document is:

<https://www.islington.gov.uk/~media/sharepoint-lists/public-records/finance/financialmanagement/adviceandinformation/20192020/20190910londonboroughhofislingtonpensionfundinvestmentstrategystatement.pdf>

4.4 Resident Impact Assessment

None applicable to this report. The council must, in the exercise of its functions, have due regard to the need to eliminate discrimination, harassment and victimisation, and to advance equality of opportunity, and foster good relations, between those who share a relevant protected characteristic and those who do not share it (section 149 Equality Act 2010). The council has a duty to have due regard to the need to remove or minimise disadvantages, take steps to meet needs, in particular steps to take account of disabled persons' disabilities, and encourage people to participate in public life. The council must have due regard to the need to tackle prejudice and promote understanding.

5. Conclusion and reasons for recommendation

- 5.1 Members are asked to note and review 2021/22 cashflow forecast and 3 year budget of administration cost for the period covering 2021/22 to 2023/24 for as per their agreed work plan.

Background papers:

Islington pension board's terms of reference

Final report clearance:

Signed by:



Corporate Director of Resources

Date 15 March 2021

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Appendix 1-3year forecast

	Revised 2020/21	Budget 2021/22	Budget 2022/23	Budget 2023/24
	£'000	£'000	£'000	£'000
Contributions receivable				
Contributions	42,050	42,500	44,000	45,000
Deficit recovery contributions	28,000	978	993	29,000
Transfers in from other pension funds	5,200	5,000	5,000	5,000
Other Income *	3,600	3,800	3,800	3,800
Total Income	78,850	52,278	53,793	82,800
Benefits payable				
Pensions (Monthly Payroll)**	(57,000)	(58,000)	(60,000)	(63,000)
Lump sum benefits	(4,100)	(5,000)	(5,000)	(5,000)
Payment to and on account of leavers	(8,200)	(6,000)	(6,500)	(6,500)
Fees (Admin/Oversight /Investment)	(3,500)	(3,500)	(3,500)	(3,500)
Total Expenditure	(72,800)	(72,500)	(75,000)	(78,000)
Net additions/ (withdrawals)	6,050	(20,222)	(21,207)	4,800
Investment income	17,000	18,500	18,500	18,500
In-year (deficit)/ surplus	23,050	(1,722)	(2,707)	23,300

Notes

* Other income is comprised of LBI & HMRC recharges

** Gross payroll

Appendix 1A

Pension Fund Cashflow-2021-2022

	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Total
Inflow	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22		
Contributions	27,300,000	1,400,000	1,400,000	1,400,000	1,400,000	1,400,000	1,400,000	1,400,000	1,400,000	1,400,000	1,400,000	1,500,000	42,800,000	
Transfer in	500,000	300,000	420,000	420,000	420,000	420,000	420,000	420,000	420,000	420,000	420,000	420,000	5,000,000	
Lumpsum		398,000								0	600,000	998,000		
Recharges	320,000	310,000	320,000	310,000	320,000	310,000	320,000	310,000	320,000	320,000	320,000	320,000	3,800,000	
Investment income								4,000,000	4,500,000	3,000,000	4,000,000	3,000,000	18,500,000	
Total inflow	28,120,000	2,010,000	2,538,000	2,130,000	2,140,000	2,130,000	2,140,000	6,130,000	6,640,000	5,140,000	6,140,000	5,840,000	71,098,000	
Outflow	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Jan-00	
Image Cheques	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	60,000	
Monthly payroll	4,300,000	4,300,000	4,300,000	4,300,000	4,300,000	4,300,000	4,300,000	4,300,000	4,300,000	4,300,000	4,300,000	4,300,000	51,600,000	
Benefits paid	400,000	400,000	400,000	400,000	600,000	400,000	400,000	250,000	700,000	250,000	500,000	300,000	5,000,000	
Transfer out	100,000	400,000	500,000	100,000	600,000	400,000	1,600,000	700,000	800,000	100,000	400,000	300,000	6,000,000	
Islington Council	1,300,000												1,300,000	
HMRC	520,000	520,000	520,000	520,000	520,000	520,000	520,000	540,000	540,000	540,000	540,000	540,000	6,340,000	
Bank charges/fees	150,000	400,000	50,000	400,000	40,000	40,000	200,000	150,000	20,000	200,000	250,000	300,000	2,200,000	
Total outflow	6,775,000	6,025,000	5,775,000	5,725,000	6,065,000	5,665,000	7,025,000	5,945,000	6,365,000	5,395,000	5,995,000	5,745,000	72,500,000	
Movement Summary	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Total	
Net in/outflow	21,345,000	-4,015,000	-3,237,000	-3,595,000	-3,925,000	-3,535,000	-4,885,000	185,000	275,000	-255,000	145,000	95,000		
Opening balance	2,500,000	23,845,000	19,830,000	16,593,000	12,998,000	9,073,000	5,538,000	653,000	838,000	1,113,000	858,000	1,003,000	1,098,000	
Closing balance	23,845,000	19,830,000	16,593,000	12,998,000	9,073,000	5,538,000	653,000	838,000	1,113,000	858,000	1,003,000	1,098,000		

Note:

This cashflow is updated on a monthly basis, however the bank accounts are monitored daily.

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Report of: Corporate Director of Resources

Meeting of:	Date	Agenda item	Ward(s)
Pensions Board	23 rd March 2021		n/a

Delete as appropriate		Non-exempt
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SUBJECT: SCHEME ADVISORY BOARD(SAB) -LGPS GOOD GOVERNANCE REVIEW RECOMMENDATIONS

1. Synopsis

- 1.1 This is an information report to update Members on the Good Governance Review published by the Scheme Advisory Board (SAB), which builds on the phase I and phase II reports published in 2019. The SAB Chair has now written to MHCLG to ask them to implement the recommendations either via revised guidance or regulations. Alongside this SAB have put forward an action plan to support best practice governance building on the recommendations of the review.

2. Recommendations

- 2.1 To note the final report published by the SAB via link
[Good Governance Final Report February 2021.pdf \(lgpsboard.org\)](https://lgpsboard.org/Good_Governance_Final_Report_February_2021.pdf)
- 2.2 To note the action plan also prepared by SAB and sent to MHCLG to support best practice governance building on the recommendations of the review (attached as Appendix 1).
- 2.3 To agree to receive a further report in September to consider some of the recommendations and its implementation for our Fund.

3. Background

- 3.1 The Scheme Advisory Board accepted the proposals in the Good Governance report Phase 2, on 3 February 2020 after phase 1 reports were published in 2019 and requested that the

project team and working groups provide further detail on the implementation of these proposals. The final report was published by the SAB in February 2021. The SAB Chair has now written to MHCLG to ask them to implement the recommendations either via revised guidance or regulations. Alongside this, SAB have put forward an action plan to support best practice governance building on the recommendations of the review attached as Appendix 1. The action plan consists of formal requests from the SAB to MHCLG and other bodies to implement the recommendations from the project together with actions for the SAB which are either dependant on or regardless of the outcome of those requests.

- 3.2 The main proposals and recommendations cover; general guidance, conflict of interest, representation, knowledge and understanding, service delivery of LGPS function and compliance and improvement. The full report is available on SAB website; [Good Governance Final Report February 2021.pdf \(lgpsboard.org\)](https://lgpsboard.org/Good_Governance_Final_Report_February_2021.pdf)
- 3.3 Members are asked to consider the final report and the action plan attached as Appendix 1 and receive a further report on the implementation of the recommendations.

4. Implications

4.1 Financial implications

None applicable to this report.

4.2 Legal Implications

None applicable to this report.

4.3 Environmental Implications and contribution to achieving a net zero carbon Islington by 2030:

None applicable to this report. Environmental implications will be included in each report to the Pension Board Committee as necessary. The current agreed investment strategy statement for pensions outlines the policies and targets set to April 2022 to reduce the current and future carbon exposure by 50% and 75% respectively compared to when it was measured in 2016 and also invest 15% of the fund in green opportunities. The link to the full document is <https://www.islington.gov.uk/~media/sharepoint-lists/public-records/finance/financialmanagement/adviceandinformation/20192020/20190910londonboroughofislingtonpensionfundinvestmentstrategystatement.pdf>

4.4 Resident Impact Assessment:

The Council must, in carrying out its functions, have due regard to the need to eliminate unlawful discrimination and harassment and to promote equality of opportunity in relation to disability, race and gender and the need to take steps to take account of disabilities, even where that involves treating the disabled more favourably than others (section 49A Disability Discrimination Act 1995; section 71 Race Relations Act 1976; section 76A Sex Discrimination Act 1975."

- 4.4.1 An equalities impact assessment has not been conducted because this report is seeking opinions on a government policy document and therefore no specific equality implications arising from this report.

5. Conclusion and reasons for recommendations

- 5.1 Members are asked to note the final report published by the SAB and the action plan sent to MHCLG.

Background papers:

None

Final report clearance:

Signed by:



Corporate Director of Resources

Date 15 March 2021

Received by:

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Scheme Advisory Board

ANNEX to letter from SAB Chair to Luke Hall MP 11.2.2021

Action Plan (extract from Board report of 8 February 2021)

The action plan consists of formal requests from the SAB to MHCLG and other bodies to implement the recommendations from the project together with actions for the SAB which are either dependant on or regardless of the outcome of those requests.

- Column 1 of the grid below sets out the recommendations listed in the final report from Hymans Robertson.
- **Column 2 shows the actions proposed for MHCLG either by way of regulation or statutory guidance.**
- Column 3 shows any associated work that would need to be undertaken by bodies other than MHCLG or SAB
- Column 4 shows work that would need to be undertaken by SAB dependant on MHCLG guidance/work by other bodies being completed and;
- Column 5 shows actions that SAB can undertake to further improve scheme governance and administration immediately, regardless of the actions of MHCLG and other bodies.

Recommendation	MHCLG	Other bodies	SAB Dependant Actions	SAB Immediate Actions
A.1 MHCLG will produce statutory guidance to establish new governance requirements for funds to effectively implement the proposals below. (“the Guidance”).	Publish statutory guidance (SG) to include requirements set out below using either reg 2(3A) powers or a new regulation in section 3			

Scheme Advisory Board Secretariat

18 Smith Square, London SW1P 3HZ

The Board secretariat is provided by the Local Government Association

Recommendation	MHCLG	Other bodies	SAB Dependant Actions	SAB Immediate Actions
A.2 Each administering authority must have a single named officer who is responsible for the delivery of all LGPS related activity for that fund (“the LGPS senior officer”).	Set requirement in scheme regulations	CIPFA to refer to the role in their guides	Publish a guide to the named officer role	Letter to CIPFA confirming SAB’s recommendation to Minister
A.3 Each administering authority must publish an annual governance compliance statement (GCS) that sets out how they comply with the governance requirements for LGPS funds, as per statutory Guidance. This statement must be co-signed by the LGPS senior officer and S151.	Set requirement in scheme regulations and publish high level statutory guidance		Publish a guide to GCS, including best practice examples	
B.1 Each fund must produce and publish a conflicts of interest policy which includes details of how actual, potential and perceived conflicts are addressed within the governance of the fund, with specific reference to key conflicts identified in the Guidance.	Set requirement in statutory guidance at A.1		Publish a guide to Col policies, including best practice examples	Survey AAs to identify extent of conflict of interest policies already in existence

Recommendation	MHCLG	Other bodies	SAB Dependant Actions	SAB Immediate Actions
B.2 The Guidance should refer all those involved in the management of the LGPS, and in particular those on decision making committees, to the guide on statutory and fiduciary duty which will be produced by the SAB	Request that MHCLG clarify Fiduciary Duty in statutory guidance at A.1	CIPFA to make reference in their Knowledge and Understanding framework	Publish guide on statutory and fiduciary duty based on A1 guidance and further legal advice	Seek further legal advice in co-ordination with Administering Authorities and recommend any further action in this area
C.1 Each fund must produce and publish a policy on the representation of scheme members and non-administering authority employers on its committees, explaining its approach to voting rights for each party.	Set requirement in statutory guidance at A.1		Publish a guide to representation based on requirements of SG	Survey AA's for analysis of current representation
D.1 Introduce a requirement via the Guidance for key individuals within the LGPS, including LGPS officers and pensions committees, to have the appropriate level of knowledge and understanding to carry out their duties effectively.	Set requirement in statutory guidance at A.1	CIPFA to make reference in their Knowledge and Understanding framework	Publish a guide to relevant training including suppliers	Investigate existing training in this area and publish results

Recommendation	MHCLG	Other bodies	SAB Dependant Actions	SAB Immediate Actions
D.2 Introduce a requirement for s151 officers to carry out LGPS relevant training as part of CPD requirements to ensure good levels of knowledge and understanding.	Set requirement in statutory guidance at A.1	CIPFA to make reference in their Knowledge and Understanding framework	Publish a guide to relevant training including suppliers	
D.3 Administering authorities must publish a policy setting out their approach to the delivery, assessment and recording of training plans to meet these requirements.	Set requirement in statutory guidance at A.1		Publish a guide to training plans	Survey AA's for existing training plans and publish for best practice
D.4 CIPFA should be asked to produce appropriate guidance and training modules for s151 officers.		CIPFA to produce appropriate guidance and training		Letter to CIPFA setting out request
E.1 Each administering authority must document key roles and responsibilities relating to the LGPS and publish a roles and responsibilities matrix setting out how key decisions are reached. The	Set requirement in statutory guidance at A.1		Publish a Guide to Roles and Responsibilities Matrix	Survey and publish existing delegation arrangements in AA's

Recommendation	MHCLG	Other bodies	SAB Dependant Actions	SAB Immediate Actions
matrix should reflect the host authority's scheme of delegation and constitution, and be consistent with role descriptions and business processes.				
E.2 Each administering authority must publish an administration strategy.	Set requirement in scheme regulations		Publish a guide to administration Strategy	Obtain and publish examples of existing PSAs
E.3 Each administering authority must report the fund's performance against an agreed set of indicators designed to measure standards of service	Set requirement in scheme regulations or SG	CIPFA to include in AR&A guidance		
E.4 Each administering authority must ensure their committee is included in the business planning process. Both the committee and LGPS senior officer must be satisfied with the resource and budget allocated to deliver the LGPS service over the next financial year.	Set requirement in statutory guidance at A.1	CIPFA to publish appropriate guidance		Investigate and publish current arrangements for agreeing pensions budget

Recommendation	MHCLG	Other bodies	SAB Dependant Actions	SAB Immediate Actions
F.1 Each administering authority must undergo a biennial Independent Governance Review and, if applicable, produce the required improvement plan to address any issues identified. IGR reports to be assessed by a SAB panel of experts.	Set requirement in scheme regulations, and include in high level statutory guidance		Establish panel of experts to review biennial governance reviews	Investigate the work of any similar bodies and consider potential structure and membership
F.2 LGA to consider establishing a peer review process for LGPS Funds.		LGA to consider proposal		Letter to LGA setting out request

Report of: Corporate Director of Resources

Meeting of:	Date	Agenda item	Ward(s)
Pensions Board	23 rd March 2021		n/a
Delete as appropriate	Exempt	Non-Exempt	

SUBJECT: PENSIONS BOARD 2021/22– FORWARD WORK PLAN

1. Synopsis

1.1 The Appendix A to this report provides information for Members of the Board on agenda items for forthcoming meetings and training topics where required as per its work programme objectives.

2. Recommendations

2.1 To consider and note Appendix A attached and amend the forward plan where there is change in priorities

2.2 To note for information LGPS Current Issues January attached as Appendix B

3. Background

3.1 The Public Services Pensions Act 2013 requires the establishment of local pension boards for each Local Government Pension Fund. Each administering authority must establish a pensions board no later than 1 April 2015.

3.2 Local Government Pension Scheme (Amendment) Governance Regulations 2014 (the Governance Regulations) provide that Pensions Board will have responsibility for assisting the 'scheme manager' (the Pensions Sub Committee in Islington's case) in relation to the following matters:

To ensure compliance with:

- the Local Government Pension Scheme Regulation (LGPS),
- other legislation relating to the governance and administration of the LGPS, and

- the requirements imposed by the Pensions Regulator in relation to the LGPS to ensure the effective and efficient governance and administration of the scheme.

3.3 The Pensions Sub- committee is the decision making body of the Fund and the Pension board can only advise or make recommendations to the Pensions -Sub Committee
The Pension Board should therefore be mindful;

- Its work plan should take account of the Fund's own work programme and seek to add value
- Servicing the Pension board will consume Fund management resources and time
- Senior Fund officers servicing the pension Board may on some fund performance issues be personally compromised and conflicted
- Some work items required may need the use of specialist external consultancy resources rather than using the officers servicing the Fund.

3.4 Based on the LGPS and The Pension Regulator's guidance on the role of the pension boards, the focus should include the following:

- a) Its own training, knowledge and understanding
- b) Avoiding any conflicts of interest
- c) Ensuring its own statutory compliance
- d) Checking fund governance
- e) Reviewing fund risks and internal systems and controls
- f) Checking fund external advisors/service providers and their internal controls
- g) Reviewing fund member record keeping
- h) Checking fund contributions
- i) Reviewing fund administration
- j) Benchmarking fund performance and Value for Money (VFM)
- k) Fraud prevention
- l) Employer and member communications
- m) Complaints and dispute resolution
- n) Reporting regulatory breaches

3.5 The Pension Board must also consider its Annual Report and the review of Pension Fund's draft Annual Report and audited accounts and triennial actuarial review.

3.6 Members agreed a work programme at the March meeting and this will be reviewed annually for progress and amendment if required. The objectives are as follows:

- To ensure accurate record keeping, data quality and improvements
- To ensure Governance Compliance Statement sets out delegation, function and structure
- To ensure Fund has the appropriate policies in place to safeguard the Fund's assets through appropriate methods of risk management
- To ensure members have the necessary skills knowledge and understanding
- The General Data Protection Regulation (GDPR) is upheld
- To ensure the effective and efficient governance and administration of the Scheme
- That the Pension board are able to make recommendations on Statutory and non-statutory policies and strategies
- Self-Assessment review of the effectiveness of the Board

- 3.7 Members need to consider their priorities for the next 12months and use that to formulate their agenda for forthcoming meetings. The draft plan attached as Appendix A is a guide for members to discuss and amend. It will be updated as necessary at each meeting, to reflect any changes in administration policy, new regulation and pension fund priorities after discussions with Members.

4. Implications

Financial implications

- 4.1 Any cost associated with the governance of the fund will be treated as administration cost and charged to the Fund.

Legal Implications

The Public Services Pensions Act 2013 requires the council to establish a local pension boards by 1 April 2015. The board must comply with the requirements of the relevant Legislation.

4.3 Environmental Implications and contribution to achieving a net zero carbon Islington by 2030:

None applicable to this report. Environmental implications will be included in each report to the Pension Board Committee as necessary. The current agreed investment strategy statement for pensions outlines the policies and targets set to April 2022 to reduce the current and future carbon exposure by 50% and 75% respectively compared to when it was measured in 2016 and also invest 15% of the fund in green opportunities. The link to the full document is <https://www.islington.gov.uk/~media/sharepoint-lists/public-records/finance/financialmanagement/adviceandinformation/20192020/20190910londonboroughofislingtonpensionfundinvestmentstrategystatement.pdf>.

4.4 Resident Impact Assessment

None applicable to this report. The council must, in the exercise of its functions, have due regard to the need to eliminate discrimination, harassment and victimisation, and to advance equality of opportunity, and foster good relations, between those who share a relevant protected characteristic and those who do not share it (section 149 Equality Act 2010). The council has a duty to have due regard to the need to remove or minimise disadvantages, take steps to meet needs, in particular steps to take account of disabled persons' disabilities, and encourage people to participate in public life. The council must have due regard to the need to tackle prejudice and promote understanding.

- 4.4.1 An equalities impact assessment has not been conducted because this report is seeking opinions on a policy document and therefore no specific equality implications arising from this report.

5 Conclusion and reasons for recommendations

- 5.1 To advise Members of forthcoming items of business to the Pension Board and training topics.

Background papers:

None:

Final report clearance:

Signed by:



Corporate Director of Resources

Date 15 March 2021

Report Author: Joana Marfoh

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APPENDIX A
Pensions Board Forward Plan for March 2021 to March 2022

Date of meeting	Work programme objective	Reports
	To ensure the effective and efficient governance and administration of the Scheme	<p><u>Please note:</u> there will be a standing item to each meeting on:</p> <ul style="list-style-type: none"> • Admin Performance report • Forward work plan
23 rd March 2021		Cashflow monitoring and Budget 21/22 Governance Review update
June 2021		Risk Register Draft year end accounts
September 2021		Draft Annual Report Pension discretion policies review Governance Review Implementation
October 2021	Annual pension meeting	
November 2021		Risk Register McCloud implementation plan
March 2022		Cashflow monitoring and Budget 22/23

Planned and Proposed Training on committee meeting dates

November 2018- pension sub cttee meeting	Training Actuarial Review update
September 2019 joint pension sub and board training	Funding strategy and actuarial valuation
February 2021- joint pension sub and board training	Net zero carbon transition training

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LGPS CURRENT ISSUES

JANUARY 2021



welcome to
brighter

In this edition

Happy New Year! We hope you had a rest over Christmas and enjoyed a break, despite the pressures of the various lockdown measures at the time.

For 2021 so far, it is not so much “out with the old, in with the new” - but more a case of development of the key themes we saw last year with a few new twists as things unfold. We hope this edition of Mercer Current Issues finds you safe and well in these challenging circumstances. This issue provides an update on developments over recent months.

COVID-19 – Ongoing considerations 3 - 4

We have seen the various lockdown measures intensify throughout the UK. This edition provides an update on what this means for pensions and wider economic outlook.

Regulatory round up – where are we now? 5 - 8

- McCloud Update
- Employer contribution flexibilities
- 95k cap and the MHCLG consultation on the reforms on redundancy payments

And in other news... 9 - 12

- RPI Reform
- Brexit
- CMI_2020 Mortality Projections
- The Pension Schemes Bill
- GMP Equalisation
- Pension Scams

Dates to remember 13

Meet the team & contact details 14 - 15



COVID-19

A new year, a new lockdown but 3 new vaccines

At the time of writing, all parts of the UK are experiencing a tightening in lockdown restrictions over the short-term. With this we see continued pressure on employers, the wider economic outlook and of course every individual in relation to their physical, mental and financial wellbeing. First and foremost, we therefore hope this edition of Current Issues finds you safe and well.

In addition to the challenges of new strains and increased lockdown measures, saw a new hope with the advent of an increasing number of vaccines licensed for use in the UK and the implementation of the vaccination programme. In anticipation of the licensing of the vaccines we also saw a climb in growth assets towards the end of last year as the markets began to anticipate and price in the good news.

Notwithstanding the positive reaction from investment markets, the economic outlook remains challenging and this is likely to put pressure on future investment returns on Fund assets and to the extent the returns are not achieved in the future, on employer contributions. This comes at a time where some employers will be facing significant financial challenges as the extended Furlough arrangements unwind.

Ongoing monitoring of funding and covenant for “at risk” employers therefore continues to be a fundamental part of a robust risk management framework. The effects of Covid-19 potentially places more employers into the “at risk” group. Our PFaroe tool is available to provide you with easy access to daily funding information at your fingertips. We recommend a proportionate approach to monitoring however, as we recognise that budgets will be challenging. Therefore it will be important to target spend where the quantum of risk exposure is greatest. Your usual Mercer consultant will be well placed to guide you on what this means for your Fund.

THE CONTINUING IMPACT OF THE COVID-19 OUTBREAK

Extension of the furlough scheme

Due to the new lockdown in England, the Chancellor has extended the furlough scheme until 30 April 2021.

The Chancellor also announced that business in the hospitality, leisure and retail sectors are to receive a one-off grant worth up to £9,000 to support businesses and protect jobs.



Interim Reviews

Given the increased financial pressures likely to be faced by many employers, funds should plan ahead for the 2022 valuation with a view to being able to provide an early warning to employers where there is a potential for contributions to increase.

An interim check on funding and strategy can help funds to provide a more informed picture to employers of the likely direction of travel for the next valuation. This is an area on which we are supporting funds along with probabilistic analysis of the potential range of funding outcomes and risk.

Please get in touch with your usual Mercer consultant if this is something you would like to consider further.

The Pensions Regulator's updated COVID-19 guidance

A review of TPR's COVID-19 related easements was due in September 2020, and TPR announced updates to its COVID-19 guidance on 16 September.

In its updated guidance, TPR notes that the Code sets out other specified circumstances, for example fraud or persistent process failures, in which late contributions would be viewed as material and should be reported to TPR; funds are still expected to report such cases as soon as possible, regardless of the 90 or 150 day timeframe.



Regulatory round up

THE MCCLOUD REMEDY

As you will be aware, on 16 July MHCLG released the much anticipated consultation on the McCloud remedy for the LGPS in England and Wales ([here](#)). This article provides a high level summary of recent developments.

To recap, the Court of Appeal's ruling in December 2018 confirmed that the transitional protections provided for members of the Judges' and Firefighters' pension schemes when the public sector pension reforms were implemented in 2014 and 2015, were age discriminatory. This was because eligibility for these protections was based on an age criterion. Similarly, age-restricted transitional protections were also provided across the other public service pension schemes and last year the government announced that it would seek to remedy the position, including for the LGPS. In the LGPS the protections took the form of a final salary underpin to the new CARE benefit structure implemented in 2014.

- In October 2020, SAB published its response ([here](#)) to the consultation on the McCloud remedy for the LGPS.
- The Government Actuary's Department ("GAD") have worked with the Northern Ireland Department of Justice by developing its response to the McCloud judgment, and provided wider pensions consultancy advice.
- Further clarity on the timing for the final MHCLG regulations is expected shortly. Statutory guidance is expected to be provided alongside the regulations, to cover issues such as Fund priorities in implementing the remedy.



HM Treasury directions regarding the **2016 COST CAP MECHANISM** are now anticipated for early spring 2021. As reported in previous Current Issues, this will **include** the cost of the McCloud remedy in the assessment of the impact on member benefits.

CONTRIBUTION FLEXIBILITIES

Amending regulations came into force with effect from 23 September 2020 which provide the ability for Administrating Authorities to review Employer contributions between valuations under defined circumstances. In addition these regulations introduced a new "deferred" employer status for Employers who have entered into a formal agreement (a "Deferred Debt Agreement") with the Administering Authority and formalised the ability to spread a termination payment over a short period after they have formally exited the Fund.

There are a number of requirements to be adhered to before a Fund can carry out an interim contribution review or offer flexibility to an employer approaching termination. One of these is

that the Fund must have set out its policy on its approach within the Funding Strategy Statement.

MHCLG has prepared statutory guidance to funds on the expected content of the policy and this is expected to be published very shortly. In addition, SAB has prepared a more general Q&A style guide to employers and administering authorities regarding operating the flexibilities in practice. The guide is expected to be finalised shortly and issued alongside the statutory guidance.

Central to the policy in both instances will be the assessment and monitoring of employer covenant, which will be key to the decision making process. Monitoring of the funding position will also be very important including consideration of an employer's termination liabilities and how this exposure changes relative to the underlying employer covenant.

Where Mercer is your Fund Actuary, we will be in touch shortly to provide support on the formulation of the Fund's policy, although this has already commenced for many funds.



£95K CAP UPDATE

Dovetailing with Halloween and a Full Moon, funds will be all too aware that in autumn last year the proposed HMT Restriction on Exit Payment Regulations, which would introduce the £95K exit cap, were accelerated and came into force on 4 November 2020. Crucially, however, changes to the LGPS regulations required in order to operate the HMT exit cap regulations, have not yet been made. This created a conflict in respect of members over age 55 who breached the £95K exit cap on redundancy because:

- The prevailing LGPS regulations require funds to pay members a full unreduced pension;
- The newly introduced HMT Restriction on Exit Payment Regulations prevent an employer from paying a benefit package on redundancy that exceeds £95K, including in England and Wales, the pension strain cost of the unreduced pension.

SO WHERE ARE WE NOW?

- **SAB, MHCLG and HMT information and guidance** for funds and Employers has been issued ([SAB updates](#), [MHCLG letter](#), [MHCLG Guide](#), [HMT Guidance](#)). This provides guidance on a low risk approach to navigating the current conflicting regulations, until the new LGPS regulations are in force. From a Fund perspective this involves not putting the unreduced pension into payment for an employee who breaches the £95K exit cap and instead offering the member a fully reduced or a deferred pension. This is contrary to the prevailing LGPS regulations in respect of members over age 55 and the Ombudsman has asked that funds be clear in communications with members when a policy decision has been made to not pay the full unreduced pension, this approach is in line with guidance received.
- **Current pension strain factors** should now have been reviewed by funds. This is because whilst previously, strain factors were used only to calculate the funding cost an employer had to pay when an unreduced pension was paid early, this costing now also forms part of the calculation of whether or not a person will be capped (where the employer is subject to the £95K cap regulations). This means that the pension strain cost factors will determine actual benefits a member can receive. Where we are your actuarial advisers, we have provided advice on strain factors and made recommendations on the approach. It is expected that the new LGPS regulations, once in force, will require the use of overarching factors, prepared by the GAD.
- **Legal Challenge** - there will be a Judicial Review of the legitimacy of the accelerated HMT Cap Regulations, which is expected towards the end of March.
- **Ombudsman rulings** relating to the exit cap (specifically the non-payment of immediate unreduced pension) will be paused whilst the Judicial Review is ongoing, although funds should not discourage members from approaching the Ombudsman where the IDR has ran its course.
- **MHCLG proposals for wider reforms of redundancy pay and additional member options** were consulted on during the latter part of 2020 and we reported on this in the last edition of Current Issues. The consultation period for the draft regulations is now over, however funds and employers should not anticipate these reforms in redundancy calculations as the timing of implementation and the detailed proposals have not yet be confirmed. This is not expected until after the outcome of the Judicial Review referred to above, is known.

How Mercer can support funds

We anticipate that many funds will have already experienced high demand for pension strain costs calculations from employers who are implementing structural changes. However many other employers may have pressed pause on making these requests, in the hope that there would be further clarity on the position in the New Year. As it is now clear that there will not be a solution before 31 March, it's likely that funds see an increased volume of requests from employers no longer able to defer.



To the extent that funds require support in this area, we are able to provide a tool for processing these strain cost calculations. Speak to your Mercer representative for further information on this.

And in other news...

GOVERNMENT RESPONDS TO RPI REFORM CONSULTATION

In March 2020, the Government and UK Statistics Authority issued a consultation on reforming the Retail Prices Index (RPI). On 25 November 2020, the Government responded to the consultation, confirming that RPI will increase in line with CPIH from 2030. The construction of CPIH (the Consumer Prices Index, or CPI, plus housing costs) generally gives lower inflation figures than RPI, so this means RPI inflation will be lower from 2030 than it would otherwise have been.



Impact on assets

In the immediate aftermath of the Government's response to the consultation, we have seen small movements in real gilt prices relative to nominal gilts, suggesting this outcome was largely (but not completely) priced in to the market before the announcement. Such movements will be

reflected in a fund's, RPI-linked assets. Over the past two years, uncertainty over the future of the RPI resulted in fewer index-linked gilts being issued by the UK Debt Management Office. With fewer issues, this has arguably has led to excess demand in the market, resulting in Liability Driven Investment (LDI) demand "bidding up" gilt inflation. The Government announcement means there could be a greater index-linked gilt supply from early 2021. Combined with the fact that CPI liabilities will have a better matching asset, our view is that inflation hedging is likely to be more cost-effective in future.



Impact on funding and accounting positions

In addition to the impact on Fund assets described above, there is also a potential impact on the valuation of Fund liabilities even though Fund benefits increase in line with *CPI* rather than *RPI*. This is because market pricing of RPI is used as a reference point to determine appropriate assumptions for the valuation of CPI linked benefits. Therefore given the change in RPI from 2030 this triggers a review of the methodology used to derive the assumption for valuing CPI benefits also.

BREXIT AND PENSIONS

The UK left the EU on 31 January 2020, entering an 11 month transition period during which our relationship with Europe has been largely “business as usual”.

From 1 January 2021, however, the UK has entered a new stage following the deal reached at the end of last year although there remains a number of aspects still to be worked through. TPR has periodically updated its guidance for funds and you can access the latest guidance [here](#).

Investment risk and funding

Brexit gives rise to fears of investment volatility, but in reality it is just one part of a much broader risk landscape; COVID-19 has demonstrated this all too clearly in 2020. TPR’s guidance stresses that Brexit-related risk, while real, is a short term issue, and funds need to focus on their long term investment plan and integrated risk management strategy.

Employer covenant

The effect of Brexit on employer covenant may be significant for some employers, for example universities, but it will play out differently depending on the specific circumstances. A robust employer covenant framework should help funds to identify which employers are most at risk from current challenges, including (but not limited to) the impact of Brexit.

Administration

Funds will need to consider what changes are needed in respect of any overseas transfer requests, given the continued uncertainties for many aspects of the Brexit deal that remain outstanding, particularly in respect of financial markets. EEA based receiving schemes may have changed their position on receiving transfers after 31 December, and there is uncertainty over the UK tax position on transfers to Gibraltar schemes after this

date.

Some banks have withdrawn UK accounts from EEA resident clients, meaning some EEA based pensioners will have to put alternative arrangements in place for their pension payments. While this is largely a matter for individual members, funds should consider how to handle communications with members who may be affected.

Data protection

The UK’s data protection (GDPR) legislation, which reflects the EU directive, currently remains in force. However, where data is sent between the EEA and the UK, current rules may change. It is hoped that the EU will recognise the UK for data protection purposes under “adequacy” provisions, but this is not yet certain. If adequacy status is not granted, receiving data from the EEA is likely to be a particular issue. The UK’s data authority, the ICO, has issued guidance on data and Brexit.



CHANGE TO CMI_2020 MORTALITY PROJECTIONS MODEL CONFIRMED

The Institute and Faculty of Actuaries' Continuous Mortality Investigation (CMI) has responded to its consultation on changes to the CMI_2020 version of its model for projecting future improvements in mortality. It has confirmed that, in the core version of the model, no weight will be placed on mortality data for 2020 to avoid the exceptional mortality rates in 2020 from, potentially, distorting the results. However, users who wish to take some account of 2020 rates in the projections will be able to adjust the amount of weight placed on the 2020 data. The other proposed change to the age range used to calibrate the model will not be going ahead.

The change means that moving from the core version of CMI_2019 to the core version of CMI_2020 is likely to result in small reductions in projected life expectancies. The overall impact for any particular scheme of adopting CMI_2020 will depend on a number of factors including the age and sex distribution of the Fund, the particular parameters selected and the current assumption for future mortality improvements.

The CMI_2020 version of the model is due to be published in March 2021 and we will also be considering the impact of this and the COVID-19 outbreak in advance of 2022 valuations.



THE PENSION SCHEMES BILL 2019/21

The Bill has now completed its progress through the House of Commons and will now go back to the House of Lords for final consideration before receiving Royal Assent, which is expected to be by the end of the year.

The Pension Schemes Bill was introduced in 2019 and one of the key aims of Government was to protect members' benefits in DB schemes, largely through enhanced powers for the Pensions Regulator (TPR) and a more prescriptive statutory scheme funding regime. However, the Bill covers a wide range of provisions including:

- **Pensions Dashboards** - the Bill introduces a framework for pension's dashboards, including provisions for state, occupational, personal and stakeholder pension schemes to provide information for qualifying pension's dashboards or any dashboard provided by the Money and Pensions Service.
- **Climate change disclosures for pension schemes** - the Bill was amended to include additional requirements intended to ensure funds have effective governance in relation to climate change risks. It sets out a framework within which funds should consider and disclose the risks. The requirements are expected to apply initially to larger employers.

Looking ahead

Once the Bill is enacted, secondary legislation will be required for most of its provisions. We anticipate further consultations on regulations over the coming year, and some provisions will also need Codes and/or guidance from TPR to be updated in order to fully implement them.

2020 GAD DATA REQUEST

Funds in England and Wales should have submitted the data to GAD as at 31 March 2020 by 23 November 2020.

The outcomes are expected later in the year.

LLOYDS BANKING GROUP JUDGMENT ON GMP EQUALISATION

Following the original Lloyds Banking Group judgment in October 2018, there was a further High Court ruling on 20 November 2020. This provided clarification on the obligations of the Lloyds Banking Group to equalise past transfer values to allow for the effects of Guaranteed Minimum Pensions accrued between 17 May 1990 and 5 April 1997 (“GMP equalisation”).

The impact of the ruling in the LGPS is expected to be muted however the position is currently under further consideration with Treasury and we will provide an update on developments in a future edition of Current Issues.

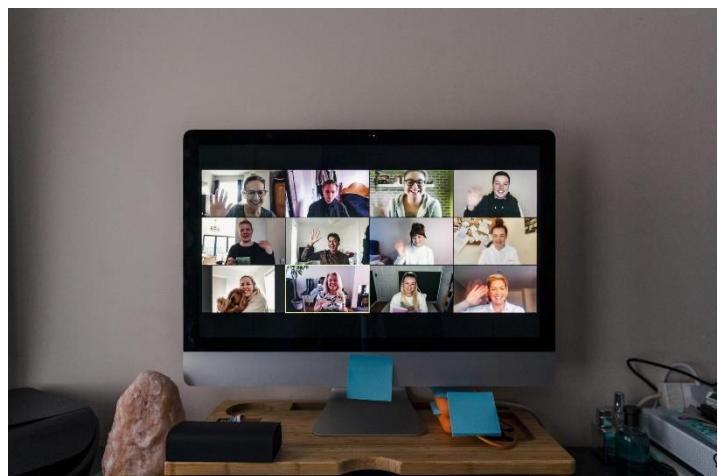
Notwithstanding the potentially muted impact for LGPS of this ruling, it is expected to be on auditors' radar and therefore Funds and Employers may see this raised as part of the audit process. We will provide a comment on this in our standard information we share alongside the accounting information which will aim to address auditor queries that may be raised.

PENSION SCAMS

One of the consequences of COVID-19 outbreak has unfortunately been an increased prevalence of pension scams. At a time when individuals are concerned about their financial and physical health, they are more likely to fall victim to scammers who are experts at targeting the most vulnerable.

Over £30 million has been reportedly lost to pension scammers since 2017. Anecdotally, public sector pension scams seem to be the larger end of the scale.

Although it is an extremely busy time for funds, thought should be given as to how members can be better protected to reduce the risk of pension scams. In particular whether access to a “vetted” firm or panel of firms which provide IFA advice (at the member’s cost) could support this and also protect funds from potential future claims.



Dates to remember

DATE	ISSUE	THE LATEST
31 March 2020	2020 Actuarial Valuation	The effective date of the Scottish LGPS actuarial valuations.
6 April 2020	Change in the lifetime Allowance (LTA)	The LTA for 2020/21 is increased from £1,055,000 to £1,073,000 in line with CPI increases.
6 April 2020	Change in tapered Annual Allowance (TAA)	The TAA is to increase so it only applies to individuals with "adjusted income" of over £240,000. The minimum TAA changes from £10,000 to £4,000.
21 July 2020	Call for evidence on pension tax administration for low earners (closed October 2020)	The Treasury has launched a call for evidence concerning the different outcomes for lower earners depending on whether their pension schemes use the relief at source or net pay method of tax relief.
From 10 December 2020	Competition and Markets Authority (CMA) legally binding Order	Investment management firms, investment consultancies and fiduciary management providers) subject to the CMA Order must submit a compliance statement to the CMA within 12 months and 4 weeks of the date when the Order first applied, confirming they have complied with their obligations under the Order.
Expected March 2021	Judicial Review of Exit Cap Regulations	Court date yet to be confirmed but the Judicial Review is expected to proceed during the second half of March 2021.
Expected after Q1 2021	Governance and Registration draft regulations	Regulations that will replace some of the measures in the Competition and Markets Authority (CMA) Order were expected to come into force from 6 April 2020 and have been delayed due to COVID-19. Until such time as they are implemented, the CMA Order will continue to be legally-binding.
2030	RPI to increase in line with CPIH	The Government's consultation response in November 2020 confirmed that RPI will increase in line with CPIH from 2030.

Meet the team



Name: Eleanor Dowling

Role: Pensions Lawyer

Joined Mercer: 21st April 1997 – I moved from Scotland to start work at Mercer in London.

Place of Birth: Glasgow

Favourite series: The first series of True Blood (it deteriorated after that); also Borgen, which was a drama all about the Danish parliament - but was much more interesting than that sounds!

What was your favourite Christmas gift?: A Lindt chocolate bear that I nabbed from my nine year old's huge haul.

Favourite take away: I'm not keen on takeaways... I bought my husband the new Ottolenghi cookbook for Christmas.

What are your New Year resolutions?: Get (much) better at yoga, learn to drive, and get my son enthused about cycling.

Name: Barbara Forbes

Role: Title has changed a few times, if not the role. Used to be "admissions, bonds and terminations calculations workflow manager". Try fitting that on a name badge.

Joined Mercer: 3 September 1990. Seems like decades ago. Oh wait...

Place of Birth: Lancashire

Favourite series: "Grace and Frankie" (I want their beach house), Schitts Creek (I want Moira's wigs) and House of Cards USA (I want Frank's cufflinks)

What was your favourite Christmas gift?: Getting to shoot my son's favourite Christmas gift – an air rifle – at a fixed target I hasten to add...

Favourite take away: I don't really do take away. I do slow cooker. As in slow cooked skirt beef in beer with button onions and mushrooms. Etc.

What are your New Year resolutions?: To get out more. Wish me luck.



Name: Clive Lewis

Role: Principal

Joined Mercer: When the FTSE all share index was at 2,990...

Place of Birth: Liverpool

Favourite series: Impractical Jokers

What was your favourite Christmas gift?: I only get socks but my 8 year old's RC car is pretty "sick"

Favourite take away: Can't beat a Chinese takeaway

What are your New Year resolutions?: Everything in moderation...

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