

# LGPS CURRENT ISSUES

## NEWS IN BRIEF

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### UK GENERAL ELECTION RESULT

The Conservative Party, led by Boris Johnson, won a large overall majority, which means Johnson is set to remain as Prime Minister for a five-year term. The Conservatives have a majority of 80, their largest majority since 1987, allowing Johnson considerable latitude to implement his domestic policies. On the Brexit front, the UK is likely to leave the European Union (EU) on 31st January 2020, but Johnson's ability to agree a comprehensive free trade agreement with the EU by the end of 2020 will depend both on the EU and his willingness to compromise. The resounding victory by Boris Johnson and the Conservatives removes some of the uncertainty around Brexit and the UK economy. This should boost economic activity although the extent to which it does depends on whether business in particular view Brexit as having been done, or whether they fear a no deal at the end of 2020.

In terms of the economy, the UK economic growth rate largely stalled in the second half of 2019. Growth next year is likely to recover as some of the uncertainty around UK politics and Brexit is removed. How strong the recovery is will depend on whether businesses think that Brexit is done or whether they fear the possibility of a no deal at the end of 2020. Increased government spending should also support economic activity. Our best guess is that growth recovers to about trend (1.5%-2% p.a.) by mid-year.

At its most recent meeting two members of the nine-member Monetary Policy Committee voted to cut rates from 0.75%, although the other seven did not sound like they were likely to want to cut rates soon. The removal of some political uncertainty is likely to push the Bank back to unanimously on hold, while they wait to see whether and to what extent the economy recovers in 2020. Overall we expect the Bank of England to remain on hold all year, with an upward bias in subsequent years.

### MCLOUD UPDATE

On 18 December 2019, the Employment Tribunal made an interim order on the Firefighter Pension Schemes' transitional protections claims (the Sargeant case). The order treats members as if they satisfied the age criteria, regardless of their actual age (so long as they meet the other criteria e.g. they were in the scheme at the appropriate dates). Whilst it appears that the order only applies until the final remedy has been agreed, this means that members are entitled to be treated as if they remained in the previous Fire Pension Scheme in this period. The final determination in regards to membership of the scheme is expected to be resolved during July 2020.

A circular from the Home Office notes that some members may be better off due to the introduction of the new career average scheme. The Government intends to allow the benefits to remain unchanged for these members. There is therefore a long way to go until the remedies for the public service pension schemes can be resolved.

## TPR AND DATA QUALITY

The Pensions Regulator continues to put pressure on funds to improve the quality of their member data. Failure to comply with the Regulator could result in financial penalties or an improvement notice. Therefore, as we approach the year end, it is an important time to engage with employers on their data. We will soon be providing a summary of the quality of the valuation data. This can be provided to employers to highlight any problem areas and ensure that these do not happen again in their next data submission at year end.

## PENSION SCHEMES BILL

The Pension Schemes Bill was reintroduced on 19 December following the announcement in the Queen's Speech. A significant thrust of the Pension Schemes Bill introduced in 2019 was to protect members' benefits in defined benefit schemes, largely through enhanced powers for the Pensions Regulator and a more prescriptive statutory scheme funding regime. The Bill will create a legislative framework for the introduction of pensions dashboards, to strengthen the Pensions Regulator's powers to take action against employers and introduce regulations covering the right to a pension transfer. It introduces new financial penalties, including in relation to certain corporate actions such as providing false or misleading information, of up to £1m.

The theme underlying the proposals has been one of improving the protection of DB members' benefits. It seems likely that the new powers will allow the Regulator to intervene more quickly where it has concerns and with a greater threat of regulatory action.

## RESPONSIBLE INVESTMENT GUIDANCE CONSULTATION

The Scheme Advisory Board met on 6<sup>th</sup> November where approval was granted for the consultation on the first part of guidance on responsible investment. The consultation ran from 22 November 2019 until 11 January 2020. The purpose of the first part of the guidance is to support investment decision to "...identify the parameters of operation within scheme regulations, statutory guidance, fiduciary duty and the general public law and the scope for integrating ESG policies as part of investment strategy statements...".

The Board also agreed to draft part 2 of the guidance "...the aim of which is to provide investment decision makers with a toolkit they can use to further integrate ESG policies as part of their investment strategy...". The aim is to provide this draft of the second part of the guidance to the Board when they next meet on 3<sup>rd</sup> February 2020.

## EQUITABLE LIFE UPDATE

The UK High Court hearing approved the proposals on the Scheme and the change to the articles, confirmation of this was received in December 2019. The proposed changes were therefore implemented with effect from 1 January 2020. If funds have not already done so, they should seek regulatory advice on the transfer, including the appropriate default investments.

## UK STEWARDSHIP CODE 2020

The UK Financial Reporting Council (FRC) recently launched its revised stewardship code: UK Stewardship Code 2020. The new Code, which takes effect from 1 January 2020, is not simply a refresh of the previous 2012 Code. Rather the Code has been overhauled since it was first introduced over a decade ago to ensure it remains fit for purpose in an environment of increased investor expectations on Environmental, Social and Governance (ESG) integration, stewardship and climate change.

The 2020 Code takes a broader, more comprehensive, approach than previous iterations, which largely focused on voting and engagement activity with respect to equity assets. The latest Code defines stewardship as “the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society”. It sets out 12 principles for asset owners (such as pension schemes) and asset managers and also sets out 6 largely similar principles for service providers. This code should be used to evaluate Responsible Investment policies alongside forthcoming SAB guidance.

## GOOD GOVERNANCE UPDATE

The Scheme Advisory Board met on 6<sup>th</sup> November and agreed the proposals put forward by the working groups in the Good Governance Phase II report. The report sets out clearly the outcomes and standards that the working groups wish funds to achieve, and how these outcomes should be achieved. The SAB have agreed to initiate phase III of the project which will include drafting statutory guidance on governance compliance statements and establishing a set of KPIs. The aim is to provide final proposals for Phase III to the Board when they next meet on 3<sup>rd</sup> February 2020.

## STRUCTURE REVIEW OF THE SCOTTISH LGPS

A 2018 consultation was carried out by the Scottish SAB regarding the structure of the Scottish LGPS. The outcome was that the current scheme has a number of flaws and raised the case for the Scottish Government to evaluate the case for mergers between funds in the Scheme. The final report from the Pensions institute, appointed by the Scottish SAB was published on 4 November 2019. The report set out four suggested actions including; evaluating the case for mergers of Scottish LGPS funds, improving the reporting on investment management costs, considering whether large multi-fund employers could address some operational issues by shifting to an individual fund, and whether the Scottish Government can assist with boosting the supply of Scottish infrastructure investments. The Scottish SAB will now consider these suggested actions and what support may be required in order to take the review forward.

## DATES TO REMEMBER

DATE	ISSUE	THE LATEST
31 March 2020	2019 Actuarial Valuation	Deadline in England and Wales for the Funding Strategy Statement to be formally updated in order for the actuarial valuation to be signed off by the Fund Actuary.
31 March 2020	2019 Actuarial Valuation	Deadline for 2019 England and Wales actuarial valuation exercises to have been signed off by the Fund Actuary. This is also the effective date of the Scottish LGPS actuarial valuations.
6 April 2020	Lifetime Allowance indexed in line with CPI	The LTA for 2020/21 to increase from £1,055,000 in line with CPI increases.
30 April 2020	GAD data collection	Deadline for providing information to GAD for the Section 13 review.

# MEET SOME OF THE TEAM

## THINGS YOU MAYBE DIDN'T KNOW



**Name:** Lauren Johnson

**Role:** Investment Analyst

**Joined Mercer:** 2017

**Place of Birth:** Liverpool

**How did you spend the holidays?:** Catching up with a lot of family and friends

**What was your favourite Christmas present?** Carolina Herrera Perfume

**Did you make a New Year's resolution and what was it?:** Cut down to 1 sugar in tea.



**Name:** Alison Gent

**Role:** Pensions Actuary

**Joined Mercer:** 2011 (but joined the Liverpool Office in 2018)

**Place of Birth:** Aylesbury

**How did you spend the holidays?:** Skiing in Austria and with family

**What was your favourite Christmas present?** A mini greenhouse

**Did you make a New Year's resolution and what was it?:** To get outside more – so far its working!



**Name:** Nick Buckland

**Role:** Senior Consultant & LGPS Adviser

**Joined Mercer:** Good question...joined JLT in September 2016, and then I think I officially moved to Mercer in January 2020

**Place of Birth:** South London – so I should be Crystal Palace fan, but I'm not.

**How did you spend the holidays?:** I was at home with my wife and two boys.

Most of the break was spent putting together Play-mobile and Lego with the younger one, or playing X-box with the older one.

**What was your favourite Christmas present?** As I mentioned earlier, I enjoy playing with all the boys presents. My own favourite present was a night out with my wife and ticket to see Jack Whitehall. These nights out are rare!

**Did you make a New Year's resolution and what was it?:** Not really, I'm not very good at sticking to them. I have the usual aims to lose weight, exercise more and drinking less...but I'm sure they won't last!

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