

LGPS CURRENT ISSUES

May 2023



welcome to brighter

In this edition

The last few months have seen significant changes to the way pensions are taxed, the conclusion of the 2022 actuarial valuations in England and Wales, and the commencement of the valuation process in Scotland, not to mention the coronation of a new King! Given a number of regulatory announcements are still expected, it remains a busy period for LGPS Funds.

In this edition, with the first ever men's FA Cup Final to be played in June on the horizon (following on from a record crowd at the women's event on 14 May) we have provided a few Cup Final facts for you alongside updates on recent developments in the LGPS and commentary on what to expect over the coming months.



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Investment Update

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LGPS Pooling - Spring Budget

Within the Spring Budget announced on 15 March, there was direct reference to LGPS pooling. It stated:

“The government is challenging the Local Government Pension Scheme in England and Wales to move further and faster on consolidating assets. This may include moving towards a smaller number of pools in excess of £50bn to optimize benefits of scale. The Government will also consult on requiring LGPS funds to consider investment opportunities in illiquid assets such as venture and growth capital, thereby seeking to unlock some of the £364 billion of LGPS assets into long-term productive assets.”



The reference to LGPS pooling in the budget signals the clear intention of the Government in relation to unlocking capital from LGPS assets. This is likely to be a precursor to more detailed debate when we have the new pooling guidance once the consultation has taken place, which is anticipated to be in the coming months. There are many different implications here which will need to be carefully thought through to ensure there are no unintended consequences.

The references in the budget are perhaps unsurprising given the previous statements about levelling up and unlocking capital for the UK but the devil will be in the detail. Key barriers will be: **Finding the right opportunities, How to invest? Who with?** and so on.

We will comment further once we have more information and we expect it will also form part of the consultation on the pooling guidance expected this year. It is now expected this consultation will be issued alongside that for Levelling Up.



The FA Cup is the World's oldest football tournament, first established in 1871 with Wanderers winning the first final in 1872. The first women's competition was held in 1970/1971.

TCFD Reporting

On 23 March 2023, TPR published a [review](#) of climate-related disclosures by occupational pension schemes. Whilst not directly relevant to the LGPS, the observations set out from reporting in the private sector may be useful for LGPS Funds ahead of TCFD reporting becoming mandatory. A response to DLUHC's 2022 consultation is still awaited, however the latest rumours are that mandatory climate reporting might be delayed by up to a year, **meaning a potential deadline of 1 December 2025 for Funds to produce their first “climate risk report”**.

In the meantime, notwithstanding the resource challenges that we know Funds are facing, we would encourage Funds to consider undertaking the analysis required for climate risk reports ahead of any regulatory deadlines. Climate change is a key systematic risk impacting pension funds right across the funding, investment and covenant spectrum. We have seen a number of LGPS Funds already report on a TCFD basis and set a Net Zero target. This process has proven very helpful for Funds to understanding climate risk and therefore understand the actions that are needed to strengthen risk management and harness potential opportunities, providing a more robust risk management framework.

Experience has shown that preparation of the first TCFD report is a large undertaking. To help manage this, one option is to undertake the Climate Scenario and Carbon Footprinting analysis first, but without making it publicly available, giving Officers and Committees additional time to understand the data and analysis and identify any gaps. This will significantly ease the process when the first public report is required.

Updated LDI Guidance

On 24 April 2023, following on from the guidance issued in November 2022, the TPR issued new [guidance](#) to ensure pension schemes minimise the risks associated with liability driven investments (LDI).

The guidance sets minimum thresholds for collateral headroom, ensuring that LDI portfolios can withstand sufficient rises in yields.

Whilst the guidance is primarily aimed at LDI portfolios for occupational pension schemes, it is important for LGPS Funds with LDI portfolios and also Risk Management Frameworks where derivatives are employed (e.g. equity protection or synthetic exposures).

For LGPS Funds with leveraged LDI portfolios or Risk Management Funds, please contact your usual Mercer consultant if you want to discuss changes you want to consider in relation to the above.



The player to score the most goals in FA Cup Finals is Ian Rush with 5 (2 in 1986, 1989 and 1 in 1992). Didier Drogba holds the record for most finals scored in, 4.

Sharia Law

On 6 April 2023, the Scheme Advisory Board issued a tender for an expert in Islamic finance to examine the legal structure of the LGPS from a Sharia perspective. This is in line with the [legal advice](#) received by the Board in February 2022.

Freedom of Information requests

On 30 March 2023, in response to an increasing number of Freedom of Information (FOI) requests being received by LGPS Funds in relation to responsible investment policies, the

Scheme Advisory Board issued a statement (found on its [website](#)) advising Funds of their duty to be open and honest about their policies but recognising there may be occasions where cost, commercial sensitivity, or other considerations may outweigh the public interest in releasing the requested information. Funds should refer to guidance from the Information Commissioners Officer, and their own legal / FOI advisors where appropriate.

Mercer has supported a large number of Funds in responding to these FOI requests.

For LGPS Funds who have been contacted about these FOI requests, please contact your usual Mercer consultant who will be able to assist with responding to such requests.

Mercer's LGPS Sustainable Investment Conference (8 March)

We held our inaugural LGPS Sustainable Investment Conference in March 2023 to help those responsible for LGPS Funds and Pools with the challenges they face. Key topics discussed were TCFD, Levelling Up and Biodiversity and our Responsible Investment Total Evaluation (RITE) Tool.

If you were unable to join us at the conference, our speakers give their insights and perspectives on the topics discussed [here](#).



Arsenal are the most successful team in the history of the FA Cup, winning the trophy 14 times (Arsenal hold the same record in the women's competition, again with 14 wins). Arsene Wenger holds the managerial record with 7 wins.

Funding Matters

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2022 Actuarial Valuations

Across England and Wales, the 2022 actuarial valuations were signed off by 31 March 2023. Whilst this wasn't at the onset of a national lockdown, as was the case for the 2019 valuations, nonetheless it was (and remains) a time of considerable economic uncertainty, particularly in relation to the prevailing cost of living crisis.

The completion of the valuations is a clear milestone – and an opportunity to draw breath... however, this doesn't mean Funds can put their feet up for the next three years on funding matters. We will be working closely with Funds going forwards in the key areas outlined below:

- **Monitoring** – in addition to the ongoing monitoring of the whole Fund position over time, Funds will need to consider which employers will also need to be monitored and the frequency of doing so. This will typically relate to those employers planning for exit (who may have already requested monitoring information), employers with a weak covenant, perhaps where special funding arrangements are in place, or where a deferred debt agreement has been put in place, for example.
- **Exits** – given the current economic (high gilt yield) environment, we are still seeing a number of requests from employers to exit Funds. Funds need to consider these requests on their merits and balance the interests of all employers in the Fund, noting that there may be a range of potential avenues for taking forwards an exit – covenant input will be key to these considerations. Funds may wish to also consider proactive discussion with closed employers about planning for exit, where active membership is rapidly maturing.



Louis Saha holds the record of the fastest ever goal in a final, scoring after 25 seconds in the 2009 final for Everton against Chelsea.

- **Climate Change** - having undertaken scenario analysis as part of the 2022 valuation, Funds can utilise the output of this in their investment strategy considerations. In particular, a simple extension of the analysis can be used to demonstrate how varying the investment strategy might change the outcomes under the scenarios, which will be useful for supporting objective decision making. Scenario analysis in this space is continuously evolving – to both reflect changing prevailing circumstances and also increasing sophistication of techniques. Our [webinar](#) (being held on 16 May) will cover our unique approach to modelling the potential impact on life expectancy of climate change.



- **Data Quality** – with McCloud Regulations expected in a few months (see comment in next section), Funds should be continuing to collate and analyse data from employers in readiness for implementing the remedy.
- **SAB Valuation Report and Section 13** - Funds and Actuaries are currently collating information to provide to the Scheme Advisory Board (SAB) for preparing the Board's 2022 Scheme Valuation Report and also to GAD for the purpose of the Section 13 assessment that they will undertake.

2023 Actuarial Valuations

In Scotland, preparatory work will have already begun in relation to the 31 March 2023 actuarial valuations. The Funds will be in the process of finalising year ends with a view to providing data to their actuary over the coming months. Given the McCloud regulations won't be implemented prior to calculations being completed the SPPA have provided guidance to Funds and actuaries on how to allow for this in the valuations. The [Section 13 Report of the 2020 valuations](#) was published in March and this had important recommendations around the content of future dashboards and the desirability for consistent approaches to the assessment of emerging risks i.e. Climate Change. **We will provide further comment on the key themes/outcomes emerging in due course.**



The last English manager to win the FA Cup was Harry Redknapp, with Portsmouth in 2008.

SCAPE Discount Rate

On 30 March 2023, the Chief Secretary to the Treasury issued a [written ministerial statement](#) that announced that the Superannuation Contributions Adjusted for Past Experience (SCAPE) discount rate had been reduced to a real rate of 1.7% per annum above CPI, from the previous real rate of 2.4% per annum.

Although this change does not impact contribution rates for the LGPS set as part of a triennial actuarial valuation exercise (in the same way it impacts employer contribution rates in the other, unfunded, public sector schemes) there will be an impact on the LGPS given the SCAPE rate is used by GAD to set actuarial factors, which will impact early retirements / transfer values etc. Member calculations are currently suspended whilst factors are reviewed by GAD, which will of course have administrative implications for LGPS Funds.



We will be undertaking a review of early retirement strain cost factors, for those Funds where we are the actuary, once details of the new early retirement factors to be applied going forwards are known.

At the same time a [response](#) to the June 2021 consultation on the methodology for deriving the SCAPE discount rate was also published. This confirmed that the rate will continue to be based on long term gross domestic product (GDP) growth figures with an aim to review the rate every four not five years going forwards in line with the scheme valuation cycle.



In the 1956 final, Manchester City goalkeeper Bert Trautmann (a former German prisoner of war) broke his neck but still played the full match (and won).

Regulatory round up

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CARE Revaluation Date

On 9 March 2023, DLUHC published its [response](#) to the consultation issued in February 2023 setting out proposals to change the annual revaluation date for the LGPS from 1 April to 6 April. The response confirmed that the change would take place and on the same day the [LGPS \(Amendment\) Regulations 2023](#) were laid (coming into effect on 31 March 2023).



Whilst the changes made will have reduced the number of members impacted by the 2022/23 annual allowance charge (and thereby reduced the burden on Funds to prepare statements/respond to queries etc.), in the short-term the timing of the change has had an impact on Funds and software suppliers with central guidance provided to Funds to assist with managing the change until such time systems would be updated.

SAB Cost Management Process Consultation

On 18 March 2023, we issued our response to the DLUHC [consultation](#) relating to proposed updates to the SAB cost management process for the LGPS. In general, we agreed with the changes and the additional flexibility proposed subject to a few minor clarifications/updates to the proposed changes.

A response to the consultation is now awaited.



In 1946 and 1947 the ball burst in both finals, something which hasn't happened since.

McCloud Remedy (Various)

Consultation: On 6 April 2023. DLUHC published their [response](#) to the 2020 consultation on amendments to the underpin. Given developments since 2020, whereby issues have arisen that haven't been consulted upon, a further consultation will be issued by DLUHC in the near future, seeking views on these issues (e.g. compensation interest, excess teacher service etc.), alongside issues from the original consultation where a final decision has yet to be taken (e.g. aggregation, flexible retirement) and also on the draft regulations themselves, which will come into force on 1 October 2023 (backdated to 1 April 2014).

Alongside the response in collaboration with the Scheme Advisory Board, DLUHC published a member [factsheet](#) summarising the remedy.

Tax: With effect from 6 April 2023 the Public Service Pension Schemes (Rectification of Unlawful Discrimination) (Tax) Regulations 2023 became effective, although only have practical effect once the LGPS Regulations setting out the remedy come into force. To assist administering authorities in determining what action they need to take in relation to these Regulations the LGA issued a [guide](#) in March 2023 setting out the commentary and further guidance.

Data: On 3 March 2023 the Scheme Advisory Board issued [guidance](#) to administering authorities setting out what options administering authorities should consider if they are unable to collect the data required to implement the McCloud remedy, or where the data available is deemed to not be accurate.



If you would like to discuss how Mercer can help you validate/test the data you have collated in relation to the remedy, then please contact your usual Mercer consultant.

Judicial Review: On 10 March 2023 the applications for the Judicial Review (referred to below) in relation to the cost cap Mechanism were dismissed by the High Court in both claims after the judge ruled that the Government’s decision to include the McCloud remedy in the cost to be compared against the target cost, was not unlawful. Whilst the judge refused permission to appeal, it’s expected that both unions will apply for permission to appeal directly to the Court of Appeal. The full judgment can be found [here](#).

The Scheme Advisory Board has requested its legal advisor, Eversheds, to provide summary comment on the judgment.



Tradition holds in English football that triangular corner flags can be used by clubs who have won the FA Cup, rather than regular square ones.

Cyber Security

At the end of April, the Pensions Regulator wrote a letter to hundreds of pension funds potentially impacted by a recently publicised cyber-attack involving a provider of administration (and other) services to the pensions industry. The recent attack, and regulatory intervention, highlights the importance for Funds to ensure they have sufficient knowledge, and the relevant policies and procedures in place relating to cyber security.

As referenced in our previous edition, alongside our sister company Marsh, we can support LGPS Funds in this area, ranging from stakeholder training and communication, policy preparation/review, and testing incident response plans. Please contact your Mercer consultant for further details on how we can help.

Other regulatory news in brief

TPR's New General Code – The new Code (formerly referred to as the Single Code of Practice) is still expected to be published in its final form in the next few months. It will consolidate and re-write a number of existing codes, formalise the requirement for an Effective System of Governance, and (for pension schemes with 100 or more members) introduce the new Own Risk Assessment. New actuarial, internal audit and risk functions will also be required, and cyber risk, stewardship and climate change will be included in a code of practice for the first time.



There have been 6 players to have been sent off in FA Cup Finals, the first being Kevin Moran for Manchester United in 1985 against Everton.

And in other news...

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Spring Budget – Annual and Lifetime Allowance Changes

The [Spring Budget](#) on 15 March 2023 announced a number of major changes to the taxation of pension benefits. These changes came into effect from 6 April 2023. A summary of the key changes is set out below:

- Increasing the annual allowance (£40,000 to £60,000) and money purchase annual allowance (£4,000 to £10,000).
- Increasing the adjusted income level for the tapered annual allowance (from £240,000 to £260,000) and the minimum tapered annual allowance (from £4,000 to £10,000).
- Abolishing lifetime allowance charges for benefit crystallisation events occurring on or after 6 April 2023.
- Changing the taxation of any lifetime allowance excess lump sum to be at marginal rate not 55%, with similar changes to serious ill-health / death benefit lump sum payments.
- Allowing members to accrue new benefits/join new schemes/transfer without losing enhanced/fixed protection (where applied for prior to the budget).

Alongside the above changes it was confirmed that the maximum tax-free lump sum available to member would remain the same. Given that the Lifetime Allowance itself won't be abolished until 2024/25 (through a further Finance Bill), administering authorities will still need to undertake checks in the 2023/24 year albeit charges will be different/not applicable and don't need to be reported.

Whilst positive changes for members (albeit a relatively small proportion of the overall LGPS membership given the benefit profile), the changes have meant a number of amendments to administering authority process and communications, and may result in additional queries from members in the short-term.

For any employers/members wishing to discuss further how the changes may impact them (in relation to workforce/retirement planning) then our team of LGPS pension taxation specialists would be happy to help.



The player with the most FA Cup final winners medals is Ashley Cole, with 7 (3 Arsenal and 4 Chelsea).

State Pension Age Review

On 30 March 2023, DWP published its 2023 [review](#) of the State Pension Age. The review confirms that the rise to age 67 between 2026 and 2028 is still appropriate, however, the Government does not intend to change existing legislation that increases the State Pension Age to age 68 (over the period 2037 to 2039).



Instead the Government plans to have a further review within two years of the next Parliament where the timing of a rise to age 68 will be considered further. This

report must be published no later than 29 March 2029.

Gender Pay Gap Report

On 29 March 2023, the Scheme Advisory Board published the outcomes of a [report](#) undertaken by GAD in relation to the gender pensions gap in the LGPS alongside supporting comment.

The report has shown that pensions for men are c35% higher than those for women in relation to CARE benefits, and c46% higher in relation to Final Salary Benefits. Whilst there were limitations in some aspects of the analysis undertaken (e.g. availability of data), the Board will be considering the analysis further to investigate causes and agree next steps.



Pensions Dashboards Update

There have been a number of updates recently in the Pension Dashboards programme. Further information can be found on [the PDP website](#).

The main development saw the Pensions Minister, Laura Trott make a [statement](#) on 2 March 2023 announcing the Government's intention to legislate "at the earliest opportunity" to amend schemes' connection deadlines, to allow more time to deliver the complex dashboards infrastructure. It's not clear yet which schemes (including the LGPS) will be given an extension and how long this may be. Further details are expected prior to the summer recess, for the time being, Funds should continue to prepare as though there will be no extension.

TPR has confirmed it will write to those schemes affected by the announcement to confirm new deadlines. It has also published updated [guidance and a checklist](#) to help schemes focus on what work they should be undertaking now. They will also produce a "content toolkit" with key messages for administering authorities to use in communications.

In addition to the above:

- GAD published a [blog](#) to help administrators set the right questions when considering what matching data to use.
- PASA updated its [Data Matching Guidance](#) and issued new guidance on [communicating with savers](#).
- TPR held a [webinar](#) focussing on data preparation duties.

As referred to previously, the LGA is looking to pull together a guide to assist LGPS administering authorities with the actions they need to take to ensure compliance.



In 1914 George V became the first monarch to watch the FA Cup Final. The Queen attended her first football match in 1953.

Meet the team

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Name: Mark Aldred
Role: LGPS Actuarial Analyst
Joined Mercer: September 2021
Place of Birth: Blackpool
Favourite football/sports film: Coach Carter
What is your first/best FA Cup Final memory (if you have one):
Liverpool Vs West Ham 2006 final and Steven Gerrard's last minute equaliser to take it into extra time.

Name: Nikki Gemmell
Role: LGPS Actuary
Joined Mercer: June 2007
Place of Birth: Bellshill, Scotland (you can tell by my accent 😊)
Favourite football/sports film: Cool Runnings!
What is your first/best FA Cup Final memory (if you have one): I barely know what the FA cup is but I'm enjoying Welcome to Wrexham at the moment which had an episode about the FA Trophy in 😊



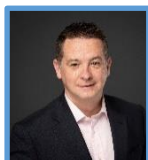
Name: Tony English
Role: Head of LGPS Investment
Joined Mercer: 1999
Place of Birth: Somerset
Favourite football/sports film: About a Boy (The Deer Hunter is my favourite film)
What is your first/best FA Cup Final memory (if you have one):
Watching Arsenal win against Aston Villa in 2015, televised at the Emirates and followed by an authorised pitch invasion to celebrate!

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