

LGPS update: a view from the centre

Lorraine Bennett

Senior Pensions Adviser

What's on the horizon?

- McCloud
- £95k cap and exit payment recovery
- Exit credits
- Pensions tax
- HE/FE status
- 4 year valuations and exiting employer flexibilities
- Good governance review



Working with MHCLG



- Luke Hall MP – minister since July 2019
- little or no engagement with SAB to date
- meeting planned for 4 Feb
- Government priorities?

McCloud - implications for the LGPS

- remedy will be upwards
- HM Treasury will set the parameters
- LGPS will be treated separately to other schemes
- remedy likely to involve the extension of **some form** of the current underpin
- may need to revisit leavers back to April 2014
- employers must keep hours and service break information
- SAB to set up two working groups

Good governance review



- to improve Scheme governance and administration to a consistent level - with independent assessment
- phase I and II reports available on www.lgpsboard.org
- submit comments on phase II by 3 Feb
- phase III work will include drafting statutory guidance on governance compliance statements and establishing KPIs

Regulations tidy up



- technical changes plus....
- pre 2014 leavers – use AVC to buy scheme pension
- death grants over two years
- de-minimis payments for pre 2008 leavers
- removal of five year limit for refunds
- forfeiture provisions

and not forgetting.....



What's next?

- More legal challenges?
- Further reform ?



Disclaimer

The information contained in these slides has been prepared by the LGPC Secretariat, a part of the Local Government Association (LGA). It represents the views of the Secretariat, based on our current understanding of the law. It should not be treated as a complete and authoritative statement of the law. Readers may wish, or will need, to take their own legal advice on the interpretation of any particular piece of legislation. No responsibility whatsoever will be assumed by the LGPC Secretariat or the LGA for any direct or consequential loss, financial or otherwise, damage or inconvenience, or any other obligation or liability incurred by readers relying on information contained in these slides.

#Burns2020

Valuation update

Melanie Durrant FIA CERA



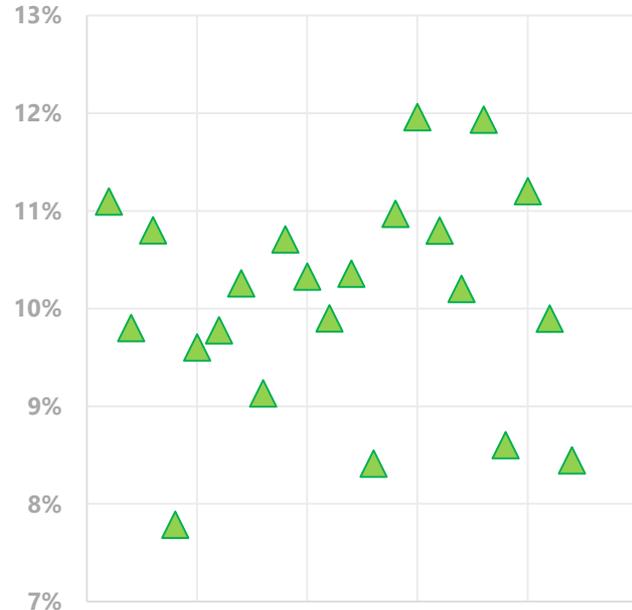
Regulatory information

The information in this presentation is based on our understanding of current taxation law, proposed legislation and HM Revenue & Customs practice, which may be subject to future variation. This presentation is not intended to provide and must not be construed as regulated investment advice. Returns are not guaranteed and the value of investments may go down as well as up. Barnett Waddingham LLP is a limited liability partnership registered in England and Wales. Registered Number OC307678. Registered Office: 2 London Wall Place, London EC2Y 5AU. Barnett Waddingham LLP is authorised and regulated by the Financial Conduct Authority and is licensed by the Institute and Faculty of Actuaries for a range of investment business activities.

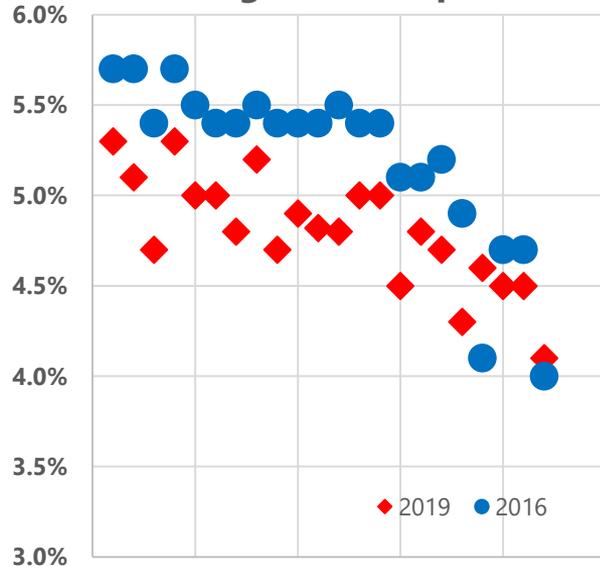
Strong investment performance

- › Average investment return 10.1% p.a.
- › “beaten” discount rate of 5.2% average in 2016

Asset returns - % p.a. -
average of 10.1% p.a.



2019 discount rates - average of 4.8% p.a.



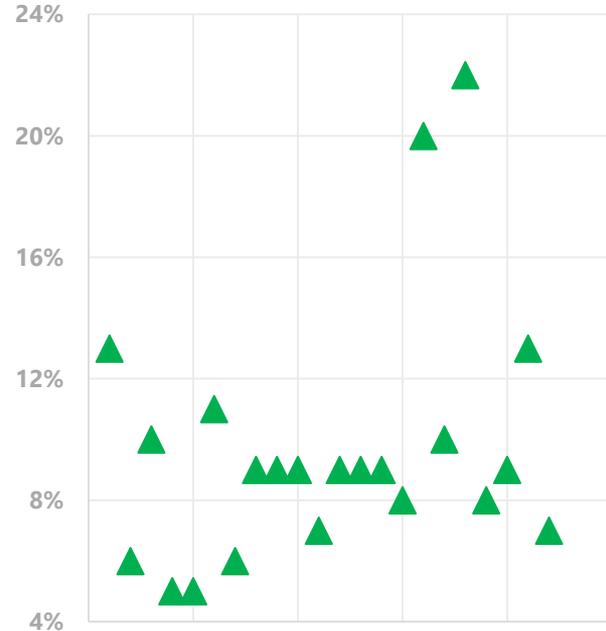
Discount rate decrease for the majority of funds

- › Range from 4.1% to 5.3%
- › 0.4% lower than 2016 on average
- › Real discount rate 0.6% lower

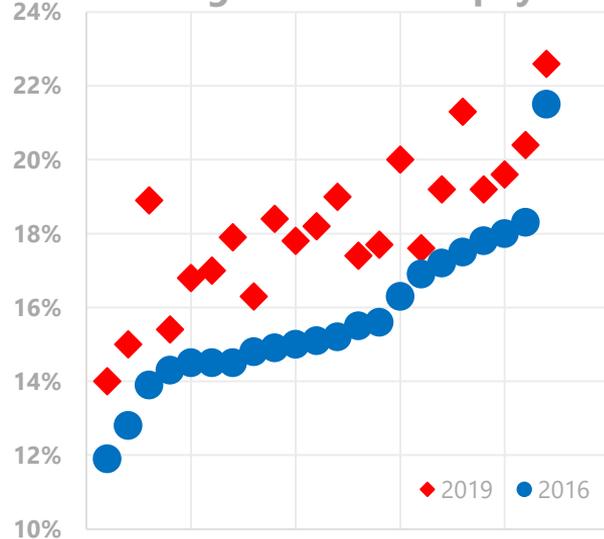
Improvement in funding levels for all funds

- › Average funding level of 96%
- › Range 78% to 125%
- › Increased divergence

Average increase in funding level of 10%



2019 primary rates - average of 18.2% of pay



Increase in primary rates for all funds

- > Average increase of 2.4%
- > Offset by fall in secondary rate (where appropriate)

Interesting averages*

*BW funds only



96%

Funding level



4.8%

Discount rate



18.2%

Primary rate

#Burns2020

Investing for Public Sector Pension Schemes

Pete Smith

Principal and Senior Investment Consultant



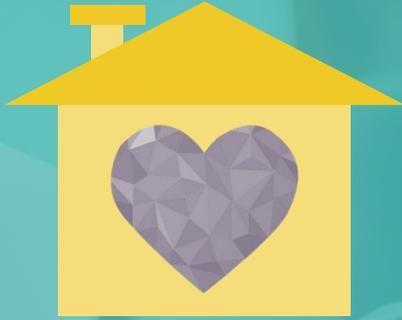
Regulatory information

The information in this presentation is based on our understanding of current taxation law, proposed legislation and HM Revenue & Customs practice, which may be subject to future variation. This presentation is not intended to provide and must not be construed as regulated investment advice. Returns are not guaranteed and the value of investments may go down as well as up. Barnett Waddingham LLP is a limited liability partnership registered in England and Wales. Registered Number OC307678. Registered Office: 2 London Wall Place, London EC2Y 5AU. Barnett Waddingham LLP is authorised and regulated by the Financial Conduct Authority and is licensed by the Institute and Faculty of Actuaries for a range of investment business activities.

What's on the agenda

- ›What has been keeping us busy?
- ›Strategy thoughts
- ›ESG

Social Housing



Pre-Funding and Liquidity



Protection



ESG





Key ingredients...

To a successful investment strategy

Our outlook for markets

Investment Strategy – answers the question: why do you own what you do?

Investment monitoring – answers the question: why do you still own it?

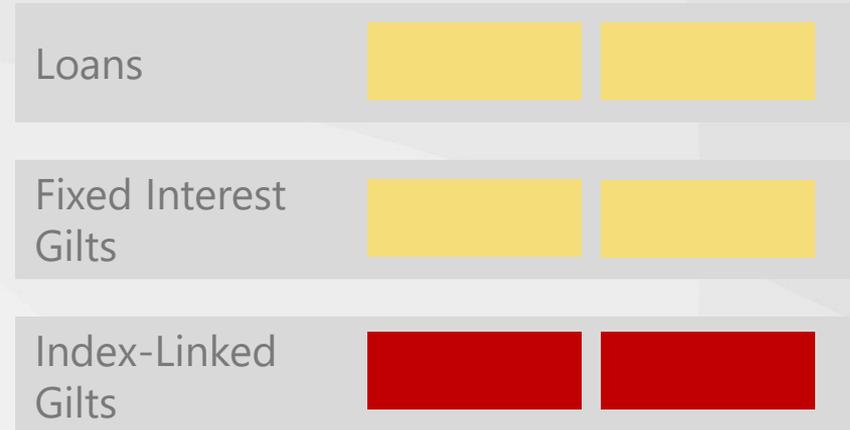
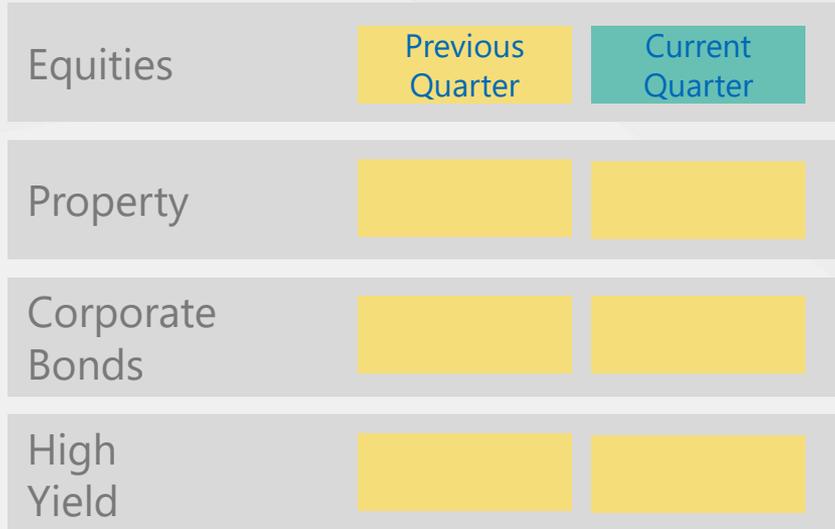
Positive

Cautiously positive

Neutral

Cautiously negative

Negative



Part 1: Responsible Investment consultation

- › Scheme Advisory Board seeking responses to the consultation by 31/1 (original deadline extended)
- › Sets out background and guidance on Responsible Investment (RI).
- › Differentiates between financially material factors (e.g. climate risk) and non-financially material factors (e.g. exclusions for the social good, such as tobacco exclusion).
- › **Must** – explain extent to which non-financially material factors taken into account (15% v 3%)
- › **Must** – give a reason for not adopting a policy of exercising rights attaching to investments
- › **Should** – explain extent to which views of Local Pensions Board and other influences taken into account when deciding on non-financially material factors
- › **Should** – explain the approach to social investment
- › **Should** – explain the policy on stewardship with reference to the Stewardship Code (no reference to 2020 Stewardship Code – more onerous than current one)
- › **Should** – publish a report on voting activities as part of the annual report
- › **Should** – explain how they will act as responsible long-term investors through their pool, including how the pool will determine and enact stewardship responsibilities.



ESG





#Burns2020



Know your employers

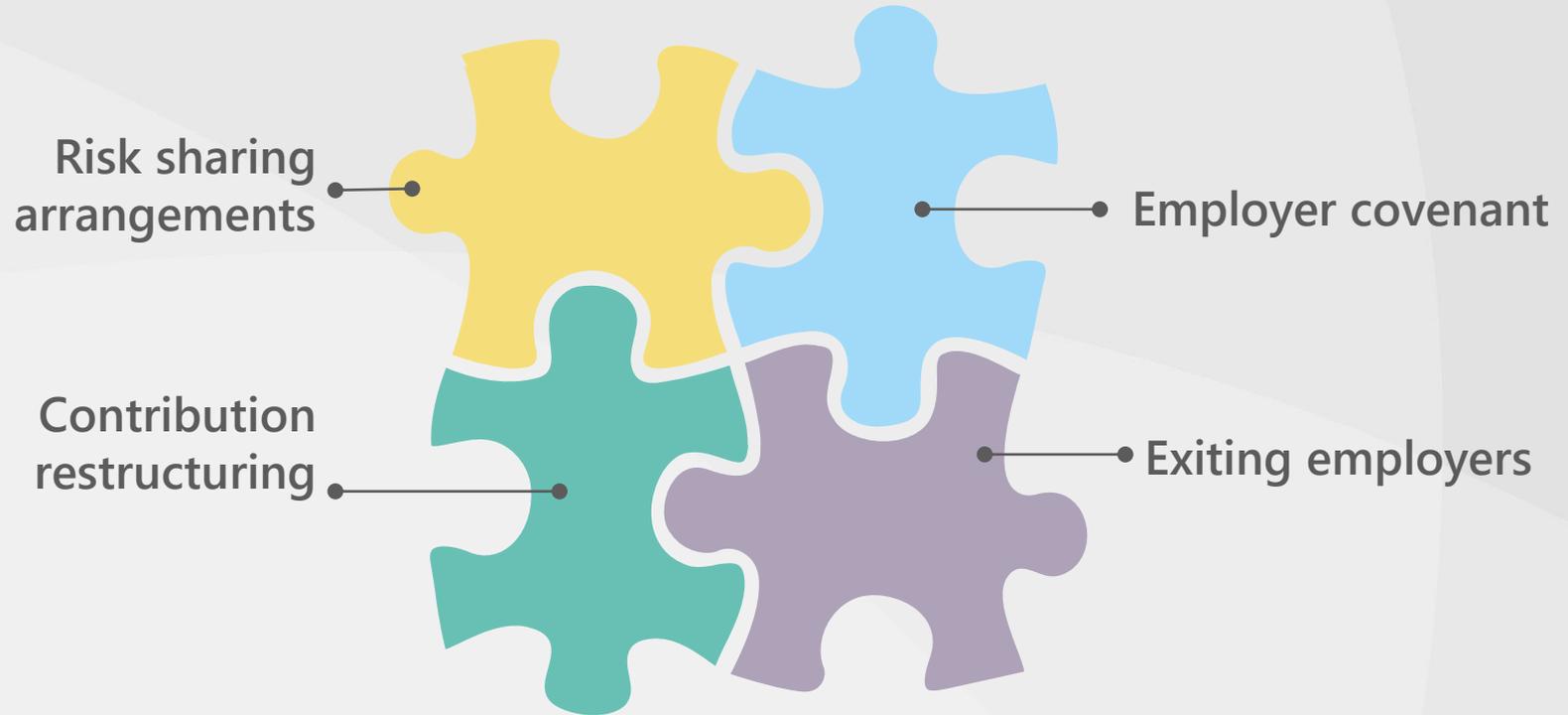
Roisin McGuire FFA



Regulatory information

The information in this presentation is based on our understanding of current taxation law, proposed legislation and HM Revenue & Customs practice, which may be subject to future variation. This presentation is not intended to provide and must not be construed as regulated investment advice. Returns are not guaranteed and the value of investments may go down as well as up. Barnett Waddingham LLP is a limited liability partnership registered in England and Wales. Registered Number OC307678. Registered Office: 2 London Wall Place, London EC2Y 5AU. Barnett Waddingham LLP is authorised and regulated by the Financial Conduct Authority and is licensed by the Institute and Faculty of Actuaries for a range of investment business activities.

Common themes



Risk sharing arrangements

Agreements

- › Current agreements
- › Future agreements
- › Fund policy?

Stakeholders

- › Members
- › Employers
- › Actuary
- › Auditor
- › Legal advisors

How to share risk?

- › Pass-through
- › Guarantees
- › Bonds
- › Pooling
- › Self –insurance
- › External insurance

Contribution holidays

Pre-funding

Funding towards exit

Use of contingent assets

**Contribution
restructuring**

Employer covenant

Employer's ability to meet pension fund commitments



Qualitative assessment

- Categorise at high level
- Agree risk factors
- Assess employer profile



Quantitative assessment

- Pension fund metrics
- D&B risk score
- Total risk score



Specialist advice

- Detailed analysis by experts
- Outlook for sector

Exiting employers

Funding
towards exit



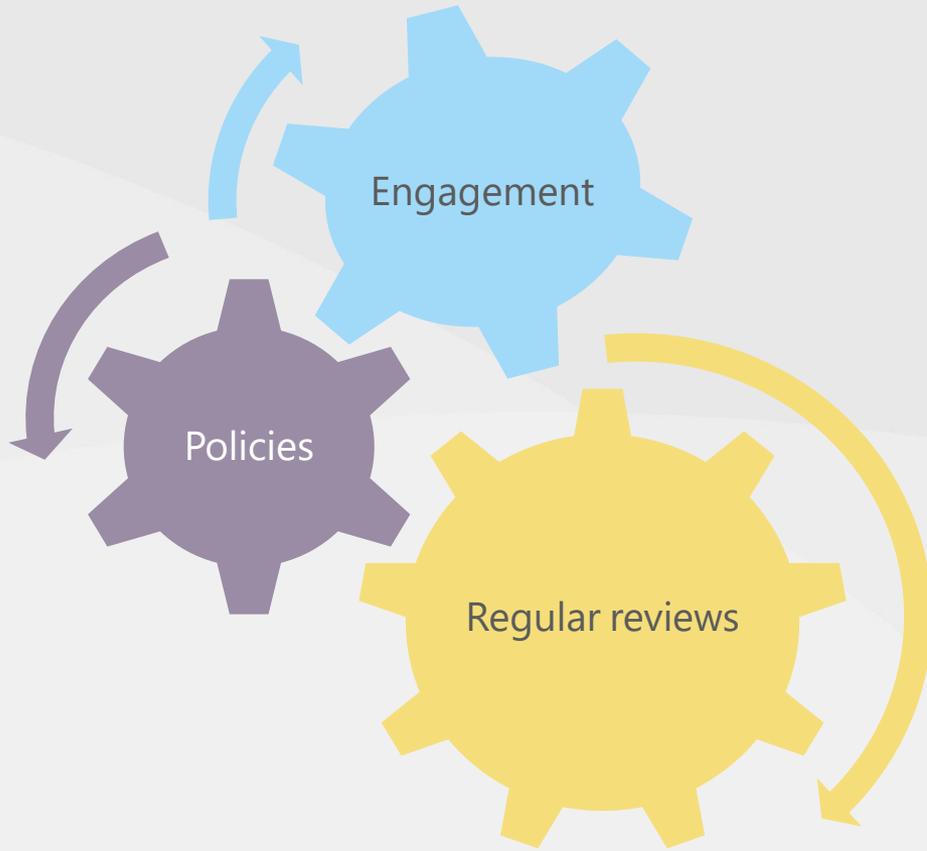
Payment
plans after
exit



Exit credits



Policy for
employers
who can't
pay



Key ingredients...

To knowing your employers



“A PROBLEM SHARED IS A PROBLEM HALVED.”