

Current issues in the LGPS

May 2023

2022 valuations – the Big Picture

Following the successful conclusion of the 2022 valuations, we spent the first couple of weeks in April carrying out analysis to understand the national picture. The news is good for the LGPS in England and Wales. The results of our analysis, along with details about the variance in results between individual funds, were shared in our webinar on 24 April (the recording can be accessed [here](#) with the analysis available in our accompanying [report](#)). If you would like to understand where your own fund sits in the various charts, please get in touch with your usual Hymans Robertson contact. And if you'd like an overview of all of the hard work during the valuation year across the LGPS, please click into our short wrap-up animation [here](#).

Spotlight on Funding Risk Monitoring

With the 2022 valuations done and dusted, how do funds keep on top of funding risks? Recent market volatility has shown the importance of robust risk monitoring. With risks more fast paced than ever before, LGPS funds need to have the information, tools, and risk management frameworks in place to allow them to manage these emerging risks effectively. Equally, in an increasingly virtual environment where everything is on-demand, stakeholders have an appetite and expectation to understand the immediate impact of risk events. In the first of a series of webinars focusing on holistic risk management in the LGPS, Susan Black will be joined by Tom Hoare on 23 May to discuss the growing importance of funding risk monitoring. Please [register here](#).

Scottish 2023 valuations

The 2023 Scottish valuations are underway! We know the foundation of every valuation is having good data, and to make your life easier we have made significant updates to our Data Portal. These updates will help simplify your membership data validation and offer smart enhancement functionality to automatically complete any gaps in your overall submission. Also, in response to the ever-increasing number of employers in the LGPS, we're also streamlining the valuation process to reduce the number of data queries and focus our efforts on the issues that matter most. Please [join our webinar](#) on 9 May to learn more.

What does heightened inflation mean for the LGPS?

Those investors with fond memories of the 1980's may also remember the good old days of high inflation. With current high inflation refusing to go away, investors need to again consider how they can generate additional protection from their investments in ways that won't harm returns. In today's market, this requires some creativity. In this article, we offer some considerations for how investors could gain greater protection from investing in the underlying drivers of longer-term inflation. Full article [here](#).

Managing liquidity and cashflows

Persistent and high inflation can also affect a fund's liquidity. There's always a delicate balance between income, in the form of investments and contributions, and outgoings. Inflation means higher outgoings and more pressure on the collective purse. For LGPS funds, there are some actions that can be taken to manage cash and highly liquid assets. For those willing to invest for a longer period, or accept some credit or liquidity risk, there's an opportunity to create better returns. Our [article](#) explores some of these options in more depth. Ultimately, this is about investors being more 'intentional' in their approach to cashflow management.

McCloud – still more to follow

On 6 April DLUHC published its [response](#) to its autumn 2020 consultation on the changes required to the LGPS to address the discrimination outlined in the McCloud judgment. There are no real surprises although there are some areas where DLUHC have delayed decisions, including aggregation and flexible treatment. These topics will be taken forward into a further consultation in the Spring which will also include the proposed approach to interest and compensation. The intention is that the final regulations will come into force on 1 October, with backdated effect from 1 April 2014.

A round table for number crunchers!

The English and Welsh SAB arranged a meeting on 20 April involving all actuarial firms, audit firms, CIPFA, ICAEW and DLUHC to discuss accounting and audit challenges faced by LGPS practitioners. Through increased collaborative working the aim is to streamline audit processes to help funds with their IAS26 disclosures and employers with their IAS19/FRS102 disclosures. Going forward, a working group has been set up with the first meeting in early May. The group will take an in depth look at the issues surrounding the timing and availability of LGPS fund and employer level asset values. Please contact [Craig Alexander](#) if you have any questions about this.

Latest mortality projections

Actuaries use the profession's '[CMI Mortality Projections Model](#)' to set future mortality improvement assumptions when performing valuations. This model is updated annually, with the next edition due for publication by end June 2023 (with data calibrated to the period 1982-2022). Following a consultation, and amidst headlines about 'excess deaths' remaining high post COVID pandemic, the default parameters for the CMI 2022 model will place zero weight on data from 2020 and 2021, and 25% weight on 2022 data. We'll be working closely with longevity experts at [Club Vita](#) to understand how these default parameters should be adjusted to reflect the bespoke socio-economic characteristics of individual members participating in the LGPS.

In brief...

- **Capital markets update** - please click [here](#) for our latest quarterly update on market trends.
- **State Pension Age review** – the House of Commons Library has produced an updated [briefing paper](#) about how the SPA is reviewed and the accompanying timetable.
- **Climate risks and TCFD** – hot on the heels of its [review](#) of climate-governance TCFD reports, TPR has published a [blog](#) to advertise its campaign to improve ESG and climate reporting.
- **Inflation** – the latest [ONS data](#) shows that CPI for the year to March 2023 was 10.1% (slightly lower than the February figure of 10.4%). The equivalent RPI figure was 13.5%.
- **TPR priorities** – the Regulator has issued its [Corporate Plan for 2023/24](#) setting out its priorities for the year ahead. Its new General Code of Practice is eagerly awaited.
- **Liability Driven Investment (LDI)** – more on this ongoing topic, with the FCA publishing [guidance](#) aimed at LDI managers to improve resilience, and the TPR issuing [guidance](#) on practical measures for trustees to consider when using leveraged LDI to manage their risks.
- **Cash Equivalent Transfer Values (CETVs)** – HMT has updated its [guidance](#) on setting discount rates for CETVs, to bring it into line with the SCAPE discount rate announced on 30 March.
- **Pension transfer advice** – the FCA are concerned about overseas advisers targeting members of UK DB schemes who are living abroad. They [highlight](#) the risks involved to UK IFAs who may be recruited by the overseas adviser to provide the 'appropriate independent advice' that would allow (for CETVs over £30k) the transaction to proceed.

Appendix

2022 valuation – The Big Picture

<https://event.on24.com/wcc/r/4193097/35C31F5214C4E0B6850ADB12AF54FE41>

<https://www.hymans.co.uk/insights/research-and-publications/publication/lgps-2022-valuation-the-big-picture/>

<https://vimeo.com/820949629?share=copy>

Spotlight on Funding Risk Monitoring

<https://event.on24.com/wcc/r/4219377/7E447025BCA7ACE65C82C1D7B8F7346E>

Scottish 2023 valuations

<https://event.on24.com/wcc/r/4199215/5777A66E823B273563C7D7FCA20273A2>

What does heightened inflation mean for the LGPS?

<https://www.hymans.co.uk/insights/research-and-publications/publication/briefing-note-what-does-heightened-inflation-mean-for-the-lgps/>

Managing liquidity and cashflows

https://www.hymans.co.uk/media/uploads/Briefing_Note_-_Managing_cashflows_in_the_LGPS_%E2%80%93_what_are_your_options.pdf

McCloud– still more to follow

<https://www.gov.uk/government/consultations/local-government-pension-scheme-amendments-to-the-statutory-underpin/outcome/amendments-to-the-local-government-pension-scheme-statutory-underpin-government-response#executive-summary>

Latest mortality projections

<https://www.actuaries.org.uk/learn-and-develop/continuous-mortality-investigation/cmi-investigations/mortality-projections>

<https://www.clubvita.net/uk/>

In brief...

<https://www.hymans.co.uk/insights/research-and-publications/publication/capital-markets-update-spring-2023/>

<https://commonslibrary.parliament.uk/research-briefings/sn06546/>

<https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/review-of-climate-related-disclosures>

<https://blog.thepensionsregulator.gov.uk/2023/04/14/great-expectations-why-trustees-must-be-ready-to-step-up-on-esg-and-climate-reporting/#more-2560>

<https://www.ons.gov.uk/economy/inflationandpriceindices>

<https://www.thepensionsregulator.gov.uk/en/document-library/corporate-information/corporate-plans/corporate-plan-2023-24#24cd3fe86ec64937b30563b94ddb97ff>

<https://www.fca.org.uk/publications/multi-firm-reviews/further-guidance-enhancing-resilience-liability-driven-investment>

<https://www.thepensionsregulator.gov.uk/en/document-library/scheme-management-detailed-guidance/funding-and-investment-detailed-guidance/liability-driven-investment>

<https://www.gov.uk/government/publications/basis-for-setting-the-discount-rates-for-calculating-cash-equivalent-transfer-values-payable-by-public-service-pension-schemes#full-publication-update-history>

<https://www.fca.org.uk/firms/accepting-pension-transfer-referrals-overseas-advisers-uk-authorised-firms-responsibilities>