

# Current issues in the LGPS

February 2022

## LGPS priorities for the year ahead

With the new year barely a few days old, we dusted down our crystal ball to predict the priorities that funds are likely to focus on during 2022. Valuations, climate change, inflation, Good Governance and a few more... click [here](#) and see if you agree!

## Levelling Up by investing locally

The Government's [white paper](#) states an ambition for the LGPS to invest up to 5% of its assets in local projects. We believe that LGPS funds (and pools), with their long-term investment horizons and strong local knowledge and networks, are well placed to play a key role here. However, the primary purpose of LGPS funds is to pay pensions and their main objective is to deliver investment returns which, coupled with an affordable level of contributions from employers, are sufficient to meet this obligation. This does not preclude local investments, but funds are required to ensure that the prospective risk and returns of such investments are at least as attractive as those available elsewhere. Amending their mandate to incorporate local impact objectives would certainly facilitate LGPS Funds' contribution to Levelling Up, especially if this can be achieved without adversely affecting outcomes for existing stakeholders.

## Welcome to 2022!

The valuation year in England and Wales is nearly upon the LGPS. We have seen an increase in preparatory work over the last month with funds reviewing the underlying valuation assumptions, assessing employer covenant to feed into funding plans and investigating funding and investment strategy for long-term employers such as councils. The last area is particularly exciting given a lot of funds are dealing with a new phenomenon – full funding. Our recent [60 second summary](#) considers what this may mean, particularly for your investment strategy.

## Section 13 – a lucky number?

Just before Christmas, the Government Actuary's Department (GAD) published its report on the 2019 LGPS valuations in England and Wales, prepared under Section 13 of the Public Service Pensions Act 2013. The report checks whether local fund valuations comply with four criteria and sets out some recommendations for the Scheme Advisory Board and DLUHC to consider. The 2019 report noted the scheme's strong funding position and the positive steps taken since the last report in 2016. Our [60 second summary](#) discusses the report in more detail, and it was also discussed in our recent [webinar](#).

## Scottish Amendment Regulations

The SPPA's [consultation](#) on the draft Local Government Pension Scheme (Scotland) (Amendment) Regulations 2021 closed on 21<sup>st</sup> January. The consultation covered a number of areas, including:

- Allowing access to benefits without employer consent, for pre 1 April 2015 leavers
- Allowing pension credit members to access benefits from age 55
- Changes to address discrimination in the way that certain survivor benefits are calculated
- Providing further flexibilities for fund authorities in dealing with employers and allow for amendments to an employer's contribution rate in between valuations.

We are largely supportive of the proposed changes, although our [consultation response](#) does raise a number of practical questions concerning the application of the employer flexibilities.

### **Nudge-nudge, know what I mean?**

DWP has recently [responded](#) to its consultation 'Stronger Nudge to pensions guidance' and at the same time laid [legislation](#) before Parliament, that comes into force on 1 June 2022. Although aimed at those aged 50+ seeking to access money purchase benefits the 'stronger nudge' will still apply to the LGPS where a member seeks to access or transfer out their AVCs. Administering authorities will, therefore, need to take steps to comply with a number of requirements that are helpfully summarised in our [60 second summary](#).

### **Driving Good Governance in the LGPS**

This year, we anticipate that the Department of Levelling Up, Housing and Communities will progress recommendations from the Good Governance project and consult on formal guidance. However, you don't need to wait for the recommendations to be implemented. For example, do you have a robust conflict management policy in place? Or an enhanced governance compliance statement? [Here](#), Susan Black talks through the key actions your fund can do now to get on the front foot.

### **Higher inflation – is it here to stay?**

Higher inflation was widely predicted as economies recovered from the pandemic, but it has risen further and faster than expected. How high will it go, and how long will higher inflation persist? We believe it will be transient and expect it to fall sharply in the latter half of 2022 as demand normalises, supply chain issues are addressed, fiscal and monetary policy is further tightened and deflationary forces such as demographics and technological innovation reassert themselves. Indeed, there is a risk that inflation overshoots to the downside if policy responses are misjudged. Nonetheless, we accept higher inflation may persist especially if expectations it will happen become established. We recommend funds review how well protected their funds are against inflation risk. Please register [here](#) to listen to our webinar on the subject where Philip Pearson, Head of our LGPS Investment team, was joined by Andrew Goodwin of Oxford Economics.

### **ONS population projections**

The latest national population projections were issued by the ONS in January and are the first to include COVID-19 data. The inclusion of some of the 2020 and 2021 data will take account of the large number of COVID-19 related deaths in the first 18 months of the pandemic. Very limited allowance has been made for the lingering after-effects of the pandemic which could have a greater impact on long term mortality trends. The projections largely consider the pandemic as "two lost years" for mortality improvements, with 2022 resuming where 2019 left off. Club Vita's commentary [here](#) provides more information about the implications of these projections for the upcoming state pension review (see 'In brief...' below) and for pension funds in general.

### **LGPS employer training – we've got you covered!**

69% of attendees at our recent [administration challenges and changes webinar](#) identified LGPS employer knowledge as a key challenge, with a knock-on impact on almost all areas of service delivery by administration teams. We recently announced our intention to provide online training sessions for LGPS employers. The initial three training sessions will cover pensionable pay, employer responsibilities and ill health retirement. Each session will have a 45 minutes presentation, quiz and time for Q&A at the end – all done within an hour! Sessions start on 9<sup>th</sup> February (with the next two on 24<sup>th</sup> February and 9<sup>th</sup> March). Please register your interest [here](#) and we will provide details and costs.

### **LGPS events round-up**

In case you missed any of our recent LGPS webinars, or would like to watch again, you can now catch them on demand using the links below:

- [LGPS Business Planning for 2022/2023](#): Hear from Andrew McKerns and Kate Dickson on objective setting for the year ahead, including how to build and deliver your business plan and set measures of success.
- [Keeping the LGPS Connected](#): Philip Pearson is joined by Andrew Goodwin, Chief UK Economist at Oxford Economics to talk through the drivers of higher inflation and the inflation outlook for 2022 and beyond.
- [Themes for 2022 Valuation](#): Peter MacRae discusses why climate change risk affects funding and how you can understand its impact, and Catherine McFadyen focuses on what the latest Section 13 report means for the 2022 valuation.

### Local Government Association Conference, Bournemouth

The annual LGPS Governance Conference took place last month in Bournemouth. The conference, chaired by the Scheme Advisory Board's chairman Councillor Roger Phillips, covered a range of topics, including McCloud, divestment, cyber risk and the 2022 valuations. As always, we've put together our conference highlights which you can [read here](#).

#### In brief...

- Changes to the language of divorce law in England and Wales, made under the *Divorce, Dissolution and Separation Act 2020*, are being extended to the [Family Procedure Rules](#) under which the courts operate. For example, a 'decree of divorce' will become a 'divorce order' and a 'decree nisi' will be known as a 'conditional order'.
- Treasury has [confirmed](#) that LGPS pensions in payment will be increased from 11 April 2022 by 3.1%, in line with September 2021's CPI inflation rate.
- The Pensions Regulator (TPR) has [chided](#) pension scheme trustees for not reporting enough scam suspicions.
- The Police Superintendents' Association (PSA) is heading to the Court of Appeal in a bid to prevent proposed changes (in connection with the McCloud age discrimination ruling) to public service pension schemes being implemented in April, after the High Court previously dismissed a judicial review claim.
- A judicial review is expected to take place during the summer of 2022 on the Government's decision to replace the Retail Prices Index (RPI) with the housing cost-based version of the Consumer Prices Index, known as CPIH, from 2030.
- A recent [TPR blog](#) includes a comment that the 2nd consultation on the draft single Code will now be launched in the late summer of 2022.
- The DWP has begun a [statutory review of State pensionable age](#). It has commissioned reports from GAD and a team led by Baroness Neville-Rolfe, and will consider regional and group differences. The focus is likely to be on the timing of the move toward SPA 68.
- The Department for Work and Pensions has launched a consultation on the draft Pensions Dashboards Regulations, which you can read [here](#). The closing date is 13 March 2022 and we will be circulating our thoughts in due course.

## Appendix

### **LGPS Priorities for the year ahead**

<https://www.hymans.co.uk/insights/blogs/blog/key-priorities-for-the-lgps-in-2022/>

### **Levelling Up by investing locally**

<https://www.gov.uk/government/publications/levelling-up-the-united-kingdom>

### **Welcome to the 2022!**

<https://www.hymans.co.uk/insights/research-and-publications/publication/sixty-second-summary-youre-fully-funded-what-next/>

### **Section 13 – a lucky number?**

<https://www.hymans.co.uk/insights/research-and-publications/publication/the-2019-section-13-report-what-does-it-mean-for-your-fund/>

<https://event.on24.com/wcc/r/3598980/B2EE17481A4EE0D51C29265A0B9680F4>

### **Scottish Amendment Regulations**

<https://pensions.gov.scot/local-government/scheme-governance-and-legislation/consultations>

[https://www.hymans.co.uk/media/uploads/The\\_Local\\_Government\\_Pensions\\_Scheme\\_\(Scotland\)\\_Regulations\\_2018\\_-\\_Hymans\\_Robertson.pdf](https://www.hymans.co.uk/media/uploads/The_Local_Government_Pensions_Scheme_(Scotland)_Regulations_2018_-_Hymans_Robertson.pdf)

### **Nudge-nudge, know what I mean?**

<https://www.gov.uk/government/consultations/stronger-nudge-to-pensions-guidance/outcome/government-response-stronger-nudge-to-pensions-guidance>

<https://www.legislation.gov.uk/ukSI/2022/30/contents/made>

<https://www.hymans.co.uk/insights/research-and-publications/publication/nudge-nudge-know-what-i-mean/>

### **Driving Good Governance in the LGPS**

<https://vimeo.com/672375949>

### **Higher inflation – is it here to stay?**

<https://event.on24.com/wcc/r/3602477/D95501F5EB9DC835434B37F0D1119158>

### **ONS population projections**

<https://www.actuarialpost.co.uk/article/comment-on-the-latest-ons-population-figures-20415.htm>

### **LGPS employer training – we've got you covered**

<https://www.hymans.co.uk/insights/webinars/lgps-administration-challenges-and-changes/>

<http://web.hymans.co.uk/hymanscouk->

<atwsv/pages/nlbjwl2weeypjwaisbsmta.html?PageId=c249b034965dec118f8f0022481b0cb4>

**LGPS events round-up**

<https://www.hymans.co.uk/insights/webinars/have-you-got-the-right-2022-23-business-plan-and-how-are-you-going-to-deliver-it/>

<https://event.on24.com/wcc/r/3602477/D95501F5EB9DC835434B37F0D1119158>

<https://www.hymans.co.uk/insights/webinars/themes-for-2022-valuation-a-spotlight-on-climate-risk/>

**Local Government Association Conference, Bournemouth**

[https://www.hymans.co.uk/media/uploads/Conference\\_Highlights\\_-\\_LGA\\_-\\_20-21\\_Jan\\_2022.pdf](https://www.hymans.co.uk/media/uploads/Conference_Highlights_-_LGA_-_20-21_Jan_2022.pdf)

**In brief...**

[https://www.legislation.gov.uk/ukxi/2022/44/pdfs/ukxi\\_20220044\\_en.pdf](https://www.legislation.gov.uk/ukxi/2022/44/pdfs/ukxi_20220044_en.pdf)

<https://questions-statements.parliament.uk/written-statements/detail/2022-01-20/hcws548>

<https://www.thepensionsregulator.gov.uk/en/media-hub/press-releases/2022-press-releases/failing-to-report-scams-is-a-failure-to-protect-savers-says-tpr>

<https://blog.thepensionsregulator.gov.uk/2021/12/15/db-code-taking-the-time-to-deliver-the-right-funding-measures/>

<https://www.gov.uk/government/news/second-state-pension-age-review-launches>

<https://www.gov.uk/government/consultations/pensions-dashboards-consultation-on-the-draft-pensions-dashboards-regulations-2022>