

Current issues in the LGPS

November 2022

SAB statement on 2022 valuation contribution rates

The England & Wales Scheme Advisory Board have just issued [a statement](#) advising caution around employer contributions and emphasising the importance of stability at the 2022 valuations. Funds advised by Hymans Robertson's actuarial team should have no concern over the contents of the statement or cause it to review or alter the assumptions, funding plans and contribution rates that have been agreed and set to date. Your actuary should already have been in touch with further detailed thoughts on the statement, but please do make contact with them if you have any further questions.

Further insights on the 2022 valuation

The latest webinar in our 2022 valuation series took place at the start of October. We focussed on the emerging results at employer level, what current high inflation means for your funding and investment strategy and our consultants' thoughts on the implications for LGPS funds as a result of the recent market volatility. If you missed the webinar, you can watch the recording [here](#).

The valuation fun begins in Scotland

Although it's still a while until 31 March 2023, Scottish LGPS funds will need to start thinking about the 2023 valuation and putting plans in place. Our 2023 [valuation hub](#) has recently been launched along with a [guide](#) to help you start your thinking about how to make the 2023 valuations the most successful yet.

The LGPS gender pensions gap

We've recently been looking at whether a gender pensions gap exists in the LGPS (it does) and to what extent (quite significantly). Our recorded [webinar](#) on the topic shared some of our analysis. We were joined by Lauren Wilkinson of the Pensions Policy Institute who explained more about the gap, why it exists and possible ways of improving it. We expect this topic to attract more attention over the coming months and can prepare analysis of your own fund's membership to quantify the level of gender pensions gap that exists in your data. Please contact your usual Hymans Robertson consultant for further details.

Climate risk reporting

Responses to [DLUHC's consultation](#) on the management of climate risks and TCFD reporting are due by 24 November 2022. We are generally supportive of the proposals although note that they create a framework for action. Much of the detail will follow within statutory guidance although we hope this will not be overly restrictive on funds, particularly during the early years of implementation. Addressing climate risk requires action to create real world impacts and we consider that the required target setting should be linked to identifiable actions and outcomes. We have just published our own consultation response [here](#).

Spotlight on inflation:

1. InflationWatch – the latest indicators and forecasts

Our quarterly publication, [InflationWatch](#), has just been published. Though headline CPI inflation is running at over 10% year-on-year, the Government's energy price guarantee will likely limit further rises. However, tight labour markets and strong wage growth are feeding into core inflation, currently 6.5% year-on-year, which is of far more concern to central bankers than the peak of a headline spike. Near-term risks to headline inflation are more balanced than previously, but the risk that inflation remains elevated over the medium-term have risen. Interest rate expectations have risen substantially, and are already impacting activity via the mortgage markets, but it remains to be seen how quickly inflation returns towards target over the next few years.

2. What does soaring inflation mean for the LGPS?

For the LGPS and its employers, the September inflation figure is particularly meaningful as it is normally used to determine the pension increase for the following year. Therefore, the 19 October [announcement from the Office for National Statistics](#) – of a whopping 10.1% increase in the Consumer Prices Index (CPI) – gives rise to many different considerations for LGPS funds. Robbie McInroy examines these in more detail in his [recent article in Room151](#).

Update on capital markets

Central banks are likely to raise rates to the extent that a period of sub-trend growth returns inflation to target on a sustainable basis. In our [Capital Markets Update Autumn 2022](#) we consider whether sovereign bond markets are now pricing in a degree of tightening that will see central banks achieve their goals, and if risk asset prices are yet reflecting the likely slowdown in economic activity required.

LGPS governance: best of times or worst of times?

It is looking likely that when the consultation on the Good Governance recommendations lands it will include a requirement for LGPS funds to have a workplace plan. Susan Black uses a Dickens analogy in her [Room151 article](#) to explore how this could be an opportunity to create a future generation of LGPS leaders.

TPR enforcement (including Public Sector schemes)

The Pensions Regulator (TPR) recently refreshed its [approach](#) to enforcement in relation to occupational pension schemes - including public service pension schemes. A snapshot of the new enforcement approach can be seen in this TPR [blog](#). The two main drivers for the publication of this new approach appear to have been increased a) TPR powers as a result of the Pension Schemes Act 2021, and b) the TPR drive for transparency about how and why they do things. Some key high-level points in the document are clarity on the 'enforcement journey'. This identifies outcomes that might be pursued and provides confirmation that TPR adopts a principles-based approach, focussing on risk and harm factors, when deciding which enforcement cases they pursue.

LGC Investment Seminar Scotland (20-21 October 2022)

Iain Campbell had the pleasure of presenting at and chairing part of the LGC Investment Seminar Scotland last month. An interesting and relevant agenda covered a wide variety of topics, including what is keeping the LGPS awake at night, reasons to be both positive and negative on markets, stewardship, infrastructure, private debt and even a fund merger. Our [conference highlights](#) provide a summary of the key takeaways from each presentation for those who couldn't make it.

Upcoming webinars & events

Effective Business Planning in the LGPS

There's still time to [register for our business planning webinar](#) on 10 November. This is the first of two webinars where we'll discuss the successful implementation and delivery of a business plan. We'll focus on reviewing your previous business plan; things your fund should be thinking about for 2023/24; engaging with your Committee and Board; and how you can plan and manage your resource to best deliver your objectives.

Room151's LGPS Investment Forum

We were delighted to once again sponsor Room 151's LGPS Investment Forum which took place in London on 2 November. Our very own Chris King took part in a strategic asset allocations panel discussion. Keep an eye out for our conference highlights which will be issued soon.

Pension Managers' Conference

November also sees the return of the annual Pension Managers' Conference in Torquay. The two-day event takes place on 15-16 November and provides the opportunity to consider a range of current topics and issues in the LGPS. We hope to see lots of you there – we have a stand again this year so do pop by and say hello. You can apply to attend [here](#).

Could summer be the new winter for mortality rates?

2022 began with lower mortality than usual for the time of year, as discussed in [Douglas Anderson's blog](#). However, spring and summer saw more deaths than expected. By the end of September, the cumulative 'excess' UK deaths exceeded 20,000 – this compares to over 80,000 and 60,000 'excess' deaths during 2020 and 2021 respectively. However, deaths mentioning COVID-19 over this period were relatively low (c.5%).

So, what's causing these extra deaths? Will the pattern continue into the winter season, or could summer be the 'new winter' for 2022 mortality rates? We'll continue to monitor the changing situation over the months ahead.

In brief....

- **LAPF award shortlist** - We're thrilled to be shortlisted in two categories for this year's LAPF Investment Awards – LGPS Service Provider of the Year and Investment Advisory Service of the Year. Winners will be announced on 15 December. Good luck to all of the nominees.
- **LDI strategies** – the House of Commons Work and Pensions Committee has [called for evidence](#) on the recent problems experienced by DB schemes with LDI. It's planning to conduct a wider enquiry into DB schemes, in 2023, covering funding requirements and 'arrangements to protect pension benefits when a scheme is wound up.' LDI strategies are relatively rare in the LGPS.

Appendix

SAB statement on 2022 valuation contribution rates

https://lgpsboard.org/images/Other/October2022_SAB_statement_on_employer_contributions.pdf

Further insights on the 2022 valuation

<https://event.on24.com/wcc/r/3950172/01A7072C4FF888B44849C0E5EB1DB705>

The valuation fun begins in Scotland

<https://www.hymans.co.uk/lgps-2023-valuation/>

https://www.hymans.co.uk/media/uploads/Preparing_for_the_2023_valuations_timeline.pdf

The LGPS gender pensions gap

<https://event.on24.com/wcc/r/3985777/53D88810914A7CB04C07563268193E3A>

Climate risk reporting

<https://www.gov.uk/government/consultations/local-government-pension-scheme-england-and-wales-governance-and-reporting-of-climate-change-risks>

<https://www.hymans.co.uk/insights/research-and-publications/publication/consultation-response-governance-and-reporting-of-climate-change-risks/>

InflationWatch – the latest indicators and forecasts

<https://www.hymans.co.uk/insights/research-and-publications/publication/inflationwatch-november-2022/>

What does soaring inflation mean for the LGPS?

<https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/september2022>

<https://www.room151.co.uk/local-government-pension-scheme-investment/what-does-soaring-inflation-mean-for-the-lgps/>

Update on capital markets

<https://www.hymans.co.uk/insights/research-and-publications/publication/capital-markets-update-autumn-2022/>

LGPS governance: best of times or worst of times?

<https://www.room151.co.uk/local-government-pension-scheme-investment/lgps-governance-best-of-times-or-worst-of-times/>

TPR enforcement (including Public Sector schemes) updated

<https://www.thepensionsregulator.gov.uk/en/document-library/regulatory-and-enforcement-policies/scheme-management-enforcement-policy/introduction>

<https://blog.thepensionsregulator.gov.uk/2022/10/25/enforcement-strategy-policies-and-procedures/>

LGC Investment Seminar Scotland (20-21 October 2022)

https://www.hymans.co.uk/media/uploads/Conference_Highlights_LGC_Scotland_20-21_Oct_2022.pdf

Upcoming webinars & events

<https://event.on24.com/eventRegistration/EventLobbyServletV2?target=reg20V2.jsp&eventid=3974511&sessionid=1&key=22753AB46F6AC8226EAE27AAAD2BF570&groupId=4270946&sourcepage=register>

<https://swcouncils.gov.uk/events/pension-managers-conference/>

Could summer be the new winter for mortality rates?

<https://www.clubvita.net/uk/news-and-insights/uk-deaths-now-below-pre-covid-levels-whats-the-long-term-covid-legacy-for-pensioner-longevity>

In brief....

<https://committees.parliament.uk/call-for-evidence/2954/>