



Sporta Finance Special Interest Group Meeting Pensions

Martin Harlow, FIA

24 October 2019



Contents

UK overview

3

LGPS 2019 valuation

8

Questions

16



UK overview

Pensions in the UK



What's been happening in 2019?

Bit like a broken record...

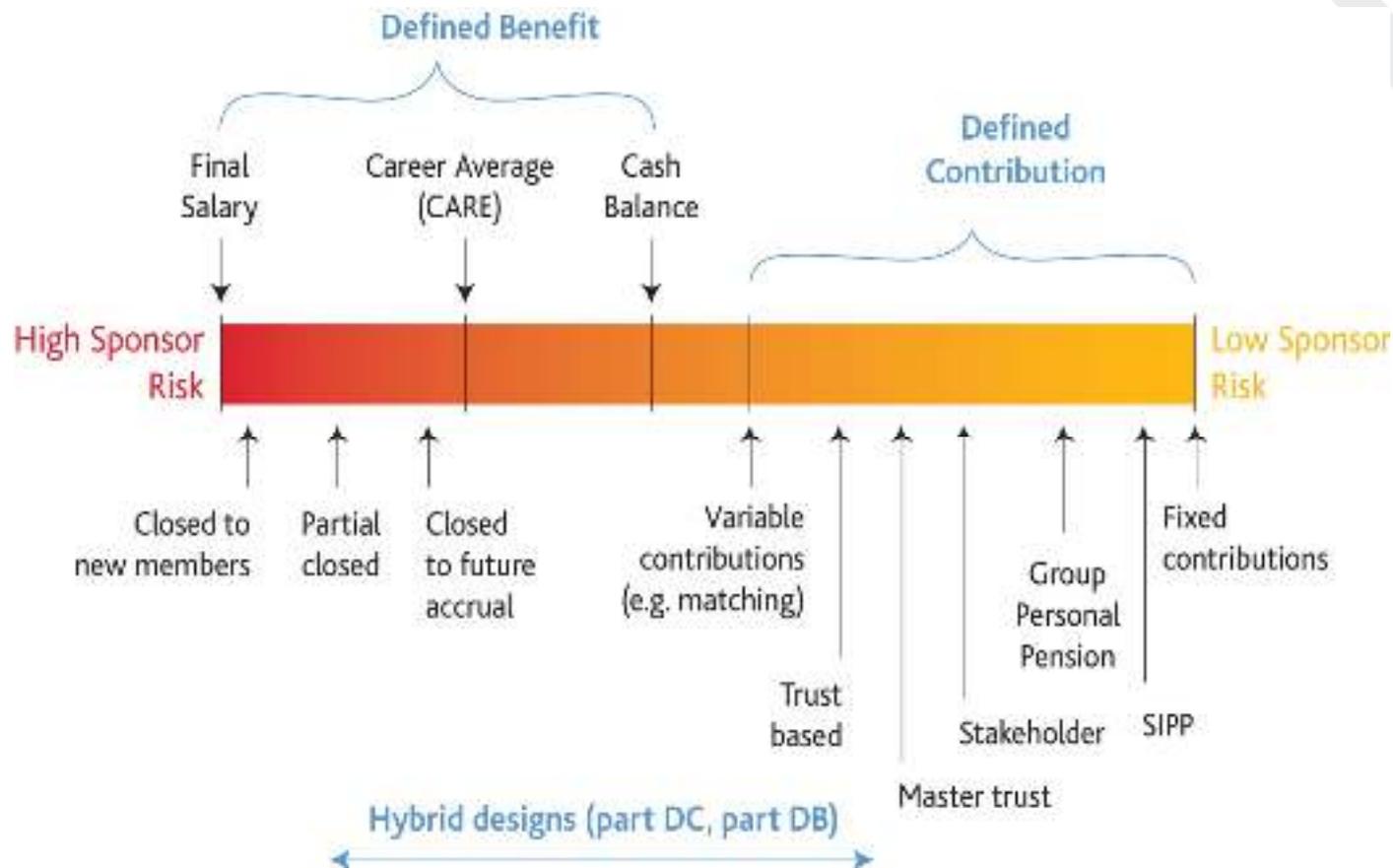
... record low gilt yields, again

... people living longer, again

... cost of service going up, again

... deficits getting bigger – maybe, investments might have performed well

High level summary of different types of pensions



October 2019...

Government attention has been elsewhere...

... but a new pensions bill was mentioned in the Queen's Speech on October 14

What's new?

- Pension dashboards
- Collective defined contribution schemes and
- New powers for The Pensions Regulator to regulate private sector pension schemes

With no majority, will the bill make it into law? Would a General Election influence the bill's future? There appears to be cross-party support.

LGPS will need to provide data to pension dashboards, to give everyone easy access to information about their pensions, who manages them and what they are worth.

Collective DC – Royal Mail will lead – think of it as DC but with some pooling of risks, which may prove popular



LGPS 2019 valuation

LGPS valuation 2019 – key issues a year ago

**Investment
market
conditions...
Brexit?**

**Public sector
“cost cap
mechanism”**

**“Moving the
goalposts” ...
GMP equalisation**

**Change of
emphasis?**

Covenant

LGPS valuation 2019 – where are we now?

**Investment
market
conditions...
Brexit?**

Market conditions are known – LGPS increasingly adopting methods to smooth out volatility

Brexit... say no more

First results starting to come out... most likely outcome is going to be a higher cost of future service, and your funding level (notional assets divided by liabilities) is possibly going to be better

... but beware LGPS funds moving the goalposts and increasing prudence (especially where covenant is weak, like many Sporta entities)

LGPS valuation 2019 – key issues a year ago

Are you all sitting comfortably? Good...

Things were progressing and then came the McCloud judgment...

**Public sector
“cost cap
mechanism”**

Once the benefits are confirmed, we still have to have the cost cap calculations carried out to see if benefits need to change from 1 April 2019

- In 2014, the LGPS benefits were amended to CARE (49ths accrual, retirement age of state pension age)
- There was transitional protection for those over 55 on 1 April 2012, who got the better of the old and the new benefits
- This has been deemed unlawful discrimination
- Government has said this needs to be remedied via industrial tribunals – currently we therefore don't know what benefits were earned in the LGPS since 1 April 2014

LGPS valuation 2019 – key issues a year ago

Good news!!!

GMP equalisation is proving to be fairly immaterial for the LGPS; you might have seen a small allowance made in your latest accounts...

... but some funds made some allowance back in 2016, so approach might vary from fund to fund

**“Moving the
goalposts” ...
GMP equalisation**

LGPS valuation 2019 – key issues a year ago

Still too early to tell if there are any trends forming following this valuation

Covenant does seem to be more recognised than it previously has been – more funds are proactively looking at whether admission bodies can afford what they are standing behind in terms of LGPS liabilities

Change of emphasis?

Covenant

Anything new with the LGPS?

There have been a few changes made to regulations, others are under consultation

- Employers with a surplus when they exit the LGPS can now be paid back that surplus – so the “one sided” risk on funding has gone
- New discretions apply and need to be covered in your discretions policy
- New Fair Deal still does not apply to TUPE transfers of local authority staff, but intention of consultation in early 2019 appeared to be to apply it going forwards
- A consultation closed on 31 July 2019 with an intention to provide more flexibility on exit where a cessation valuation requires payments from the employer... some funds do this already on a discretionary basis, having it in regulations would be useful for employers with admission bodies in deficit on cessation (the large majority!)
- The same consultation considered changes to the valuation cycle to tie in with the cost-cap valuations

Checklist for each Admission Body...

-  Copy of **admission agreement**
-  Copy of **commercial contract** (*or at least the pension clauses*)
-  Latest **Funding Strategy Statement** for each Fund
-  **Are cessation risks known**, should they be monitored?
-  **Contact** at the Fund for administrative issues
-  **Discretions policy** up to date



 Questions?



Disclaimers

This advice has been commissioned by and is addressed to Sporta for its exclusive use. Its scope and purpose is to provide an update on pensions to its Finance Special Interest Group Meeting and should not be relied upon for detailed advice or taken as an authoritative statement of the law. We are providing this advice under the terms of our engagement with Sporta.

When preparing this presentation we have taken into account key issues, but have not taken into account issues for individual entities. We have used public information which we have accepted without independent checking. We do not accept responsibility for any errors that may arise that are due to such information being incorrect. We are not lawyers or accountants. If you believe that you require legal or accounting advice then you must consult an appropriately qualified professional.

This presentation may not be shared with any other party without our prior written consent, except to comply with statutory requirements. No parties other than Sporta may rely on or make decisions presentation on this advice (whether they receive it with or without our consent). XPS Pensions Group plc and its subsidiaries ("XPS Pensions Group") and any employees of XPS Pensions Group acknowledge no liability to other parties. This presentation has no wider applicability. It is not necessarily the advice that would be given to another client or third party whose objectives or requirements may be different. This presentation is up to date as at the date of writing and will not be updated unless we confirm otherwise. We retain all copyright and intellectual property rights.



Thank you

Martin Harlow FIA / Senior Consultant

T: 0118 313 0700

E: martin.harlow@xpsplc.com

Registration

XPS Pensions Consulting Limited, Registered No. 2459442.

XPS Investment Limited, Registered No. 6242672.

XPS Pensions Limited, Registered No. 3842603.

XPS Administration Limited, Registered No. 9428346.

XPS Pensions (RL) Limited, Registered No. 5817049.

All registered at: Phoenix House, 1 Station Hill, Reading, RG1 1NB.

Authorisation

XPS Investment Limited is authorised and regulated by the Financial Conduct Authority for investment and general insurance business (FCA Register No. 528774).

