

Conference highlights

LGPS Governance Conference - Public Service Pension Reform – Life After Hutton

The 16th Annual LGPS Governance Conference took place in York on 23 and 24 January 2020, opened by Scheme Advisory Board (SAB) Chair, Cllr Roger Phillips. The conference covered a range of topical items for the Local Government Pension Scheme, including Responsible Investment, governance, compliance, actuarial and legal.

Do get in touch with your usual Hymans Robertson contact if you wish to discuss something in more detail.

Day 1 - Keynote Address

Anthony Arter – The Pensions Ombudsman

- The PO is impartial, customer-focussed and a free alternative to courts
- LGPS complaints have been steady at around 300 a year
- 24% of LGPS complaints were upheld in 2018/19 (lower than average of 28% across for all schemes)
- Volumes of transfer complaints are reducing. Complaints relating to scams are low.
- 47% of LGPS complaints are about ill health. Member communication is very important and can reduce complaints.

How the SAB levy is spent

Cllr Roger Phillips, Scheme Advisory Board Chair.

A look at the work being undertaken by the SAB including a review of its achievements.

- The integrity of the scheme is vital – it supplies dignity in retirement for many people.
- SAB website contains lots of documents and links. There are now c15,000 employers and £275bn in assets.
- The latest MHCLG minister is Luke Hall (appointed July 2019 although first meeting with SAB is only now about to take place!).
- SAB's achievements include the annual report, the code of transparency on fees (developed with the Investment Association and over 120 asset managers now signed up), good governance project, and work to date on Responsible Investment guidance and pooling governance (meeting to discuss next steps with Chairs of Joint Committee on 28 Jan).

Securing Compliance

Gerard Moore, Local Pension Board Chair – Northumberland, Powys and Bedfordshire

An evaluation of the role of LPBs from the coal face.

- The Board is a 'critical but supportive friend'.
- The relationship between Pension Committee, LPB and officers is crucial, with the democratic services officer playing a key role. A strong relationship between the LPB and Pensions Administration manager is also needed.
- Board agendas should include The Pensions Regulator, SAB and PO reports.
- TPR 'cohort review' contains lots of recommendation for LGPS funds to apply locally e.g. cyber security, cleaner data.

The Scheme member's perspective

Jon Richard, UNISON

A summary of the impact of the Hutton reforms from the fund member's viewpoint.

- The Government's implementation was an issue leading to lengthy union negotiations, strikes, and Danny Alexander's 25 year "guarantee" of no further reform.
- Member representatives are on LPBs, but not yet on all pools.
- The Government was told that cost management would cause issues e.g. austerity, mortality, pay growth.
- Pools are dictating to, rather than serving, funds. Running costs are a concern - funds should take back control.

Panel Session – Is the cost cap fit for purpose?

Chair Jeff Houston, LGA Head of Pensions;

Panel: Melanie Durrant, Barnett Waddingham; Alison Murray, Aon; Richard Warden, Hymans Robertson; Paul Middleman, Mercer.

Various questions were put to the panel of actuaries about the cost management (not just "cap") process and McCloud. Points included:

- Cost management being in a 'parallel universe' compared to actual costs paid by employers in the real world
- The risk that measuring long term cost cap assumptions, such as longevity, over short time periods can lead to a breach before the long-term trend is known.
- Recognition that McCloud may place a huge burden on LGPS administration teams

Day 2 - Keynote Address

Lord Hutton of Furness

Lord Hutton looked back over the period since his report was published on public sector reforms.

- Pace of change won't slow down; climate change is likely to be the biggest issue
- Auto enrolment has been a big success in terms of pensions provision but there are challenges around people not saving enough for retirement
- The key pillars of reform were 1) Career Average Revalued Earnings (fairer vs Final Salary), 2) cost management (transparency about who's paying what), and 3) governance (to demonstrate good stewardship)
- The report warned at the time against building in age related protection because of the danger of age discrimination.
- The UK is not a nation of savers – is more compulsion needed? Lord Hutton would like to see a 'Minister for Savings' where tax and pensions policy are joined-up instead of separate.

Regulating the reforms

Nick Gannon, The Pensions Regulator

How is the LGPS measuring up against TPR's standards on governance and administration?

- TPR is finalising the revised, single code of practice. The new code is a new way of approaching TPR's expectations rather than a new set of expectations.
- TPR is setting clearer expectations and moving towards a being a more proactive regulator. The message is "don't be afraid" and if you have a problem "we are here to help".
- Nick ran through TPR's annual survey results for 2018. The message is that the LGPS measures up pretty well but there is room for improvement.
- On annual benefit statements, it is better to get them out slightly late and 100% accurate than to send out inaccurate statements to hit the deadline.
- Highlights from the LGPS 'deep dive' visits were revealed – there is over-reliance on local authority controls (especially on cyber security), little documentation on internal processes in some funds, some risk registers lack details, and there is not enough monitoring of risks

Legal update

Kirsty Bartlett, Squire Patton Boggs

All you need to know to keep the lawyers at bay!

- The Pension Schemes Bill was reintroduced in the House of Lords on 7 Jan 2020. It will have a number of implications for LGPS funds.
- The Bill will strengthen the employment link between receiving scheme and member, so due diligence required for transfers will become greater. For example, the fund might need to see payslips to confirm the member is working where they say they are

- TPR's information gathering powers will be extended with new civil penalties where information is not volunteered
- Pensions Dashboard – a great idea but a big and complicated project. Accurate data will be essential to make it work. Will it become the “HS2 of pensions”?!
- On pensions taxation – we may see something about the taper in the next budget.

Why responsible investment matters

Caroline Escott, PLSA

The rise and rise of RI regulation and policy

- Policymaker interest? Risk-adjusted returns, investment in social sector and enterprises, mitigating climate risk (Boris Johnson is chairing the Government's response, highlighting its high importance).
- However, there are barriers in the form of a lack of client demand, a lack of standardised data, and insufficient member engagement.
- There is a strong political imperative to ensure some positive outcomes from United Nations climate change summit COP 26 in Glasgow later this year.
- RI guidance to be launched at PLSA conference in May.
- PLSA has lots of online guidance and tools. SAB guidance – phase 2 and 3 being worked on.

Investment spotlight

Deirdre Cooper, Investec Asset Management

A look at topical investment issues.

- We should talk less about “disinvestment” and more about “investment” and focus on opportunities. Current investment trends will not meet the commitments of the Paris agreement.
- We're on track for 5 degrees of warming - £2.4tn of investment is needed until 2035 to decarbonise
- Future trajectory of warming will depend on pace of policy response including use of technology
- Carbon footprinting has 3 scopes; scope 1 – direct emissions from factories, scope 2 – gas etc used by consumers, scope 3 – supply chain and use of products. Typically 75% of emissions are in scope 3.
- China is growing emissions but also investing heavily in research on carbon reduction