HYMANS ROBERTSON

Conference highlights

CIPFA LGPS Actuarial Summit 2020 – 7 February 2020 - London

CIPFA's annual conference involving all the LGPS actuarial firms plus GAD, covering topics such as climate risk, McCloud, good governance, the 2019 valuations, RPI changes, and Section 13.

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

Future direction of the Scheme
Jeff Houston (LGA)

Jeff gave a round-up of current LGPS political issues:

- Exit credit legislation progress hoped for in next few weeks
- Still pressure to allow HE/FE colleges to opt out of LGPS
- Pension taxation changes may not extend beyond NHS Scheme
- Conservative Party manifesto allowed for adoption of £95k exit cap legislation
- Some lawyers worryingly encouraging members to claim compensation for McCloud, which could interrupt Scheme-level changes
- Consultation coming re pension fund accounts reporting requirements on climate risk.

Exploring climate-related transition risks?
Stephanie Maier (HSBC)

- Global temperatures are rising, and climate risk is top concern for investment managers
- Government emissions targets are accelerating around the world
- This in turn will drive corporate behaviours, but companies increasingly committing in this area also
- There are gains to be made due to outperformance of competitors, and "green upside"
- Therefore investors ask what are the positive implications for them from these corporates, which in turn leads pension funds to ask "what does net zero mean for our investments?"
- Scenario analysis can show the implications of different paths to emissions targets.

The impact of McCloud
Melanie Durrant (Barnett Waddingham)

Melanie considered possible impacts on LGPS costs due to eventual McCloud remedy:

- Assume this remedy will increase benefits (likely extension of underpin), within HMT-set parameters, with LGPS being treated separately from the unfunded schemes
- However we don't know which members are in scope, or how long any remedy protection would apply

- Immediate action for funds: keep all data (especially hours/service) beyond standard retention limits
- McCloud remedy will have greater impact on younger members, and/or with higher pay awards, and/or if fewer withdrawals before retirement
- Impact is vey sensitive to assumptions and actual individual experience: eg just one significant pay rise could change whether the member is impacted or not
- Results vary significantly from one employer to another, as sensitive to membership profile.

Good Governance & the 2022 valuation
Douglas Green (Hymans Robertson)

Douglas looked ahead to what differences we might see in 2022, through the prism of the Good Governance project currently being progressed by the Scheme Advisory Board:

- Focus is on delivering outcomes, whilst leaving individual funds to design own inputs
- General pattern throughout the Good Governance recommendations is to (a) establish legal basis, (b) identify person(s) at each fund for delivering the outcomes, and (c) have reporting/evidencing framework
- Funds can take action now, without waiting for the forthcoming statutory guidance, to be well lined up for the 2022 valuation
- Particular areas for focus are: who would be the senior responsible LGPS officer? How to have employer representation? What conflicts exist? How to arrange proper knowledge & understanding? How to arrange appropriate resource and budget for the LGPS functions?

Funding challenges – 2019 style
Jonathan Teasdale (Aon)

Jonathan looked at Aon's experience of the actuarial valuations in England & Wales:

- At 2016, average (un-rebased) funding level was c.85%, and contributions averaged 24% of pay (split 17% Primary plus 7% Secondary)
- Strong 2016-19 asset performance due to high exposures to (strongly-performing) overseas equities
- However, high recent asset growth leads to lower return expectations, thus higher Primary contributions
- Life expectancies falling c.1-1.5 years from 2016 assumptions
- At 2019, expect average contributions reducing to 22% (split 20% Primary plus 2% Secondary).

Say goodbye to RPI?
Peter Gent (Mercer)

- CPIH (CPI including owner occupied housing costs) has been the official UK measure of inflation since 2013
- Index-linked gilts (ILGs) are linked to the different RPI measure, and LGPS liabilities are linked to CPI
- 2019 saw formal steps to move RPI to the CPIH methodology by 2030 – the latter is c.1% pa less than the former (mostly due to formula effect), so that a move would reduce the value of ILGs
- Analysis of recent movements in gilt prices suggests markets have allowed for an RPI reduction of c.0.2%-0.3% already
- Remaining 0.7-0.8% of possible fall would reduce ILGs values by c.15%
- Possibility of Government compensation (eg awarding ILG coupons by CPIH plus 1% p.a.)
- Fund decision re ILG holding depends on investment beliefs and risk management approach

Section 13 report on the 2016 triennial valuations
Michael Rae (GAD)

Michael outlined the rationale, process and previous results of the Section 13 process:

- Slightly fewer funds flagged in 2016 vs dry run in 2013
- Made several recommendations for 2019 valuations such as standardised dashboards
- Valuation assumptions will be set at local fund level, giving different contribution rates: there were some significant variations across the 88 funds re discount rates, pay growth, life expectancy improvements
- Different approaches to handling deficits including lengths of recovery plans
- GAD expect differences between different Funds' assumptions to be explained by local variations
- Additional focus in the 2019 valuations on treatment of McCloud, and long-term cost efficiency: as per Scottish 2017 analysis, plot funding level vs contribution rate
- Will be project managing the 2019 process, hopefully completed more quickly than 2016, but still not expected until summer 2021.

Panel Session

For the final session, all five actuary speakers were put on the spot by the audience, with the following:

- What opportunities are there for innovation in the wake of the valuations?
- Is Scheme maturity levelling off?
- How to get better engagement from Elected Members?
- In what order should the valuation and investment strategy review be conducted?
- What is a suitable % allocation to private markets?