

**NORTHUMBERLAND COUNTY COUNCIL PENSION FUND  
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**LGPS funds face six key challenges in 2018 – Aon**

**Written by Natalie Tuck**

Local Government Pension Funds face six key challenges in 2018, including meeting the April 2018 asset pooling deadline, according to Aon.

Commenting, Aon partner and head of public sector benefits consultancy Karen McWilliam said: “2017 has been an extremely busy year for public sector pension schemes and for those in the LGPS in particular. And there isn’t likely to be much let up as they approach the end of the year, given the 3 January deadline for the new MiFID II requirements relating to the classification of administering authorities.

“Most schemes will already be deep in their business planning for 2018/19, including budgeting and assessing what services can be outsourced for greater efficiency. But there are many other topics that will go into business planning – we have looked at those and see six top priorities.”

For example, although significant progress has been made towards **asset pooling** in 2017, funds will need to focus to meet the 1 April 2018 deadline. The way in which existing assets are moved to the new structures and how these continue to evolve to meet ongoing requirements also needs to be considered, Aon said.

“Administering authorities also have the continuing challenge of ensuring that the right governance arrangements are in place, and that everyone understands their responsibilities. This way decisions can be made by the appropriate person(s), with an appropriate level of transparency, and appropriate oversight of the Operators’ investments by administering authorities,” Aon said.

Schemes will also have to face up to the fact that **environmental and social governance** considerations are a growing concern for investors globally. Aon partner and investment consultant Colin Cartwright said: “The LGPS has been a big advocate of responsible investment in the UK – but now is the time for schemes to fully integrate their approaches into their strategic decision making processes.”

In addition, LGPS funds will need to turn their attention to **data quality**, something that is high on the agenda of The Pensions Regulator and has to be a focus of attention for schemes. They need to look closely at all administration matters and particularly on identifying data gaps/inaccuracies in relation to all fund employers and all categories of scheme members, Aon said.

“They then need to put a clear data improvement plan in place. Any opportunity to clear up historical data, such as old scheme part-time hours and annual CARE pay should be taken. This will enable administration teams to work more efficiently and to

avoid the need to continually check and resolve historical data issues," Aon said.

Furthermore, the number of employers within the LGPS continues to grow and financial challenges continue to affect all sectors, from higher/further education and housing associations and charities, to local authorities and other taxpayer backed bodies. This means that a key priority for 2018 is the need to ensure **employer risk** and funding are adequately assessed and embedded within governance structures and the risk register - as well as reflected in a scheme's funding strategy.

Aon partner and head of Public Sector Actuarial Consultancy Alison Murray said: "This is another reason for administering authorities to look more closely at their own employers and to ensure they have the right strategies in place. Aon has led the way in differentiating between employers as a core part of funding and contribution strategy, and we are pleased that others are now starting to follow suit."

Aon has also recommended that given the radical changes to the LGPS in recent years, a fundamental review of **pension fund resources** should be a priority if it has not already taken place. Aon asks, do all administering authorities have the appropriate amount and level of expertise in place to deliver a good quality and compliant service to its stakeholders, particularly given the ongoing challenges that they face?

And finally, despite it being business as usual in some ways, Aon noted that there has been no shortage of **legislative change** in recent years. But schemes need to remain agile and capable of responding to legislative developments. In 2018 this could include Fair Deal, the Exit Cap and any changes to the funding requirements relating to academies (and tier 3 too, although that might be 2019, as will any cost management changes).

These can be summarised as

## **6 key challenges were identified as:**

- Asset pooling
- Environmental and social governance
- Data quality/improvements
- Employer risk
- Appropriate resource and expertise
- Legislative change