



PENSIONS COMMITTEE SUPPLEMENTARY PAPERS

Thursday 10 March 2022

at 6.30 pm

Committee rooms, Hackney Town Hall

**Mark Carroll
Chief Executive**

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The press and public are welcome to attend this meeting

AGENDA

Thursday 10 March 2022

ORDER OF BUSINESS

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ACCESS AND INFORMATION

Location

Hackney Town Hall is on Mare Street, bordered by Wilton Way and Reading Lane, almost directly opposite Hackney Picturehouse.

Trains – Hackney Central Station (London Overground) – Turn right on leaving the station, turn right again at the traffic lights into Mare Street, walk 200 metres and look for the Hackney Town Hall, almost next to The Empire immediately after Wilton Way.

Buses 30, 48, 55, 106, 236, 254, 277, 394, D6 and W15.

Facilities

There are public toilets available, with wheelchair access, on the ground floor of the Town Hall.

Induction loop facilities are available in Committee Rooms and the Council Chamber

Access for people with mobility difficulties can be obtained through the ramp on the side to the main Town Hall entrance.

Copies of the Agenda

The Hackney website contains a full database of meeting agendas, reports and minutes. Log on at: www.hackney.gov.uk

Paper copies are also available from Governance Services whose contact details are shown on the front of the agenda.

Council & Democracy- www.hackney.gov.uk

The Council & Democracy section of the Hackney Council website contains details about the democratic process at Hackney, including:

- Mayor of Hackney
- Your Councillors
- Cabinet
- Speaker
- MPs, MEPs and GLA
- Committee Reports
- Council Meetings
- Executive Meetings and Key Decisions Notice
- Register to Vote
- Introduction to the Council
- Council Departments

RIGHTS OF PRESS AND PUBLIC TO REPORT ON MEETINGS

Where a meeting of the Council and its committees are open to the public, the press and public are welcome to report on meetings of the Council and its committees, through any audio, visual or written methods and may use digital and social media providing they do not disturb the conduct of the meeting and providing that the person reporting or providing the commentary is present at the meeting.

Those wishing to film, photograph or audio record a meeting are asked to notify the Council's Monitoring Officer by noon on the day of the meeting, if possible, or any time prior to the start of the meeting or notify the Chair at the start of the meeting.

The Monitoring Officer, or the Chair of the meeting, may designate a set area from which all recording must take place at a meeting.

The Council will endeavour to provide reasonable space and seating to view, hear and record the meeting. If those intending to record a meeting require any other reasonable facilities, notice should be given to the Monitoring Officer in advance of the meeting and will only be provided if practicable to do so.

The Chair shall have discretion to regulate the behaviour of all those present recording a meeting in the interests of the efficient conduct of the meeting. Anyone acting in a disruptive manner may be required by the Chair to cease recording or may be excluded from the meeting. Disruptive behaviour may include: moving from any designated recording area; causing excessive noise; intrusive lighting; interrupting the meeting; or filming members of the public who have asked not to be filmed.

All those visually recording a meeting are requested to only focus on recording councillors, officers and the public who are directly involved in the conduct of the meeting. The Chair of the meeting will ask any members of the public present if they have objections to being visually recorded. Those visually recording a meeting are asked to respect the wishes of those who do not wish to be filmed or photographed. Failure by someone recording a meeting to respect the wishes of those who do not wish to be filmed and photographed may result in the Chair instructing them to cease recording or in their exclusion from the meeting.

If a meeting passes a motion to exclude the press and public then in order to consider confidential or exempt information, all recording must cease and all recording equipment must be removed from the meeting room. The press and public are not permitted to use any means which might enable them to see or hear the proceedings whilst they are excluded from a meeting and confidential or exempt information is under consideration.

Providing oral commentary during a meeting is not permitted.

ADVICE TO MEMBERS ON DECLARING INTERESTS

Hackney Council's Code of Conduct applies to **all** Members of the Council, the Mayor and co-opted Members.

This note is intended to provide general guidance for Members on declaring interests. However, you may need to obtain specific advice on whether you have an interest in a particular matter. If you need advice, you can contact:

- The Director of Legal and Governance Services;
- The Legal Adviser to the committee; or
- Governance Services.

If at all possible, you should try to identify any potential interest you may have before the meeting so that you and the person you ask for advice can fully consider all the circumstances before reaching a conclusion on what action you should take.

1. Do you have a disclosable pecuniary interest in any matter on the agenda or which is being considered at the meeting?

You will have a disclosable pecuniary interest in a matter if it:

- relates to an interest that you have already registered in Parts A and C of the Register of Pecuniary Interests of you or your spouse/civil partner, or anyone living with you as if they were your spouse/civil partner;
- relates to an interest that should be registered in Parts A and C of the Register of Pecuniary Interests of your spouse/civil partner, or anyone living with you as if they were your spouse/civil partner, but you have not yet done so; or
- affects your well-being or financial position or that of your spouse/civil partner, or anyone living with you as if they were your spouse/civil partner.

2. If you have a disclosable pecuniary interest in an item on the agenda you must:

- Declare the existence and nature of the interest (in relation to the relevant agenda item) as soon as it becomes apparent to you (subject to the rules regarding sensitive interests).
- You must leave the room when the item in which you have an interest is being discussed. You cannot stay in the meeting room or public gallery whilst discussion of the item takes place and you cannot vote on the matter. In addition, you must not seek to improperly influence the decision.
- If you have, however, obtained dispensation from the Monitoring Officer or Standards Committee you may remain in the room and participate in the meeting. If dispensation has been granted it will stipulate the extent of your involvement, such as whether you can only be present to make representations, provide evidence or whether you are able to fully participate and vote on the matter in which you have a pecuniary interest.

3. Do you have any other non-pecuniary interest on any matter on the agenda which is being considered at the meeting?

You will have 'other non-pecuniary interest' in a matter if:

- i. It relates to an external body that you have been appointed to as a Member or in another capacity; or
- ii. It relates to an organisation or individual which you have actively engaged in supporting.

4. If you have other non-pecuniary interest in an item on the agenda you must:

- i. Declare the existence and nature of the interest (in relation to the relevant agenda item) as soon as it becomes apparent to you.
- ii. You may remain in the room, participate in any discussion or vote provided that contractual, financial, consent, permission or licence matters are not under consideration relating to the item in which you have an interest.
- iii. If you have an interest in a contractual, financial, consent, permission or licence matter under consideration, you must leave the room unless you have obtained a dispensation from the Monitoring Officer or Standards Committee. You cannot stay in the room or public gallery whilst discussion of the item takes place and you cannot vote on the matter. In addition, you must not seek to improperly influence the decision. Where members of the public are allowed to make representations, or to give evidence or answer questions about the matter you may, with the permission of the meeting, speak on a matter then leave the room. Once you have finished making your representation, you must leave the room whilst the matter is being discussed.
- iv. If you have been granted dispensation, in accordance with the Council's dispensation procedure you may remain in the room. If dispensation has been granted it will stipulate the extent of your involvement, such as whether you can only be present to make representations, provide evidence or whether you are able to fully participate and vote on the matter in which you have a non pecuniary interest.

Further Information

Advice can be obtained from Dawn Carter-McDonald, Interim Director of Legal and Governance Services on 020 8356 6234 or email dawn.carter-mcdonald@hackney.gov.uk



FS 566728

Update of funding as at 31 December 2021

This paper has been commissioned by and is addressed to London Borough of Hackney as Administering Authority of the London Borough of Hackney Pension Fund ("the Fund").

Its purpose is to provide an update on the overall fund level funding position and risk metrics as at 31 December 2021 and how it compares to the position at the last formal valuation of the Fund (31 March 2019). This paper contains a high level summary of the results (and charts). Further background on the methodology, data, reliances and limitations of these results is contained within the Appendix and the Fund's 2019 valuation report.

Key points to note on the commentary of this funding update are:

- The funding position is only a snapshot in time and is based on a single set of assumptions about the future. The funding level is therefore extremely sensitive to the choice of assumptions and market movements, in particular the expected future investment return assumption.
- Actual benefit payments in the future will be in respect of both service accrued up to today ("past service") and service that will be accrued in the future ("future service"). The funding position presented is only in respect of **past service** benefits.

Executive summary

Reported funding position	31 March 2019	31 December 2021
Assets (£m)	1,575	1,975
Past service liabilities (£m)	1,706	1,818
Surplus/(Deficit) (£m)	(131)	157
Funding level	92%	109%
Assumed future investment return	3.85%	3.83%
Likelihood of achieving this return*	72%	72%
Fully funded target	31 March 2019	31 December 2021
Funding target	100%	100%
Future investment return required to be 100% funded	4.30%	3.30%
Likelihood of achieving this return*	65%	80%

* likelihood of the Fund's portfolio achieving these returns over the next 20 years

Past service funding position: The reported past service funding position has improved. The Fund has a surplus of £157m at 31 December 2021 (compared to a deficit of £131m at 31 March 2019). The improvement has been largely driven by strong investment performance since 31 March 2019.

Investment outlook: The outlook for future investment returns has remained relatively similar. At 31 December 2021, future investment returns are expected to be 3.83% p.a. based on an 72% likelihood of being achieved (at 31 March 2019, the equivalent return was 3.85%p.a.).

Fully funded required rate: The likelihood of achieving the future investment returns needed to be fully funded has increased since the last valuation (there is now a 80% chance of achieving the returns needed).

Therefore, **the Fund is now more likely to have sufficient assets to meet earned benefit payments than at the previous valuation.**

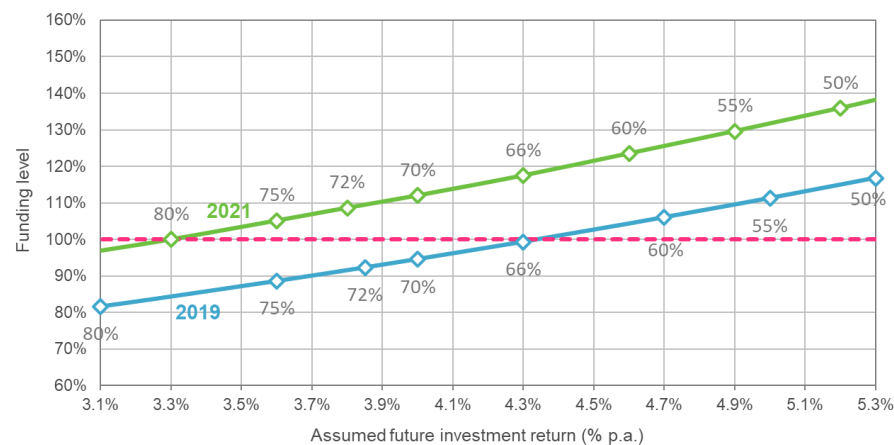
Funding level versus future investment return assumption

At 31 December 2021 the estimated funding position has improved with a surplus of £157m.

Reported funding position	31 March 2019	31 December 2021
Assets (£m)	1,575	1,975
Past service liabilities (£m)	1,706	1,818
Surplus/(Deficit) (£m)	(131)	157
Funding level	92%	109%

The funding level has been calculated using an future investment return assumption which has an 72% likelihood of being achieved. The reported funding level is extremely sensitive to this likelihood (i.e. the level of prudence being adopted).

The chart below shows how the funding level varies under different future investment return assumptions. The likelihood of achieving these returns is noted next to each point of the chart.



- From this chart, we can see that the likelihood of achieving any given future investment return remains broadly the same as 2019.
- However, regardless of the investment return assumption used, there has been an improvement in the funding position at 31 March 2021 compared to the 2019 valuation, reflecting an increase in assets held today per pound of benefit to be paid out in future.
- This improvement has been driven by strong investment performance over the period (c.32.5% since 31 March 2019).

Indicative impact on future contributions

Secondary rate contributions

It can be inferred that the improved past service funding position at 31 December 2021 is likely to have a positive impact on Secondary rate contributions at the next valuation for the average employer, all else being equal.

Of course any changes in funding position (and any impact on contributions rates) will be varied across the Fund's employers and is dependent on each individual employer's membership and funding plans.

Primary rate contributions

As discussed above, the past service funding position has improved. However, the assets held today only cover past service benefits – we still need to fund those benefits yet to be earned (i.e. Primary Rate contributions in respect of future accrual). For the average fund, two-thirds of the benefit payments made over the next 50 years will be in respect of benefits yet to be earned.

As at 31 December 2021, longer term future market conditions for valuing benefit costs are expected to be more challenging and are applying upward pressure to the future service cost (compared to March 2019).

The increased cost of future accrual will lead to increased Primary contribution rates at the next valuation. For the average employer any increases in Primary contribution rates may be partially (or wholly) offset by reductions in Secondary contribution rates.

Reliances and limitations

This paper has been prepared for London Borough of Hackney as Administering Authority of the London Borough of Hackney Pension Fund for the purpose described above. It has not been prepared for use for any other purpose and should not be so used. The paper should not be disclosed to any third party except as required by law or regulatory obligation or with our prior written consent. We accept no liability where the paper is used by or disclosed to a third party unless we have expressly accepted such liability in writing. Where this is permitted, the paper may only be released or otherwise disclosed in a complete form which fully discloses our advice and the basis on which it is given.

The following Technical Actuarial Standards are applicable in relation to this advice, and have been complied with where material and to a proportionate degree:

- TAS100

This report together with the formal valuation report for the Fund (issued March 2020) and the Fund's Funding Strategy Statement set out the aggregate of my advice.

Malcolm Stanley FFA

February 2022

For and on behalf of Hymans Robertson LLP

Appendix

Assumptions and methodology

Liabilities

All demographic and financial assumptions underlying the benefit projections are as per the 31 March 2019 formal valuation with the exception of the future inflation assumption (which affects the rate of future pension increases, CARE revaluation and salary increases).

Further details about the assumptions can be found in the 2019 formal valuation report dated March 2020.

The future long-term inflation assumption used in the benefit projections as at 31 December 2021 is 2.4% p.a.. Therefore, as at 31 March 2021 we have assumed that:

- Future pension increases are 2.4% p.a.
- Future CARE pot revaluation is 2.4% p.a.
- Future salary increases are 2.7% p.a.

The benefit projections assume that membership experience since 31 March 2019 has been in line with the assumptions made. At a whole fund level, this assumption is reasonable to make and, for the purpose of this paper, we do not expect this to result in a material inaccuracy.

We have also allowed for additional benefit accrual between 1 April 2019 to 31 December 2021. This allows comparison with the Fund's asset value as at 31 December 2021.

Future investment returns

To calculate the expected future investment returns, we have used our proprietary Economic Service Scenario ("ESS") model, and the same methodology used to at the last formal valuation. Further details about the ESS model, and the calibration of the model as at 31 March 2019, can be found in the 2019 valuation formal report dated March 2020.

The calibration of the model as at 31 December 2021 is detailed below. The following figures have been calculated using 5,000 simulations of the ESS, calibrated using market data as at 31 December 2021. All returns are shown net of fees. Percentiles refer to percentiles of the 5,000 simulations and are the annualised total returns over 5, 10 and 20 years, except for the yields which refer to the simulated yields for at that time horizon. Only the overall Fund portfolio returns are shown, however similar information for separate asset classes is available on request.

		Portfolio returns	Inflation (CPI)	17 year real yield
5 years	16th %'ile	-0.2%	1.6%	-2.6%
	50th %'ile	4.2%	3.1%	-1.7%
	84th %'ile	8.5%	4.7%	-0.8%
10 years	16th %'ile	1.2%	1.2%	-2.0%
	50th %'ile	4.3%	2.9%	-0.8%
	84th %'ile	7.5%	4.5%	0.5%
20 years	16th %'ile	2.6%	0.9%	-0.7%
	50th %'ile	5.1%	2.5%	1.0%
	84th %'ile	7.6%	4.0%	2.7%
	Dispersion (1 year)	9.6%	1.3%	

The current calibration of the model indicates that a period of outward yield movement is expected. For example, over the next 20 years our model expects the 17 year maturity annualised real (nominal) interest rate to rise from -2.6% (1.2%) to 1.0% (3.2%).

Assets

The asset value as at 30 September 2021 has been provided to us by the Fund. To derive the level of likelihood associated with certain level of expected future returns, we have used the ESS model as described above and the Fund's current strategic asset allocation:

% allocation	
Global Equities	36.0%
Global Emerging Market Equities	4.5%
Diversified Growth Fund	7.5%
Total growth	48.0%
Private lending	20.0%
Property	10.0%
Infrastructure	5.0%
Corporate bonds	6.4%
Total Income	41.4%
Fixed interest gilts	6.4%
Index linked gilts	4.2%
Total Protection	10.6%
Total	100.0%

Model limitations

The models used to calculate the results in the paper make some necessary simplifying assumptions. I do not consider these simplifications to be material and I am satisfied that they are appropriate for the purposes described in this report.

Sensitivity of results

The results in this report are dependent on a number of factors including the membership details, current financial conditions, the outlook for future financial conditions and demographic trends such as longevity. Changes in each of these factors can have a material impact on the results. I have not sought to quantify the impact of differences in the above because of the complex interactions between them. If further information about the

sensitivity of the results to different data or assumptions is required, this can be provided on request.

Funding Risks

Please see the FSS for details of the funding risks that apply to the future ability of the Fund to pay all members' benefits. These include, but are not limited to:

- Market risks – these include investment returns being less than anticipated or liabilities increasing more than expected due to changes in market conditions underlying the financial assumptions (e.g. inflation or pay increases above that assumed etc.).
- Demographic risks – these include anything that affects the timing or type of benefits (e.g. members living longer than anticipated, fewer members opting into the 50/50 option, etc.).
- Regulatory risks – the LGPS is a statutory scheme. There is a risk that central Government legislation could significantly change the cost of the scheme in future.

In particular, the benefit structure of the LGPS is currently under review as a result of the consultation on the McCloud and Sargeant judgement, HM Treasury's and Scheme Advisory Board's cost-sharing valuations as well as the recent outcome of the Goodwin tribunal. Benefit changes as a result of these issues may materially affect the value of benefits earned by members both in the past and future. I have made no direct allowance for these changes and may need to review my calculations once the outcomes are known.

- Administration and Governance risks – failures in administration processes can lead to incorrect actuarial calculations. For example, where membership data is not up to date (e.g. leaver forms not being submitted in a timely matter) material inaccuracies

in respect of the level of deficit and contributions may occur at future valuations.

- Resource and Environmental risks – i.e. risks relating to potential resource constraints and environmental changes, and their impact on Fund employers and investments: such risks exist and may prove to be material. Given the lack of relevant quantitative information available specifically relevant to the Fund, I have not explicitly incorporated such risks in this advice. The Administering Authority may wish to seek direct advice on these risks.