PENSIONS COMMITTEE

Tuesday, 27th June, 2017

at 6.30 pm

Room 102, Hackney Town Hall, Mare Street, London E8 1EA

Membership

Members:

Councillor Kam Adams
Councillor Robert Chapman (Chair)
Councillor Feryal Demirci
Councillor Michael Desmond (Vice-Chair)
Councillor Patrick Moule
Councillor Geoff Taylor

Co-optees:

Jonathan Malins-Smith

Tim Shields
Chief Executive

Contact:
Rabiya Khatun
Governance Services
Tel: 020 8356 6279
Email: Rabiya.khatun@hackney.gov.uk

The press and public are welcome to attend this meeting

Hackney

AGENDA
Tuesday, 27th June, 2017

ORDER OF BUSINESS

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
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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 Corporate Director of Legal, HR and Regulatory 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:

i. 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;

ii. 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

iii. 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:

i. 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).

ii. 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.

iii. 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 Yinka Owa, Director of Legal on 020 8356 6234 or email Yinka.Owa@hackney.gov.uk

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Hackney

MINUTES OF A MEETING OF THE PENSIONS COMMITTEE

WEDNESDAY, 29TH MARCH, 2017

Councillors Present:	**Councillor Robert Chapman in the Chair** **Cllr Kam Adams, Cllr Feryal Demirci, Cllr Michael Desmond (Vice-Chair), Cllr Patrick Moule and Cllr Geoff Taylor**
Co- Optee:	Jonathan Malins- Smith
Officers in Attendance:	Ian Williams (Group Director of Finance and Corporate Resources), Michael Honeysett (Director of Financial Management), Rachel Cowburn (Head of Investment & Actuarial Services), and Stephen Rix (Legal Services)
Also in Attendance:	Karen McWilliam - AON Andrew Johnson - Hymans Robertson Members of Divest Hackney (20)

1 APOLOGIES FOR ABSENCE

1.1 There were no apologies for absence.

1.2 Apologies for lateness were received from Councillor Moule.

1 DECLARATIONS OF INTEREST - MEMBERS TO DECLARE AS APPROPRIATE

2.1 Councillors Chapman, Desmond, Demirci and Taylor declared a non- pecuniary interest as deferred members of the LGPS.

3 CONSIDERATION OF THE MINUTES OF THE PREVIOUS MEETING

3.1 **RESOLVED that the minutes of the previous meeting held on 24 January 2017 were agreed as a correct record subject to the amendment at paragraph 6.6 'whether wood burner boilers were part of the carbon assets'.**

4 TRAINING (FINANCIAL MARKETS AND PRODUCT KNOWLEDGE)

4.1 Rachel Cowburn, Head of Investments & Actuarial Services introduced the training on financial markets and product knowledge, which would assist members in considering some of the factors involved in implementing their strategic commitments.

4.2 Andrew Johnston, Hyman Robertsons, delivered the training and a brief summary of the areas covered are set out below:

Financial markets and product knowledge

- An understanding of financial markets and products is essential
- Knowledge required depends on level of external delegation
- Full range of assets
- Traditional asset classes - Equities/Bonds/property
- What is equity
- Structural components of equity decisions
- What is a bond
- Main types of bonds
- Rating categories
- Bond – Yield/Credit spread/Duration/Present value
- Why invest in bonds – Diversification/Market Return/Source of Income/ “Match“ liabilities
- Relationship between price and yield
- Property
- Alternative assets: Which alternative
- Why diversity
- Benefits of diversification

RESOLVED to note the contents of the report and presentation.

5 INVESTMENT STRATEGY STATEMENT

5.1 Rachel Cowburn, Head of Investments & Actuarial Services introduced the report providing an updated draft new Investment Strategy Statement (ISS) which would be introduced from 1st April 2017 in line with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. The updated strategy reflected the outcomes of a strategy review exercise carried out following the 2016 actuarial valuation.

5.2 The Chair reported that following the review exercise held in February 2017 the draft statement would be updated to reflect Member’s views and would include future infrastructure and local investments, clarify the Fund’s long term position not to invest in fossil fuel and further consideration of the investment outcomes over possible ranges in particular the risks in the ranges. The updated draft statement would be circulated to Members.

5.3 Councillor Desmond stressed the importance of working collaboratively to reduce Fund Manager’s fees and that the Committee had taken a rational and responsible approach to reduce the Fund’s carbon exposure by partially disinvesting from fossil fuel and also discharging their duty of investing in investments achieving high returns.

5.4 Councillor Demirci added that the Committee’s approach to disinvestment from fossil fuel was responsible and the reduction target was deliverable. A few neighbouring boroughs proposing higher targets should be invited to future meetings to discuss their proposals and how it would be delivered and measured. Mr Williams thanked officers for their work on the document and members of Hackney Divest in engaging in the process.

5.5 A representative from Hackney Divest submitted a petition that requested Members consider increasing the 50% target to reduce the Fund's carbon exposure and to regularly review and possibly increase the target prior to the six years valuation cycles. Mr Williams said that the target was comparable to other London boroughs and was realistic and achievable. The Chair stressed that officers and Members would continue to engage with Hackney Divest on this issue.

5.4 The Committee considered the exempt appendices to the submitted report in a private meeting.

RESOLVED:

1. **A reduction from 60.5% to 50.5% in the Fund's target exposure to equities**
2. **A target 10% allocation to multi asset credit. It is recommended that any approved change be implemented in collaboration with the London CIV, with officers and advisers working together with the CIV to identify suitable strategies before returning to the Pensions Committee with a recommendation.**
3. **If approved, consider the delegation of initial research into suitable multi asset credit approaches to the Group Director, Finance and Corporate Resources.**
4. **To approve the draft Investment Strategy Statement for publication.**

6 PENSION FUND- QUARTERLY UPDATE (INCLUDING UPDATE ON LOW CARBON WORKPLACE FUND)

6.1 Rachel Cowburn, Head of Investments & Actuarial Services introduced the Pension Fund's quarterly update, including an update on the funding position, investment performance, engagement and corporate governance, and budget monitoring.

6.2 The Chair noted GMO's disappointing performance this quarter and requested that the Fund Manager should be invited to a future meeting to clarify its strategy and performance.

6.3 The Chair referred to the ongoing issue with payroll and Ms Cowburn indicated that the issues remained in relation to the quality of data submitted from payroll.

RESOLVED to note the contents of the report.

7 PENSION FUND ACTUARIAL VALUATION 2016

7.1 Rachel Cowburn, Head of Investments & Actuarial Services introduced the report setting out the Actuarial Valuation as at 31st March 2016 and minimum contribution rates. Ms Cowburn outlined the key points in the report.

7.2 The Chair noted that the funding level had risen to 77% from 70% in the 2016 valuation and the Council's common contribution rate would fall from 36.9% to 30.8% achieving savings of approximately £2m in the Council's General Fund.

7.3 Councillor Moule asked if the valuation modelling had factored the potential impact of public sector pay rises. Ms Cowburn confirmed that the financial assumptions had factored a pay rise of 1% until 2020 and that it would be difficult to model beyond 2020 and factor in pay inflation without adversely impacting on the Fund's liabilities and Council's contribution rates.

RESOLVED to approve the 2016 Actuarial Valuation.

8 DRAFT FUNDING STRATEGY STATEMENT

8.1 Rachel Cowburn, Head of Investments & Actuarial Services introduced the report providing an updated Funding Strategy Statement for the Fund, which had been revised following the 2016 actuarial valuation. The draft strategy statement had been circulated to employers seeking their views on how the Fund sets contribution rates.

8.2 In response to a question from the Chair regarding discretions for employers considering their contractual arrangements, Ms Cowburn stated that there is an element of discretion when admission bodies are either in deficit or surplus and they have defined contract term date then the contribution rate can be varied.

8.3 Councillor Demirci sought clarification regarding differences between Academies and Colleges. Ms Cowburn stated that Academies pay different rates depending on their location and organisational structure.

RESOLVED to approve the draft Funding Strategy Statement for publication.

9 PENSION FUND BUDGET 2017-18

9.1 Rachel Cowburn, Head of Investments & Actuarial Services introduced the 2017-18 budget for the Pension Fund and indicative for the following 2 years, along with an update of the 2016/17 outturn versus budget.

9.2 Ms Cowburn highlighted that many factors could impact on the budget such as significant movements in income and expenditure, pay rises and changes in the number of active members.

RESOLVED to approve the budget for 2017-18 attached at Appendix 1 of the report.

10 PENSION ADMINISTRATION STRATEGY 2017/18

10.1 Rachel Cowburn, Head of Investments & Actuarial Services introduced the report setting out an updated version of the Pension Administration Strategy to reflect recent regulatory changes including the introduction of the requirement for a local Pensions Board and the role of the Pensions Regulator.

10.2 Ms Cowburn outlined the key changes and stated that closer monitoring of employers with persistent and small breaches were being undertaken.

RESOLVED to approve the updated Pension Administration Strategy for publication.

11 PENSION FUND AUDIT ARRANGEMENTS 2016-17 ANNUAL REPORT & ACCOUNTS

11.1 Rachel Cowburn, Head of Investments & Actuarial Services introduced the report relating to the the arrangements for the audit of the Pension Fund Report and Accounts for the financial year 2016-17.

RESOLVED to note the contents of the report.

12 GUARANTEED MINIMUM PENSIONS (GMP) RECONCILIATIONS UPDATE

12.1 Rachel Cowburn, Head of Investments & Actuarial Services provided an update on the Fund's GMP reconciliation (Guaranteed Minimum Pensions) exercise, in particular the progress of Phase 1 of the reconciliation exercise and also outlined the factors for consideration before commencing Phase 2.

12.2 Karen McWilliam, Aon, reported that the first phase had been completed and work was being undertaken to proceed to Phase 2 of the reconciliation exercise. The exercise would enable Hackney to maintain accurate records for its scheme members in order to minimise the long term risk associated with holding incorrect records.

13.2 Members noted the exempt appendices within the report.

RESOLVED to consider granting formal approval for the commencement of Phase 2, subject to the regular review of estimated costs as set out in Appendix 1 to this report.

13 SELF ASSESSMENT AND PERFORMANCE OF ADVISERS

13.1 Rachel Cowburn, Head of Investments & Actuarial Services outlined the background to the Annual Self-Assessment Questionnaire and Performance of Advisers Assessment.

RESOLVED to:

1. **Note the report.**
2. **Individually complete the self-assessment and assessment of advisers questionnaire.**

14 ANY OTHER BUSINESS WHICH IN THE OPINION OF THE CHAIR IS URGENT

14.1 Members were reminded that a meeting of the Special Pensions Committee will be held on 25th April 2017 commencing at 4.00pm.

15 EXCLUSION OF THE PRESS AND PUBLIC

RESOLVED that the press and public be excluded from the proceedings of the Pensions Committee meeting on 29 March 2017 during consideration of the Exempt Appendix at item 5 - Investment Strategy Statement on the agenda on the grounds that it is likely, in the view of the nature of the business to be

transacted, that were members of the public to be present, there would be disclosure of exempt information as defined in Schedule 12A to the Local Government Act 1972 as amended.

16 CONSIDERATION OF THE EXEMPT MINUTES OF THE PREVIOUS MEETING

RESOLVED that the exempt minutes of the previous meeting held on 24 January 2017 were agreed as a correct record.

Duration of the meeting: 6.30-8.00pm

Contact:
Rabiya Khatun
Governance Services Officer
020 8356 6279

Hackney

MINUTES OF A MEETING OF THE PENSIONS COMMITTEE

TUESDAY, 25TH APRIL, 2017

Councillors Present:	**Councillor Robert Chapman in the Chair** **Cllr Kam Adams, Cllr Feryal Demirci, Cllr Michael Desmond (Vice-Chair), Cllr Patrick Moule and Cllr Geoff Taylor**
Co-Optee	**Jonathan Malins- Smith**
Officers in Attendance:	Ian Williams (Group Director of Finance and Corporate Resources), Michael Honeysett (Director of Financial Management), Rachel Cowburn (Head of Investment & Actuarial Services), Stephen Rix (Legal Services); Lucy Patchell (Pensions Team); and Karen Chenery (Pensions Team).
Also in Attendance:	Karen McWilliam – Aon Catherine Pearce - Aon

1 APOLOGIES FOR ABSENCE

1.1 There were no apologies for absence.

1 DECLARATIONS OF INTEREST - MEMBERS TO DECLARE AS APPROPRIATE

2.1 Councillors Chapman, Demirci, Desmond and Taylor declared a non-pecuniary interest as deferred members of the LGPS.

3 PROCUREMENT OF THIRD PARTY PENSIONS ADMINISTRATIVE SERVICES

3.1 Rachel Cowburn, Head of Investment & Actuarial Services introduced the report seeking approval for a five year contract award for the Third Party Pensions Administrative Services. Ms Cowburn advised that the report set out the results of the tender process, which involved officers scoring the quality of the service and an evaluation panel that had carried out detailed site visits to assess the providers and their systems and teams. Furthermore, the new contract would provide the Fund with an enhanced level of service at a competitive cost per member. Due to the nature of the service the procurement exercise had been carried out by officers of the Fund and Members were being asked to scrutinise the process and approve the recommendations within the report.

3.2 The Chair indicated that the Committee was satisfied with the process undertaken by the officers and the recommendations however, he requested that in future officers liaise with Members to clarify the process at the beginning of the exercise.

3.3 Councillor Demirci asked whether the companies were based in London. Ms Cowburn explained that the contract was staff intensive and due to the higher London wages the suppliers had their pensions office located outside London. It was noted that supplier 1 was located in Crawley and supplier 2 was based in Bradford.

3.4 Councillor Moule enquired about the monitoring of the provider's performance. Ms Cowburn stated that the contract contained new terms and conditions and KPIs to improve the levels of service. The service standards had been outlined within the contract and the performance of these service standards would be monitored.

3.5 Mr Malins-Smith sought clarification regarding activity pricing. Ms McWilliam stated that activity pricing related to the cost to perform the core activity per member. Ms Cowburn clarified that the contract set out core and optional activity pricing and that the activity pricing included all core activity related work. In addition, data migration costs had not been included in the tender document to ensure a fair procurement exercise for the suppliers.

RESOLVED to approve the award of contract to Supplier 1, as detailed in Exempt Appendices 1, 2 and 3 for the provision of a full third party pension administration service, with an initial contract period of 5 years and the option to extend for up to 3 years.

4 EXCLUSION OF PRESS AND PUBLIC

RESOLVED That the press and public be excluded from the proceedings of the meeting during consideration of the exempt appendices at Item 3 – Procurement of Third Party Pensions Administrative Services on the agenda on the grounds that it is likely, in the view of the nature of the business to be transacted, that were members of the public to be present, there would be disclosure of exempt information as defined in Schedule 12A to the Local Government Act 1972 as amended.

5 PROCUREMENT OF THIRD PARTY PENSIONS ADMINISTRATIVE SERVICES - EXEMPT APPENDICES

5.1 Members considered the exempt appendices during the private meeting prior to the approval of the recommendations within the submitted public report at agenda item 3 above.

RESOLVED to note the exempt appendices.

Duration of the meeting: 4.00 - 4.25 pm

Contact:

Rabiya Khatun
Governance Services Officer
020 8356 6279

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Hackney

MINUTES OF A MEETING OF THE PENSIONS COMMITTEE

WEDNESDAY, 24TH MAY, 2017

Councillors Present: **Councillor Robert Chapman in the Chair**

Cllr Kam Adams, Cllr Feryal Demirci,
Cllr Michael Desmond (Vice-Chair),
Cllr Patrick Moule and Cllr Geoff Taylor

1 Appointment of Chair and Vice-Chair of the Pensions Committee

Councillor Michael Desmond proposed that Councillor Chapman be elected to serve as Chair of the Pensions Committee for the 2017/18 Municipal Year. This was duly seconded by Councillor Adams.

RESOLVED that Councillor Robert Chapman be elected to serve as Chair of the Pensions Committee for the 2017/18 Municipal year.

Councillor Adams proposed that Councillor Michael Desmond be elected to serve as Vice-Chair of the Pensions Committee for the 2017/18 Municipal Year. This was duly seconded by Councillor Moule.

RESOLVED that Councillor Michael Desmond be elected to serve as Vice-Chair of the Pensions Committee for the 2017/18 Municipal year.

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Hackney

<table>
<tr><td colspan="3">REPORT OF THE GROUP DIRECTOR, FINANCE AND CORPORATE RESOURCES</td></tr>
<tr><td rowspan="2">APPOINTMENT OF CO-OPTEES ON THE PENSIONS COMMITTEE 2017/18

Pensions Committee
27th June 2017</td><td>Classification
PUBLIC</td><td rowspan="2">Enclosures

One</td></tr>
<tr><td>Ward(s) affected

ALL</td></tr>
</table>

1. INTRODUCTION

1.1 The purpose of this report is for the Pensions Committee to appoint a Scheme Member Representative as co-opted member of the Pensions Committee.

1.2 The report also provides Members of the Committee with an update regarding the now vacant Scheme Employer Representative of the Pensions Committee as well as the current position regarding membership of the Pensions Board.

2. RECOMMENDATIONS

The Pensions Committee is recommended to:-

- **Re-appoint Jonathan Malins-Smith as Co-optee Member; Scheme Member Representative of the Pensions Committee for the 2017/18 municipal year;**
- **Note the position regarding the nomination of Co-optee Member; Employer Representative of the Pensions Committee; and**
- **Note the current position regarding the membership of the Pensions Board.**

3. RELATED DECISIONS

3.1 Pensions Committee (27th June 2016) – Appointment of Co-optees to the Pensions Committee 2016/17

3.2 **COMMENTS OF THE GROUP DIRECTOR OF FINANCE & CORPORATE RESOURCES**

3.3 The Co-opted member of the Pension Scheme will receive an allowance for attendance at Committee and related training events as laid down in the Members Allowance Scheme adopted by Council.

3.4 These costs are provided for within the Pension Fund budget but are insignificant when compared to the overall value of the fund and other operating expenses.

4. COMMENTS OF THE DIRECTOR, LEGAL SERVICES

4.1 There are no immediate legal implications arising from this report.

5. BACKGROUND/TEXT OF THE REPORT

Pensions Committee

5.1 The Council's Constitution states that the Pensions Committee will co-opt a non-voting employer representative and a non-voting employee representative.

5.2 Jonathan Malins-Smith was confirmed as the co-optee member; Scheme Employee representative for 2016/17 at the Pensions Committee on 27th June 2015. He has sought re-appointment in that role and it is recommended that this be agreed.

5.3 Members of the Committee will be aware that the co-optee member; Employer representative position has been vacant for the past year. This has proven difficult to fill since the end of the contract for Hackney Homes, which brought the Fund's largest employer back into the Council. This left the former Employer Representative, Neil Isaac, unable to fulfil the role.

5.4 Officers of the Fund have been seeking a replacement and a suitably qualified individual has been found. His appointment to the Committee will, however, require a new representative to be found for the Pension Board; clearly, the legal requirements in relation to the Pension Board make this the priority.

5.5 It should be noted that there is no regulatory requirement for the Pensions Committee to have co-opted members but it is regarded as best practice.

Pensions Board

5.6 The regulations in respect of the Pensions Board state that this must be made up of at least four members, with equal representation for scheme employers and scheme members, and scope for an independent Chair if required.

5.7 The Pension Board currently comprises four members, as follows:

- Samantha Lloyd, Chair and Scheme Member Representative
- Michael Hartney, Scheme Member Representative
- Kay Brown, Scheme Employer Representative
- Henry Colthurst, Scheme Employer Representative

Report Originating Officers: Michael Honeysett ☎020-8356 3332

Financial considerations: Michael Honeysett ☎020-8356 3332

Legal comments: Stephen Rix ☎020-8356 6122

Hackney

REPORT OF THE GROUP DIRECTOR, FINANCE AND CORPORATE RESOURCES		
Training – Longevity and Funding Impacts **Pensions Committee** **27th June 2017**	**Classification** **PUBLIC** **Ward(s) affected** **ALL**	**Enclosures** **None**

1. INTRODUCTION

1.1 This report introduces the presentation of a training session for Members on longevity and its impact on funding level, which will assist members in considering some of the factors involved in implementing their strategic commitments. The training is also being provided to Members of the Pension Board to assist them in understanding their role as a Board and ensuring they are compliant with the knowledge and understanding requirements placed upon them.

2. RECOMMENDATIONS

2.1 The Pensions Committee is recommended to note the report.

3. RELATED DECISIONS

- Pensions Committee 27th June 2017 – Club Vita Update
- Pensions Committee 23rd March 2016 – Club Vita Update

4. COMMENTS OF THE GROUP DIRECTOR, FINANCE AND CORPORATE RESOURCES

4.1 For Members to be able to fulfil their role as trustees to the Pension Fund, they need to receive specialist training. The responsibilities for the Pension Fund are complex and varied covering the whole spectrum of investments, administration and financial management and as such it is essential that Members are provided with training in order to be able to exercise their duties. The cost of such training is immaterial in the context of the Pension Fund and many of the training sessions are provided free of charge or the costs are minimal.

4.2 Training in all aspects of the Pension Fund and the development of an understanding of the factors that will impact on the Fund helps ensure that those charged with governance are able to make effective decisions and understand the financial impact of those decisions.

4.3 The Pensions Committee is responsible for managing the Pension Fund worth over £1.3bn and as such need to ensure that they have the appropriate knowledge and skills to make effective decisions in relation to the assets of the Fund.

5. COMMENTS OF THE DIRECTOR, LEGAL

5.1 The responsibilities given to the Committee in respect of the management of the Pension Fund are both broad and onerous. For example, as quasi trustees of the Pension Fund, Committee Members owe a fiduciary duty to fund members, which imposes the highest standard of care in equity and law. The responsibilities of Members are exercised in a legal framework that is complex and changing. Both training and re-training is reasonably required to enable Members to continue to carry out their responsibilities in the best interests of fund members and this training session is a contributory factor which demonstrates the Committee's desire to meet its obligations.

5.2 There are no immediate legal implications arising from this report.

6. BACKGROUND TO THE REPORT

6.1 The training session being provided to Members at the meeting is designed to provide them with an analysis of the Fund's specific longevity risks and understanding of how these can affect the funding level. This will assist members in understanding the funding risks facing the pension fund.

6.2 Club Vita, who provide a specialist longevity analysis service as part of Hymans Robertson, will be presenting the training session on longevity and its funding impacts.

6.3 By following the training programme being provided to Members based on the requirements of the CIPFA Knowledge and Skills Framework, it is anticipated that this will enable Members to fulfil their responsibilities and achieve the requirements of knowledge within the Framework.

Ian Williams
Group Director, Finance and Corporate Resources

Report Originating Officer: Rachel Cowburn ☎020-8356 2630
Financial considerations: Michael Honeysett ☎020-8356 3332
Legal comments: Stephen Rix ☎020-8356 6122

Hackney

REPORT OF THE GROUP DIRECTOR, FINANCE & CORPORATE RESOURCES		
LONGEVITY UPDATE – CLUB VITA Pensions Committee 27th June 2017	Classification PUBLIC Ward(s) affected ALL	Enclosures Three

1. INTRODUCTION

1.1 This report provides Members with an update on one of the major risks to the Pension Fund in the shape of increasing longevity, i.e. people living for longer and consequently drawing pensions for an increased period of time.

2. RECOMMENDATION

2.1 The Pensions Committee is recommended to note the report

3. RELATED DECISIONS

3.1 Pensions Sub-Committee meeting 20th March 2014 – Approval to extend the contract with Cub Vita for 3 years to continue monitoring the longevity experience of the London Borough of Hackney Pension Fund.

4. COMMENTS OF THE GROUP DIRECTOR, FINANCE & CORPORATE RESOURCES

4.1 Increasing longevity, i.e. people living longer, has a direct impact on the financing of the Pension Fund. Increased life expectancy means that pensioners will draw their benefits for longer, thereby increasing the cost of providing those benefits. The Fund Actuary, as part of the actuarial valuation, includes within his assumptions a projection of longevity for the Fund's membership. In funding terms, increased longevity will, all else being equal, result in an increase in the Fund's liabilities.

4.2 The Fund has for a number of years participated in a dedicated longevity study undertaken by Club Vita, which is affiliated with Hymans Robertson. As part of the Club Vita project, the Fund is able to more accurately monitor direct experience of its members' specific longevity and therefore monitor its own risks in this area. The Fund Actuary is able to include the Club Vita data within the valuation to give a more accurate picture of longevity; this can have a direct impact on the contribution rates employers have to pay.

4.3 The cost of participating in the annual review is approximately £10,000 pa. However, the review is a key way for the Committee to monitor a major risk to the Fund and the cost is insignificant in comparison to the Fund's assets of over £1.3bn.

5. COMMENTS OF THE DIRECTOR, LEGAL

5.1 This report provides information to the Committee regarding changes in longevity and consequent impact on funding levels for the Pension Fund.

5.2 The Council as the administering authority is required to maintain the Pension Fund and has a range of obligations that include the investment of funds not immediately needed to make payments from the fund, the formulation of an investment policy, and the adoption and review of the Investment and Funding Strategy Statements.

5.3 The information provided in this report is relevant to the Council's obligations in relation to the maintenance and monitoring of the fund, particularly in relation to its funding strategy and actuarial matters.

5.4 There are no immediate legal implications arising from this report.

6. BACKGROUND TO THE REPORT

6.1 The life expectancy of members is a key assumption in assessing pension scheme liabilities. Over 220 pension funds, including a large number of LGPS funds, participate in Club Vita and this provides for an extensive database through which longevity trends can be measured. Participation in Club Vita enables the Committee to monitor the Fund's longevity experience both individually and against its peer group. It also allows the actuary to incorporate Fund specific longevity patterns within the valuation process, helping to improve the accuracy of assumptions made. This will help Members to manage the impact of this key risk over the longer term.

6.2 Attached as an appendix to this report is a summary of the findings from reviewing the Fund's latest (to December 2016) mortality experience along with a more detailed monitoring report (VitaMonitor) on longevity experience for the LB Hackney Pension Fund and the index report (VitaIndex) which compares the experience of the Hackney Fund to that of its peer group (other LGPS funds within the Club Vita database).

6.3 The reports summarise the impact of the longevity experience of the Fund since its last valuation by comparing the actual experience of the Fund with the assumptions made in previous valuations. They also look at emerging trends in longevity and assess how the Fund might allow for future changes in longevity in future valuations. The data used includes postcodes, pension amounts, salaries and reasons for retirement, obtained from the administrators of each of the 221 pension funds involved.

7. HACKNEY PENSION FUND – LONGEVITY EXPERIENCE

7.1 Trends have shown that life expectancy is increasing at about 2.0 years per decade for men. Life expectancy for women is also increasing, but at a slightly slower rate. Within the Club Vita databank, average life expectancy at 65 for males is 83.9 (83.9 – 2015), whilst life expectancy for females is 86.3 (2014 - 86.4). However, these figures are averages across the full range of funds within the database. Each fund will have its own demographic profile, with the life expectancies of its members driven by a number of different factors. These factors include:

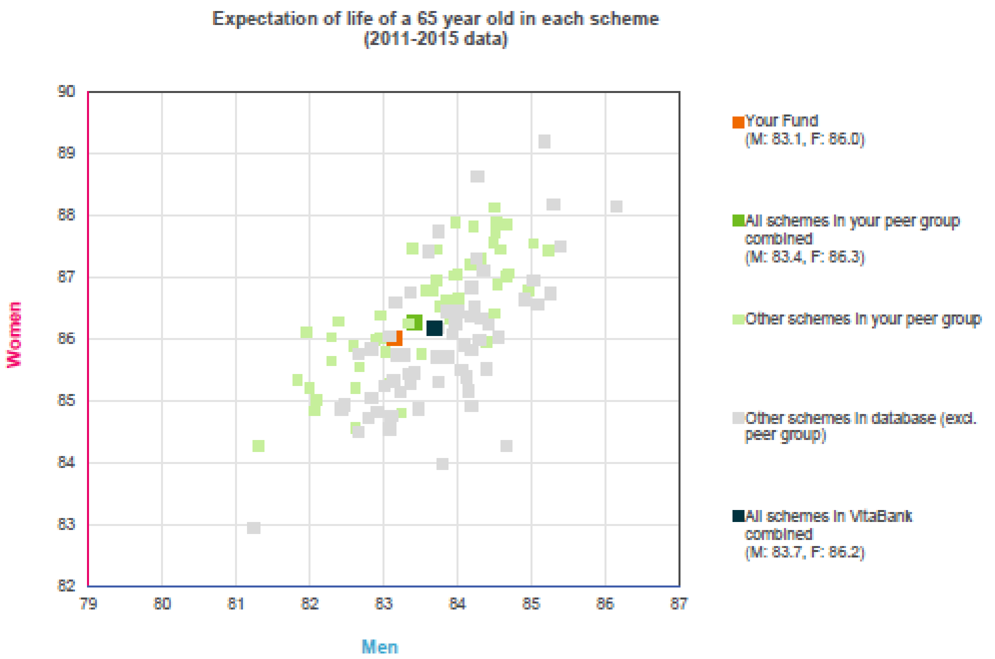
- Gender – women can expect to live 2 – 2.5 years longer than men
- Lifestyle – or how people spend their money outside of work, can lead to considerably different life expectancies. All else being equal, there is a difference of between 4 to 4.5 years in life expectancy between the least healthy and healthiest lifestyles. The

effect of wealth, or affluence of members on life expectancy, is best measured differently for men and women:

  - -For men, the last known salary (revalued to current terms) is generally a better indicator of the effect of affluence on longevity, men with the highest levels of affluence having a life expectancy of between 2½ and 3 years longer than those with the lowest.
  - - For women, the effect of affluence on longevity is best predicted by the amount of pension in payment, the effect being smaller than that seen in men.

- Occupation – Former manual workers tend to have lower longevity, by around 0.5 years for men and 1 year for women.
- Health at retirement – A pensioner retiring in normal health can expect to survive 3 – 3.5 years longer than a pensioner retiring in ill-health.

7.2 The effect of these different factors on individual funds will depend on the membership profile. Within the LGPS scheme there is a range of life expectancies of between 81.3 and 85.2 for men and between 84.3 and 88.1 for women. For the Hackney fund, life expectancy is 83.1 years for men and 86.0 years for woman. Within the peer group this increases marginally to 83.4 years for men and 86.3 years for women



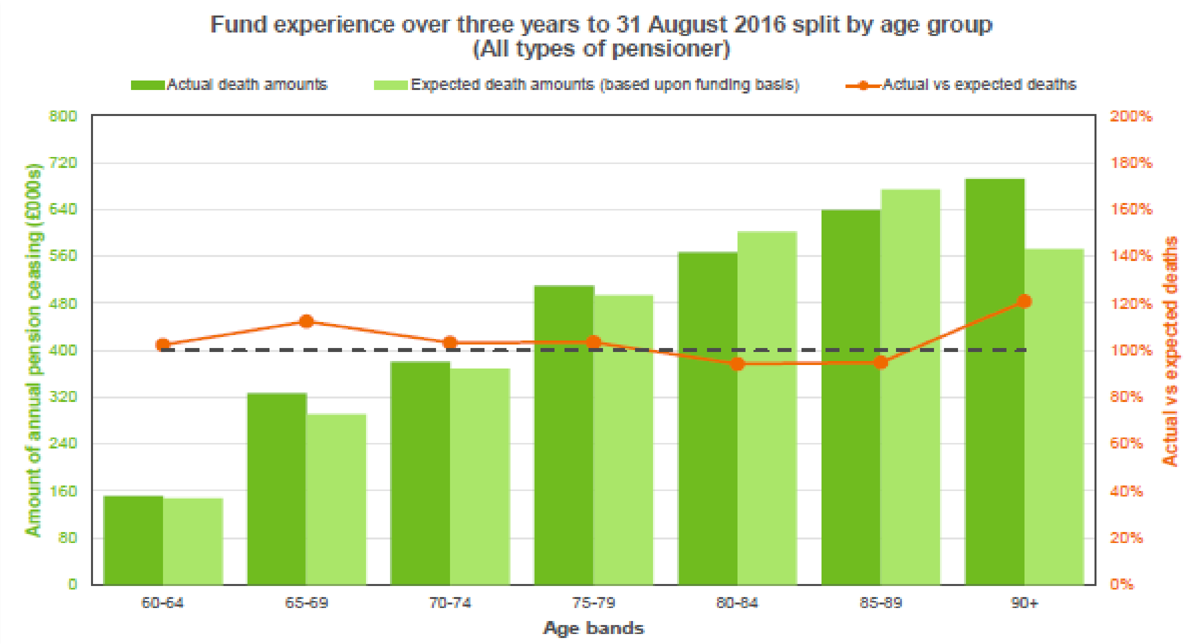
7.3 To put this difference in context, a broad rule of thumb is that each additional year of life expectancy leads to an increase of around 3% in a Fund's liabilities. The individual members of the fund will exhibit a diverse range of characteristics, with some driving higher and some driving lower life expectancy than the average. In the table below, the arrows ⇧,⇩ and ⇔ indicate that the Fund's demographic DNA suggests that it should have on average higher, lower or similar life expectancy to other schemes, respectively. These different drivers, and their effect on the Hackney Fund compared to other funds can be seen in the table below

Longevity Characteristics	What does your demographic DNA suggest about how your fund's average life expectancy should compare to...?	
	Peer group	VitaBank

Retirement health		⇩	⇩
Lifestyle	Male	⇩	⇩
	Female	⇩	⇩
Affluence	Male	⇧	⇧
	Female	⇧	⇧
Occupation		⇩	⇩

7.4 However well the Fund sets its longevity assumptions, the Fund's actual experience will vary from year to year. This may result in funding gains, if fewer members survive than expected, or funding losses if the opposite occurs. The chart below shows the Hackney Fund's experience over 3 years to 31st August 2016, with the actual amount of pension ceasing for each age band shown against the expected amount ceasing.

The ratio of these two numbers is shown as the orange line. Where the orange is above 100%, there were more deaths in the specified age band than expected, resulting in a funding gain, and vice versa. The table below shows that the last three years have been varied in terms of actual versus expected deaths depending on age category; however the net effect since last valuation has been to decrease liabilities by an estimated 0.1%, as shown in the table below:



Impact on liabilities of membership survival

	Year ending			Since last valuation
	31 August 2016	31 August 2015	31 August 2014	
Extra (less) pension alive at year end (£k)	(68)	(162)	53	(242)
Estimated % increase (decrease) in liabilities	(0.1%)	0.0%	0.1%	(0.1%)

7.5 Individual fund experience over the short term can be volatile, as relatively small changes in numbers of deaths can have a significant impact. Club Vita looks to provide additional evidence for funds on current lifespans, using baseline assumptions from the database matched to the characteristics of each member of the Fund. These assumptions (VitaCurves) for Hackney suggest that, based on the broader experience of the Club Vita database, Hackney's liabilities could potentially be reduced by around 1.6%.

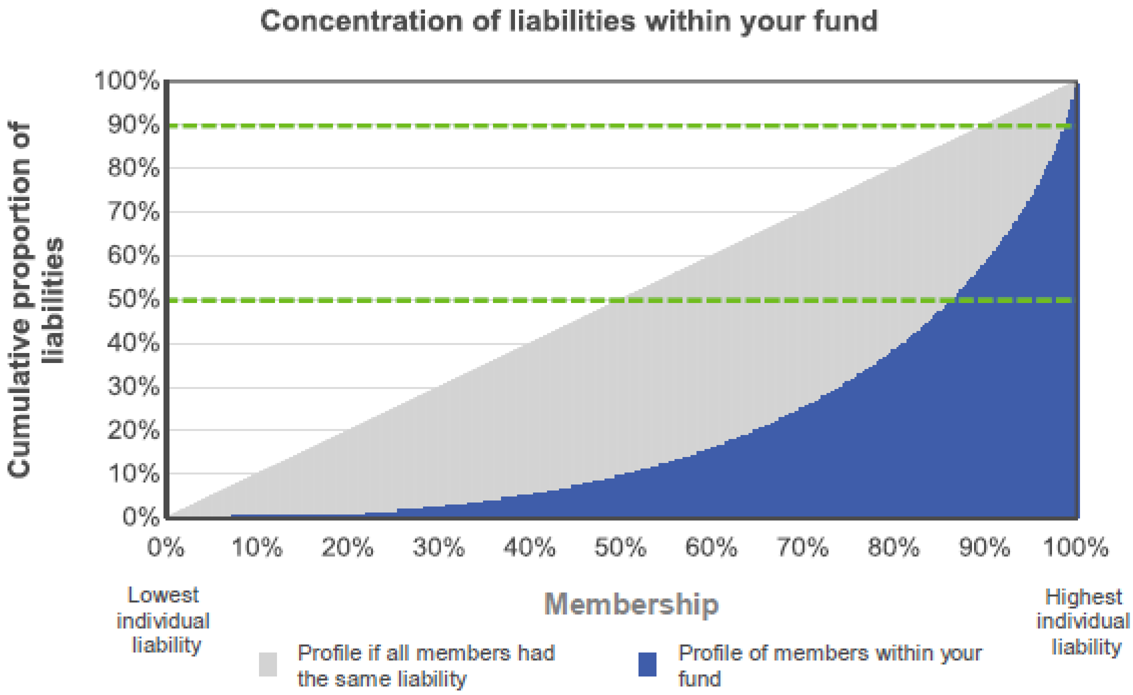
Past service liabilities

Membership group	Approximate change in value placed on liabilities if use VitaCurves rather than current funding assumption (1)
Actives (2,3)	-1.3%
Deferred Pensioners (3,4)	-1.5%
Pensioners and Dependants (4)	-1.8%
Overall	-1.6%

Future service contribution rate

Change to future service contribution rate(5)	-1.6%

7.6 Life expectancies of individual members within the Fund will vary according to a number of factors. As such, some members are likely to live much longer than others, resulting in a far greater liability for those particular members. The chart below shows how a large proportion of the Fund's liabilities are concentrated on a relatively small number of members. The grey triangle shows the profile of the liabilities if each member's liability was equal in value, whilst the blue curve shows the actual concentration of liabilities.



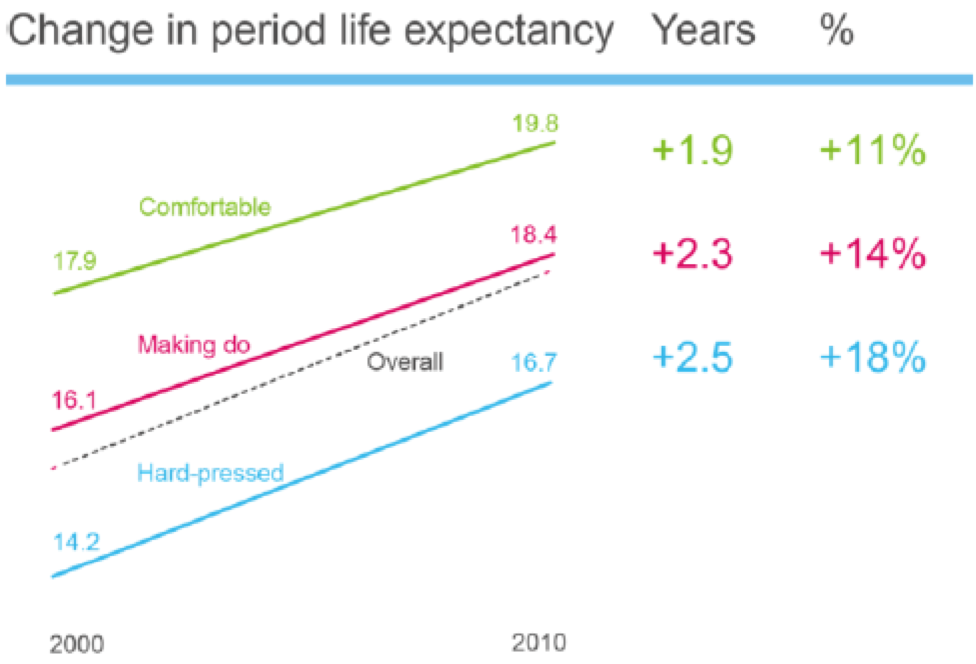
In the chart above, members have been listed from left to right in order of increasing liabilities – i.e. the member with the single largest liability is at the far right. The blue area shows the total liabilities as we move through these members.

7.7 Across the whole Fund:

- 50% of liabilities are concentrated on 14% of members
- 10% of liabilities are accounted for by 1.1% of members (258 individuals)
- The bottom 50% of members account for less than 10% of liabilities
- The concentration of liabilities is around 60% which is not unusual.

7.8 In 2014, Club Vita undertook a project with the NAPF (National Association of Pension Funds) to investigate historic longevity improvements within defined benefit (DB) schemes and they identified:

- A marked difference in improvements in life expectancy between member of DB schemes and the general population in England and Wales
- Differences in longevity for different types of pensioners (comfortable, making do and hard pressed), showed that between 2000 and 2010 the increases in life expectancy for the 'comfortable' were slower than the 'hard pressed' although it may be possible to put this down to things such as the decline in smoking happening later for the 'hard pressed' and other health improvements taking place later. The chart below shows the differing pace of longevity improvements over the period:



7.9 The attached reports provide the Pensions Committee with the detailed analysis behind the summary contents contained in this report.

Ian Williams
Group Director, Finance & Corporate Resources

Report Originating Officers: Rachel Cowburn ☎020-8356 2630
Financial considerations: Michael Honeysett, ☎020-8356 3332
Legal comments: Stephen Rix, ☎020-8356 6122

Appendices:
Appendix 1 - Vita Summary Report
Appendix 2 – VitaIndex
Appendix 3 - VitaMonitor

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The latest evidence on longevity: Impact on your fund

London Borough of Hackney Pension Fund

December 2016

Introduction

This report contains the key findings of our analysis for the London Borough of Hackney Pension Fund. Throughout, we have focussed on why your results matter and suggested how you can apply them to keep on top of your longevity risk.

We've tried not to clutter the report with technical terms and jargon. But combining state of the art techniques with the most appropriate data is fundamental to the quality of your results. We've included a very brief summary of how we do this in the box to the right.

Greater detail, in-depth analysis and further explanation can be found in your suite of full reports, available from the members' area of **www.clubvita.co.uk**.

We hope that you find this report accessible, informative and above all useful. As always, we'd be delighted to receive any feedback on this or our other services to you.

We are grateful for the continued support of you and all our other members. We are confident that by sharing their data, every member of Club Vita benefits and gets out more than they put in.

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For and on behalf of Club Vita LLP

21 December 2016

"We've tried not to clutter the report with technical terms and jargon."

How we performed your analysis

Your analysis is built on the combined data of 221 diverse funds, paying 2.7 million pensioners from across the UK. Between them, they provide records of some 1,157,000 deceased pensioners.

The **size of the data** is crucial to the statistical credibility of your analysis, and its **long history** ensures we can share with you invaluable insights on pension scheme **longevity trends**. And by asking each subscriber for fresh data every year we keep your analysis **up to date**.

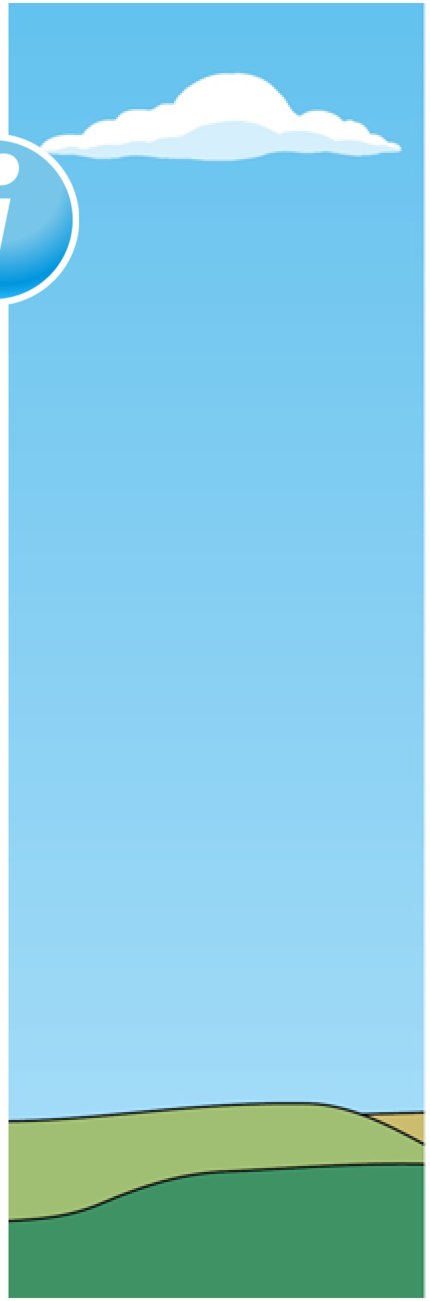
Perhaps most important of all is the **richness of the data**. By getting postcodes, pension amounts, salaries, reason for retirement (and much more) direct from the administrators of every scheme, we can test exactly what factors impact on lifespans. It also means we can apply our results accurately to your fund - in essence picking out those many individuals who are most like each of your members and using their experience to provide up-to-date, relevant information.

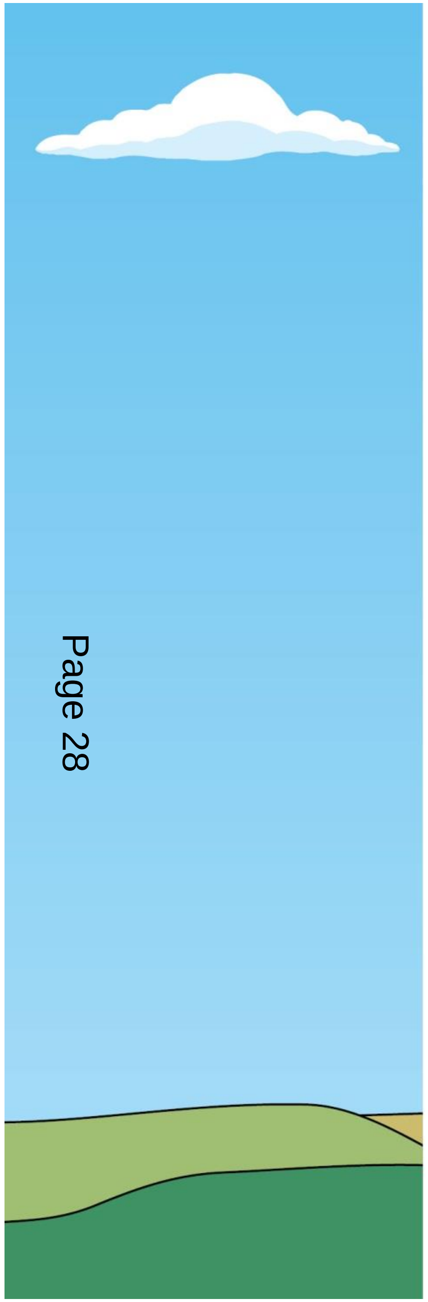
A few key results:

- By combining affluence (salary or pension) with postcode, our model is **much more predictive than using postcode alone**.
- We use **salary**, in preference to pension amount, because it is a better measure of affluence (for men).
- By combining affluence, postcode, reason for retirement and occupation type, we capture a **spread of 10 years** in men's average lifespan – so our model works well for all kinds of schemes.

These features in combination are what drive the robustness of our analysis, and the robustness of the decisions our members make as a result.

The size of the data is crucial to the statistical credibility of your analysis





Your key longevity issues

The world of longevity never stays still for long, and it can often be difficult to establish which changes are, or are not, relevant to your fund. In this report we highlight the key issues you should be aware of:

Current longevity

- Impact of the latest changes in longevity – what does the latest experience of defined benefit pensioners mean for your fund?
- Experience of your members – are your members surviving for longer or shorter periods than expected and what does this mean for your funding position?
- Some members are more influential than others – the experience of the pensioners with the highest pensions is important to your fund.

Future longevity trends

- Recent longevity trends will influence the assumptions you set for how the life expectancy of your members will change in the future. It is important to understand the reasons behind recent experience before relying on it to set the longevity trend assumption for your fund.
- The future is uncertain, yet many pension schemes base their funding, contribution and investment strategies on a single assumption of how life expectancies will change in the future. Using our ‘Alternative Futures’ can help you explore how resilient your strategies are when things don’t turn out in line with your assumption.

Given an uncertain future, how resilient is your strategy?

The latest evidence on current lifespans

New evidence on longevity emerges every year. That's why we annually update your VitaCurves (longevity assumptions matched individually to the characteristics of each member of your fund).

Taking account of the latest VitaCurves would decrease your liabilities by 1.6%, compared to your current funding assumptions. This impact is broken down below.

Membership group	Approximate change in liability using VitaCurves (with data calibrated spanning 2012-2014) rather than current funding assumption
Actives	-1.3%
Deferred Pensioners	-1.5%
Pensioners and Dependants	-1.8%
Overall	**-1.6%**
Change to future service contribution rate	-1.6%

Taking account of the latest VitaCurves would decrease your liabilities by 1.6%

This impact will change from year to year due to:

- recent longevity improvements being different to those you assumed
- the impact of emerging evidence for people like your members, captured in these latest VitaCurves
- changes to your data or membership profile

In particular the latest longevity experience spans 2012-2014, a period which includes a particularly harsh winter and relatively low rates of improvement in the longevity of the most affluent pensioners (who tend to hold the greatest share of liabilities). We explore both of these points later in the report.

For more information

For further details, see your VITACURVES report, available from the members' area of **www.clubvita.co.uk**. This also explains how your advisors can access and make direct use of your VitaCurves (either for individual members, or average assumptions for key sections of your fund) in their calculations for you.

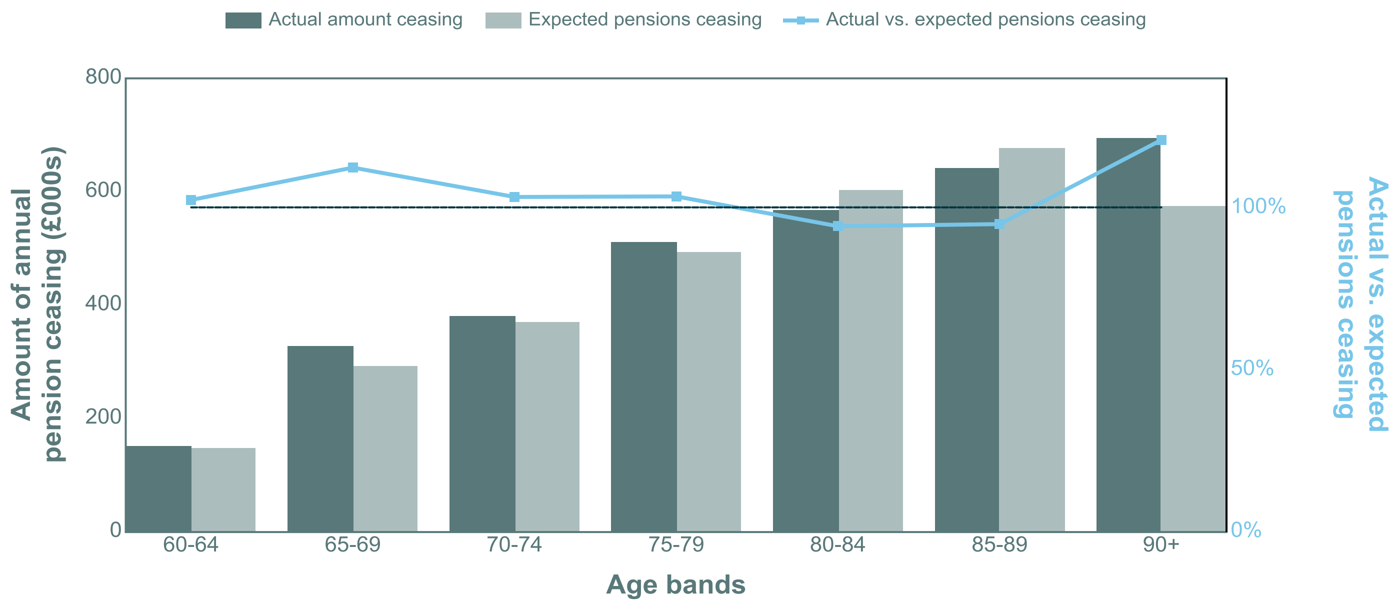
Why this matters

- This analysis tells you if your funding assumptions (for current longevity) remain on track.
- You can build this latest information into your decision making, for example:
  - on longevity derisking (such as longevity swaps or buy-in)
  - on financial derisking (such as trigger points or cashflows underlying Liability Driven Investment strategies)
  - on funding

Your fund's own experience

However well you set your fund's longevity assumptions, your experience will vary from year to year. This can lead to funding gains (if fewer members survive than expected) or strains (if more survive than expected).

Fund experience over three years to 31 August 2016 split by age group (All types of pensioner)



The chart above looks at experience over the last three years and contrasts the actual amount of pension ceasing (dark grey bars) with the expected amount ceasing (light grey bars) at each age range. The ratio of these two numbers is shown as a light blue line. Where the blue line is above 100%, there were more deaths than expected - typically leading to a funding gain - and vice versa.

The table below shows **the impact of your fund's experience since the last valuation** (as at 31 March 2013) **has been to decrease your liabilities by 0.1%**.

	Year ending			Since last valuation
	31 Aug 2016	31 Aug 2015	31 Aug 2014	
Extra (less) pension in payment at year end (£k)	(68)	(162)	53	(242)
Estimated % increase (decrease) in liabilities	(0.1%)	0.0%	0.1%	(0.1%)

When combined with the latest VitaCurves (see previous page), we estimate this would **in aggregate decrease your liabilities by 1.7%.**

For more information

For further details of this and other monitoring, see your VITAMONITOR report, available from the members' area of **www.clubvita.co.uk**.

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The impact of your fund's experience since the last valuation has been to decrease your liabilities by **0.1%**

Why this matters

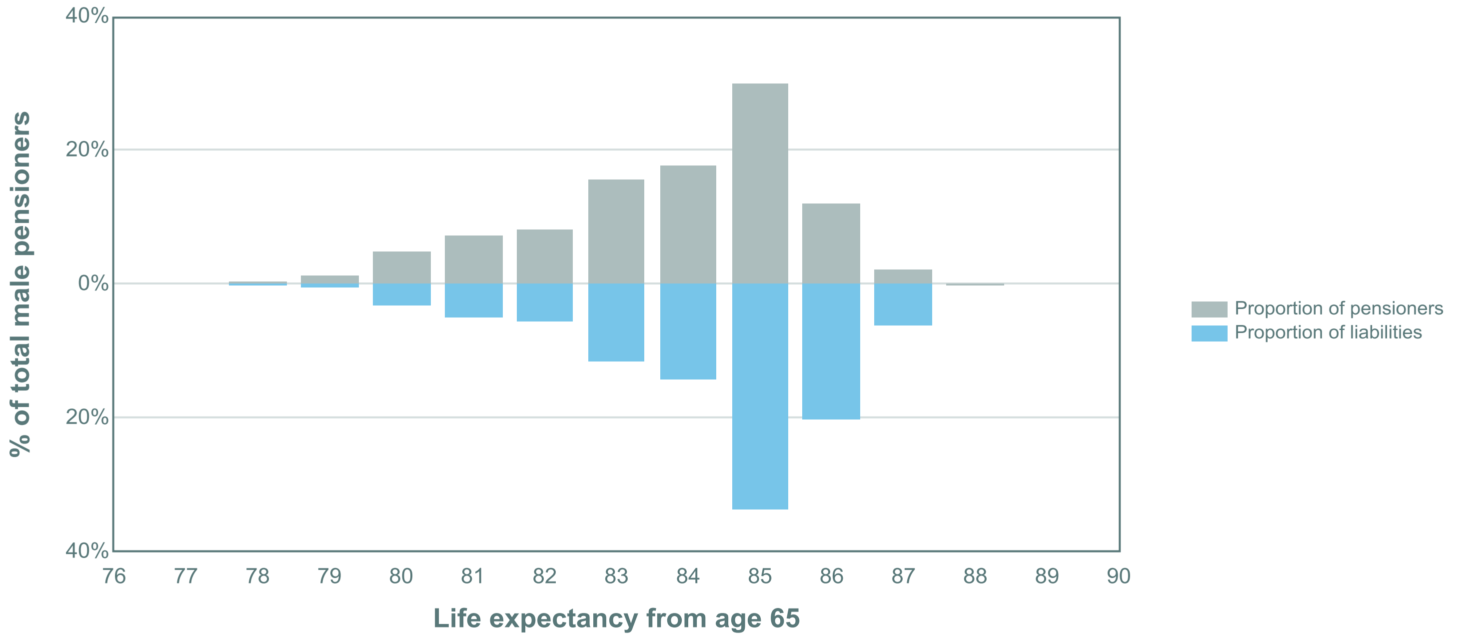
- Your fund's experience is ultimately what drives the costs that emerge.
- For very mature or small schemes these impacts can be significant.
- Experience consistently different to your assumptions may suggest changes are needed.
- But it should be kept in mind that this experience can be volatile.

Diversity and concentration of risk

The chart below shows the wide range of life expectancies predicted by your VitaCurves analysis. The top half shows the spread of life expectancies from 65 (to the nearest year) for male pensioners. It illustrates that some members are expected to live much longer than others.

The bottom half of the chart also shows the spread of life expectancies from 65, but here we have shown the proportion of member liabilities at each age. Taking both parts of the chart together, you can understand how influential certain groups of your members are to your fund.

Spread of life expectancies for male pensioners



It is clear that the traditional approach of using **a single assumption** simply did not reflect the reality of how longevity differed for pension scheme members, and **was an oversimplification for many purposes**. Using VitaCurves allows you to set a longevity assumption that reflects the characteristics of each member of your fund.

The larger bars for high life expectancies in the bottom half of the chart relate to more affluent individuals with larger pensions. In fact, across the whole fund:

- 50% of the liabilities are concentrated on 13.6% of members
- 10% of liabilities are concentrated on just 1.1% of members (i.e. 258 individuals)
- The “bottom” 50% of members account for less than 9.7% of liabilities

This means that **the lifespans of the members with the largest liabilities will have a disproportionate effect on the finances of the fund.**

Understanding where you have a concentration of risk enables you to make better decisions on how to reduce risk. It would generally be most efficient, in terms of the most reward for the effort applied, to focus de-risking efforts on the members with the largest individual liabilities.

Lifespans of the members with the largest liabilities have a disproportionate effect

Why this matters

A single longevity assumption is an oversimplification for situations such as:

- setting (appropriate) contribution rates for employers with different types of members
- assessing the cost of designing member options (e.g. enhanced transfer values or pension increase exchanges) where take up will be skewed to certain groups
- calculating liabilities for subgroups of the scheme (e.g. buy-in for older members)

The VitaCurves analysis enables you to allow for the spread of life expectancies wherever it benefits your decision making.

A volatile start to the 2010s

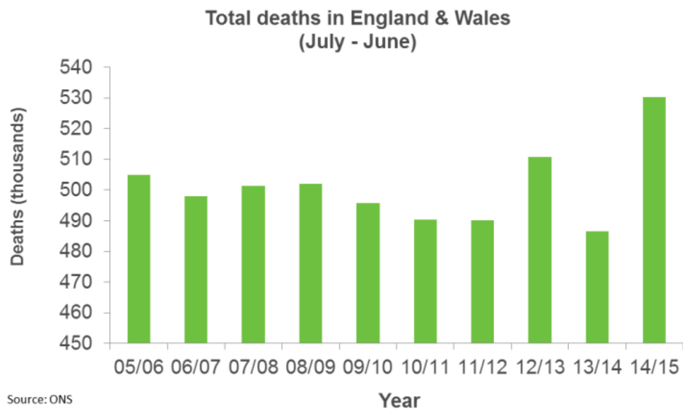
How longevity will increase in the future (‘future improvements’) is an important assumption for all pension schemes. Setting this assumption involves projecting recent levels of improvement into the future, so understanding the drivers of recent longevity experience is critical.

We have seen lower improvements in longevity in recent years, which has resulted in lower rates of longevity improvement being projected into the future. As a result of this change the value placed on liabilities has typically fallen.

One way to look at improvement patterns is to consider deaths over the course of a year. In the chart to the right we start each year in July to capture the full winter season – where we tend to see most deaths. The chart shows that:

- The number of deaths has generally been falling – this means life expectancy has been increasing
- The most recent years have been volatile, with two years of particularly heavy mortality – 2012/2013 and 2014/2015. We explain experience in these years below.

The chart covers the England & Wales population, although similar patterns are also seen in Club Vita data.



2012/2013

After the dullest summer for 25 years (at least in terms of the weather!) we had a particularly harsh (and long) winter, followed by the coldest spring for 50 years. All of which led to particularly heavy mortality.

2014/ 2015

Winter 2014/2015 saw a particular virulent flu strain which unfortunately the winter flu vaccine offered little protection against. This led to a large number of flu deaths particularly amongst the elderly.

The latest longevity projections published on behalf of the UK actuarial profession assume that these recent years of heavier mortality are the start of a new trend of much slower increases in life expectancy than we have seen over recent years.

Schemes who automatically update their assumptions to the latest projections are likely to see reductions in Technical Provisions (of the order of 2-5%).

What this volatility means for you

So what does this mean for schemes setting assumptions for how longevity will change in the future? Schemes are tending to take one of the following approaches:

Retain existing assumption

Many schemes are nervous about automatically reflecting the recent experience. Their concern is that the recent falls in longevity improvements will prove to be a temporary feature and their effects will be reversed by longevity improvements in future years. This reversal could be driven by the fittest pensioners who are more likely to have survived the recent winters.

Fully reflect recent experience

Some schemes are fully reflecting recent experience. They will hold a view that recent experience is likely to be repeated in the future, in essence that longevity will improve at a slower rate in the future than during the period from 2000 to 2012. In doing this they accept that if a reversal in longevity improvements occurs future increases in funding reserves will be required.

Partially reflect recent experience

Other schemes are partially reflecting recent experience. These schemes are typically nervous that recent falls in longevity improvements will prove to be a temporary feature, but accept that we *may* be entering a period of slower longevity improvements.

Adoption of the latest longevity projections can reduce liabilities by 2-5%.

Whichever approach is adopted, it is important that schemes continue to monitor their longevity experience to give early warning of future changes in funding reserves. You are able to do this using your VITAMONITOR report, available from the members' area of **www.clubvita.co.uk**.

A scheme-specific approach to improvements

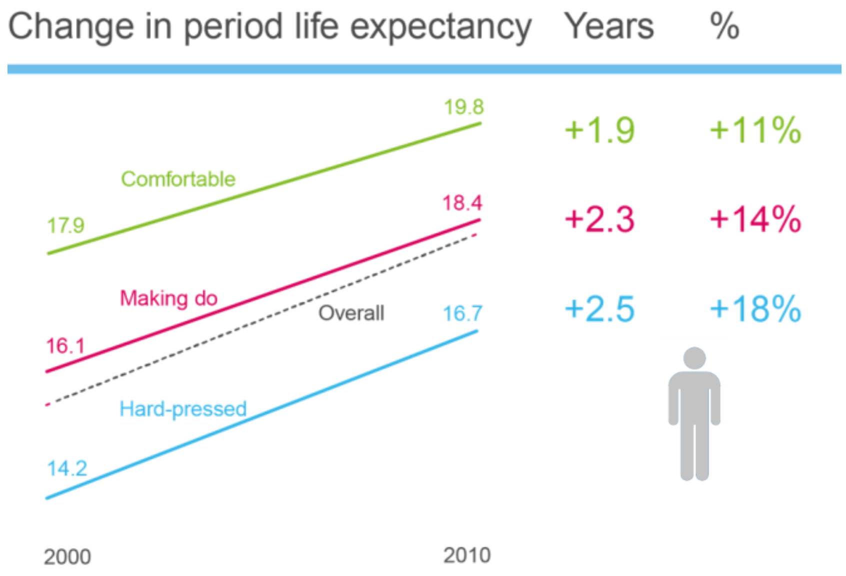
The most widely used longevity improvement assumptions make use of England & Wales population data, making it of less direct relevance to pension schemes than the experience of defined benefit scheme pensioners. However your fund already uses the experience of defined benefit scheme pensioners as a starting point for the assumption used for how life expectancies will change in the future.

In 2014, we concluded a research project with the PLSA (formerly the NAPF) investigating historic longevity improvements within defined benefit pension schemes. We identified:

- That life expectancy had increased at different rates for different types of defined benefit pensioner.
- That pensioners could be categorised as one of three types - ‘Comfortable’, ‘Making do’ or ‘Hard-pressed’ – based on broad affluence and lifestyle measures.

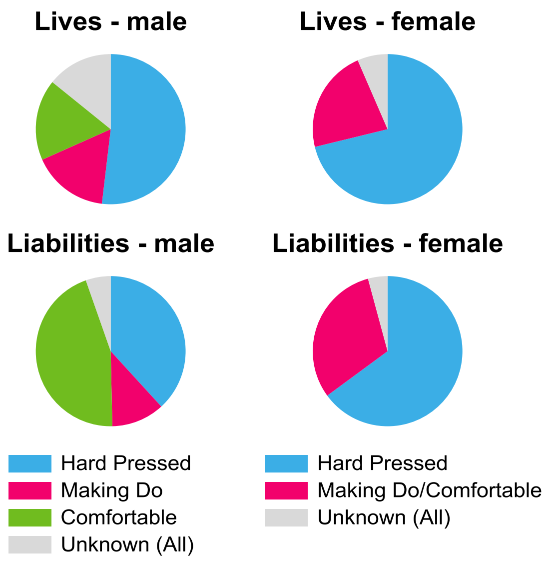
The ‘Comfortable’ group were found to have above average life expectancy. However, between 2000 and 2010 they saw the **slowest increase** in life expectancy of the three types of pensioner. Over the same period the ‘Hard Pressed’ group (who are shorter-lived) saw the **fastest increase**.

The headline result of these changes is that the gap between life expectancy of the shortest and longest lived defined benefit pension scheme members has been reducing. This trend is another factor that pension schemes should take into account when setting assumptions for how longevity may change in the future.



What this research means for you

Every pension fund is different and has its own socioeconomic profile. The breakdown of your fund's members by longevity trend group is shown below.



The majority of your fund's liabilities relate to those in the making do and comfortable groups (excluding any "unknown" members). This means that during the 2000s, your members will have seen lower **improvements in life expectancy** than average for pension scheme members. The good news is that you are already capturing these emerging trends by using VitaCurves.

During the 2000s your members saw lower than average longevity improvements

What does this mean for the future?

Recent trends are a helpful guide to the short term. For example, we might expect life expectancies to continue to converge during the 2010s. Your actuary can use the NAPF study to fine tune short term expectations to reflect your fund's population. However, because you are already using improvements calibrated to Club Vita data, the impact is likely to be small (½% or less).

Much more material to your funding and investment strategy is how trends will evolve over the medium and long term for these different groups. Will life expectancies continue to converge, or start to diverge again? We explore different potential scenarios over the next two pages.

Why this matters

- These differential trends make it critical to use up-to-date base tables. Club Vita provides you with the most up-to-date, relevant information available.
- The differences seen are likely to persist in the future. The NAPF study provides the tools to set an improvement assumption relevant to your population and to explore the likely impact of different longevity scenarios on your fund's finances.

Alternative futures

How do you think longevity will change?

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How life expectancy will increase in the medium to long term is hugely uncertain. Nevertheless, in various different situations trustees are called upon to set an improvement assumption. There is a huge diversity of possible outcomes to consider, but discussions often focus on a small range, often couched in actuarial language.

In particular, typical sensitivities set out what happens to cashflows and liabilities if pensions were paid for 1 year more than expected. But they don't highlight the fact that most schemes are assuming a rapid slowdown in improvements, nor do they give any insight into specific scenarios. For example, what happens if life expectancies keep increasing like they have done in the last 10 years, or reduce to previous levels?

As part of Club Vita's NAPF study, we collaborated with external parties to come up with 6 narratives to help trustees understand the range of potential scenarios that could transpire over the coming decades[1].

Our scenarios cover a wide range of outcomes, ranging from material declines in life expectancy to prolonged continuation of recent increases. By focussing on the real world events that would need to occur for these scenarios to unfold, rather than focusing on improvement rates themselves, we help to give some context to each scenario to aid discussions.

How your fund would be impacted by each of these scenarios will depend on a number of factors, including the profile of your fund against the longevity trend groups shown on the previous page, as well as the age profile and maturity of your fund.

On the next page we investigate the approximate financial impact of each scenario, relative to your current funding. In doing so we have updated your current funding assumption to reflect recent mortality experience, which is likely to have reduced liabilities.

You may wish to explore one or more of these scenarios in more detail with your advisers – for example, to consider how your fund's funding and investment strategy would change if longevity trends developed in line with one of these scenarios.

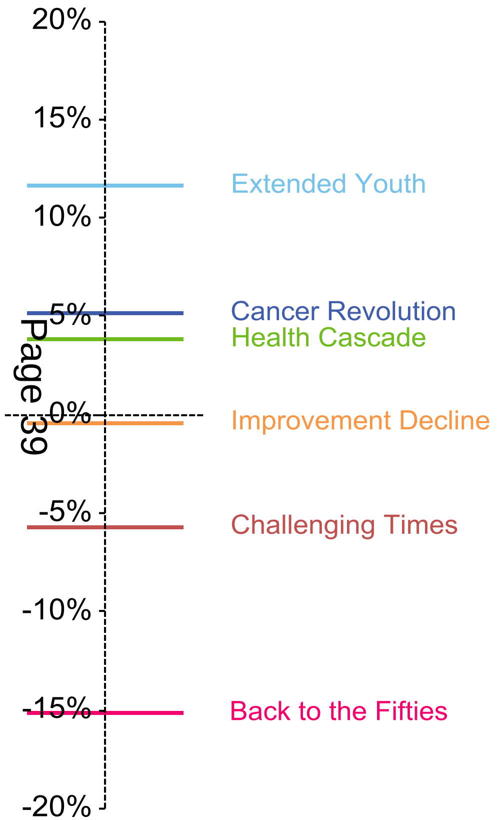
Decline in life expectancy

Material increase in life expectancy

[1] More detail about each scenario is set out in our publication with NAPF http://www.clubvita.co.uk/SiteCollectionDocuments/Longevity-model-Dec14.pdf

The financial impact of scenarios

We have considered the impact on your funding reserve of the future being in line with each of the scenarios. In doing so we have taken as a starting point your existing approach to setting longevity improvement assumptions. For example, for your fund, given your approach, if the future is like ‘Extended Youth’ your liabilities would increase by around 12%.



Extended Youth
Improvements in longevity seen over the last 10 years will continue into the future

Impact 12% increase

Cancer Revolution
Following a period of modest improvements, a ‘cure’ for cancer is released in 2025.

Impact 5% increase

Health Cascade
Uptake of healthy behaviours cascades from wealthier to poorer individuals

Impact 4% increase

Improvement Decline
Increased obesity and diabetes in younger generations acts to slow improvements

Impact 0%

Challenging Times
Climate change and resource constraints significantly impact on life expectancy

Impact 6% decrease

Back to the Fifties
Life expectancy shows a prolonged and material decline for all groups

Impact 15% decrease

We can see for your fund the impact of the various scenarios ranges from a 15% reduction to a 12% increase in liabilities. This **27% spread** is indicative of the range of possible future outcomes that your fund might face (although the reality may be even more extreme than illustrated here).

Why this matters

- Understanding the range of potential outcomes can help justify your current assumption.
- It also provides a framework within which to consider the impact of alternative scenarios on your funding and investment decisions.
- Because our scenarios have specific narratives attached, this allows you to test your assumption against beliefs you have on what the future may hold.

Reliances and Limitations

This report is provided for the exclusive use of London Borough of Hackney Pension Fund as governed by the Club Vita Rules.

It must not be released or otherwise disclosed to any third party (in whole or in part) except as required by law, regulatory obligation or in accordance with the Club Vita Rules. Third parties placing reliance on this report do so at their own risk and Club Vita accepts no liability in relation to any such reliance.

The contents of this report are reliant on the data supplied to us on your behalf including administration data provided by Alasdair Hood of Equiniti Pension Solutions on 30 September 2016.

This report provides a summary of key results from Club Vita's analysis. For more detail please refer to your full set of reports (which are compliant with relevant Technical Actuarial Standards) available via the members' area of **www.clubvita.co.uk**.

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London Borough of Hackney Pension Fund

VITAINDEX

Longevity Analytics for London Borough of Hackney Pension Fund

December 2016

CLUB VITA

Foreword

This VitaIndex report compares your own experience with the rest of Club Vita's dataset (VitaBank) and a peer group of similar funds. Your first VitaIndex report also contained a more general analysis of the combined data of the participants of Club Vita which you may wish to have to hand when reading this report. This VitaIndex report has been updated to reflect your own recent experience, as well as the updated recent experience of other VitaBank participants since the previous Index report was produced.

VitaIndex, like most of Club Vita's tools, is primarily intended for trustees and pension managers. It assumes no prior knowledge of the statistical analysis of longevity.

Individual characteristics - we are all different

Every fund has its own 'demographic DNA' which explains why its members have a lower or higher life expectancy than others. The DNA refers to the fund's mix of the following[1]:

- **Normal and ill-health** retirees – a pensioner retiring in normal health can typically expect to survive between 3 to 3½ years longer than a pensioner that retires in ill-health. The effect of retirement health on life expectancy is at the upper end of this range for pensioners that have the best lifestyles and highest levels of affluence.
- **Lifestyle**, or how individuals spend their money outside of work, can lead to considerably different life expectancies – all else being equal, there is a difference of between 4 and 4½ years in life expectancy between the least healthy and healthiest lifestyles.
- The effect of wealth, or **affluence** of members on life expectancy, is best measured differently for men and women:
  - For men, the last known salary (revalued to current terms) is generally a better indicator of the effect of affluence on longevity, men with the highest levels of affluence having a life expectancy of between 2½ and 3 years longer than those with the lowest.
  - For women, the effect of affluence on longevity is best predicted by the amount of pension in payment, the effect being smaller than that seen in men.
- **Occupation**, or whether an individual has carried out a 'manual' or 'non-manual' role, accounts for around ½ year difference in life expectancy for men (and around 1 year for women), with 'ex-manual' workers tending to have lower longevity.
- Your **VitaCleansing** and **VitaCurves** reports give you more information on the quality of your data and your scheme's 'demographic DNA'.

Longevity trends

- Life expectancy has recently been increasing at around two years per decade.
- The rate at which these improvements will continue is unknown – however most published projections relate to analysis of trends in insurance company data or the population as a whole, and represent an average for people with very different longevity characteristics.
- Our analysis of the experience data received has shown that the historic rates of improvement have been of a different 'strength' and 'shape' to the published projections.

[1] The differences in life expectancy that are shown here reflect what happens when one element of the demographic DNA is changed and all other elements are left unchanged (e.g. lifestyle accounts for 4 to 4½ years difference in life expectancy for individuals with the same retirement health, affluence and occupation characteristics).

- Inevitably, actual experience will differ from whatever is anticipated. We believe that it is important that all schemes **monitor** emerging experience and remain **informed** of the latest developments. Please see your **VitaMonitor** report for the latest such information.

We do hope that you enjoy reading your VitaIndex report. We are very grateful for any feedback that you may have on the content of these reports.

Steven Baxter	Andrew Gaches	Steven Hood

For and on behalf of Club Vita LLP

21 December 2016

Contents

Appendices

1 The profile of your membership

Club Vita aims to provide greater insight into the longevity characteristics in occupational pension schemes by bringing like-minded schemes together in a community where longevity experience data is pooled. By combining the data from individual schemes a clearer picture of the underlying patterns emerges.

The combined data, known as **VitaBank™**, presented in this report comes from the 221 schemes currently participating in Club Vita, who in total had around 2.7m pensions in payment[2], spread across the UK. The charts in this section illustrate the membership profile of VitaBank and contrast this with the data of the London Borough of Hackney Pension Fund ("the Fund").

1.1 Profile of pensioner membership

Chart 1A – Split by type of former occupation

The 'population pyramids' below show the numbers of pensions in payment at each age in VitaBank and in your fund in 2015.

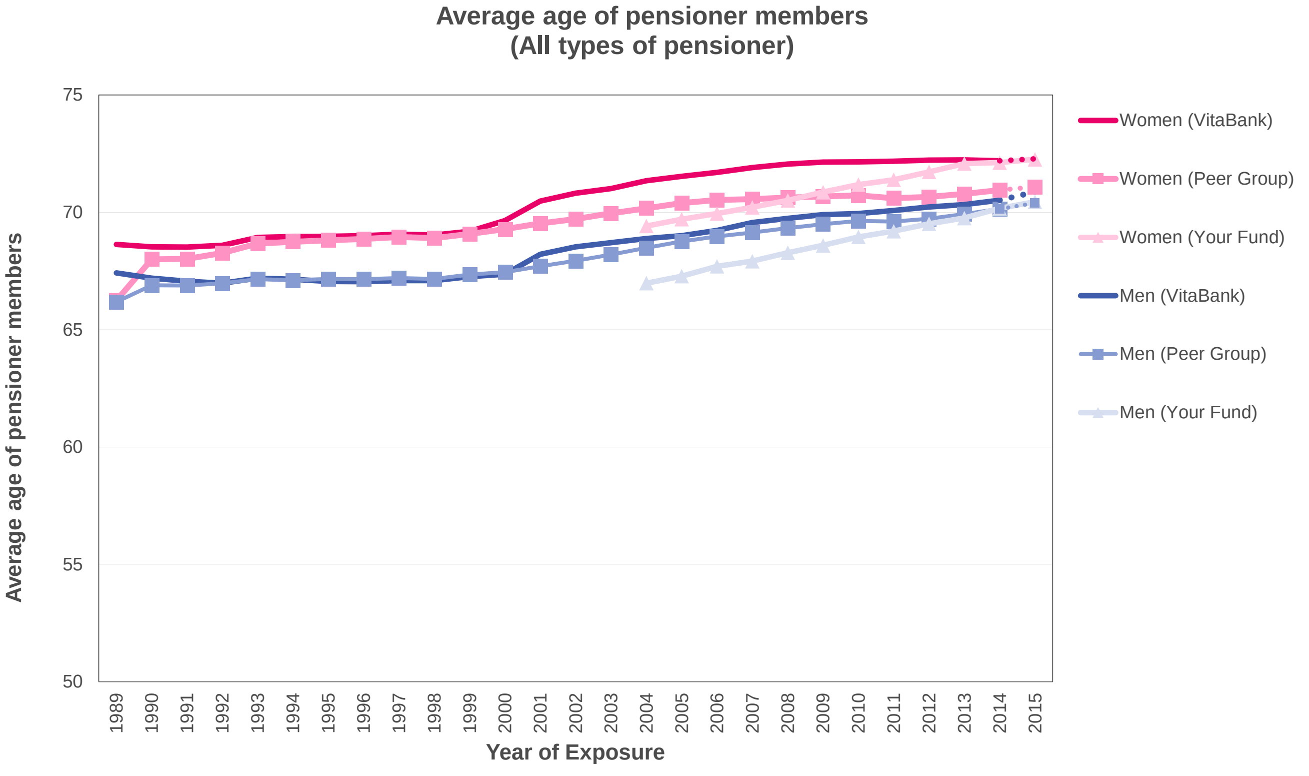
The data is grouped according to age and gender and also according to the main types of employee role we are able to identify in the database, namely former manual employees, former non-manual employees and 'unclassifieds'. The 'unclassifieds' are members of pension schemes where a manual / non-manual split is not available or members of local authority pension schemes who joined after 1998 after which a manual/officer (i.e. manual/non-manual) classification ceased to apply.

The scheme pensioners represent just 0.3% of the records of live pensioners in VitaBank. With the current number of pensioners, the scheme 'population pyramid' demonstrates greater 'jumps' in the progression of number of pensioners between ages relative to the 'smoother' progressions seen in VitaBank.

2 As at the last date each scheme in VitaBank submitted data to Club Vita. As schemes are supplying updated information at different points in time the actual numbers of pensions in payment shown in later charts are slightly lower than this.

Chart 1B – Ageing pensioners

This chart looks at the average age of pensioners in each year from 1989 to 2015 (excluding pensioners aged below 40).



Note: Since funds contribute data at dates spread across the year not all schemes will have provided data covering the entire of the most recent calendar year(s). Consequently some of the points in the chart above (and in later charts) are connected to historic points by a dotted line to reflect the provisional nature of this data.

Within the pooled data the average pensioner ages have risen over the 26 years to 2015, from age 67.4 for men and 68.6 for women in 1989 to ages 70.9 and 72.3 respectively.

The equivalent numbers for the London Borough of Hackney Pension Fund, your peer group of other LGPS Schemes and VitaBank as a whole are shown in the following table for 2004 (the date from which your scheme information is reliable) and 2015.

	Average age of pensioners			
	Men		Women	
	2004	2015	2004	2015
London Borough of Hackney Pension Fund	67.0	70.5	69.4	72.3
LGPS Schemes	68.5	70.4	70.2	71.1
VitaBank (all funds)	68.9	70.9	71.3	72.3

The increase in average pensioner ages is only partially a result of improving longevity: much of the increase is simply due to the ageing of the pension fund membership i.e. as pension schemes ‘grow up’ (or mature) so the balance between new retirees at young ages and ‘established’ pensioners at older ages changes.

2 Considering your longevity experience

2.1 Components of longevity experience

When making longevity assumptions for the members of your fund there are two key elements:

- **Baseline longevity -** In principle this is measurable from the numbers dying in recent years – although a large volume of data would typically be needed before we can really be certain about these rates
- **Longevity improvements -** In order to project future changes in longevity it is important to have a good understanding of recent changes. We provided analysis of the improvements seen within the occupational pension schemes participating in this study within your previous VitaIndex report.

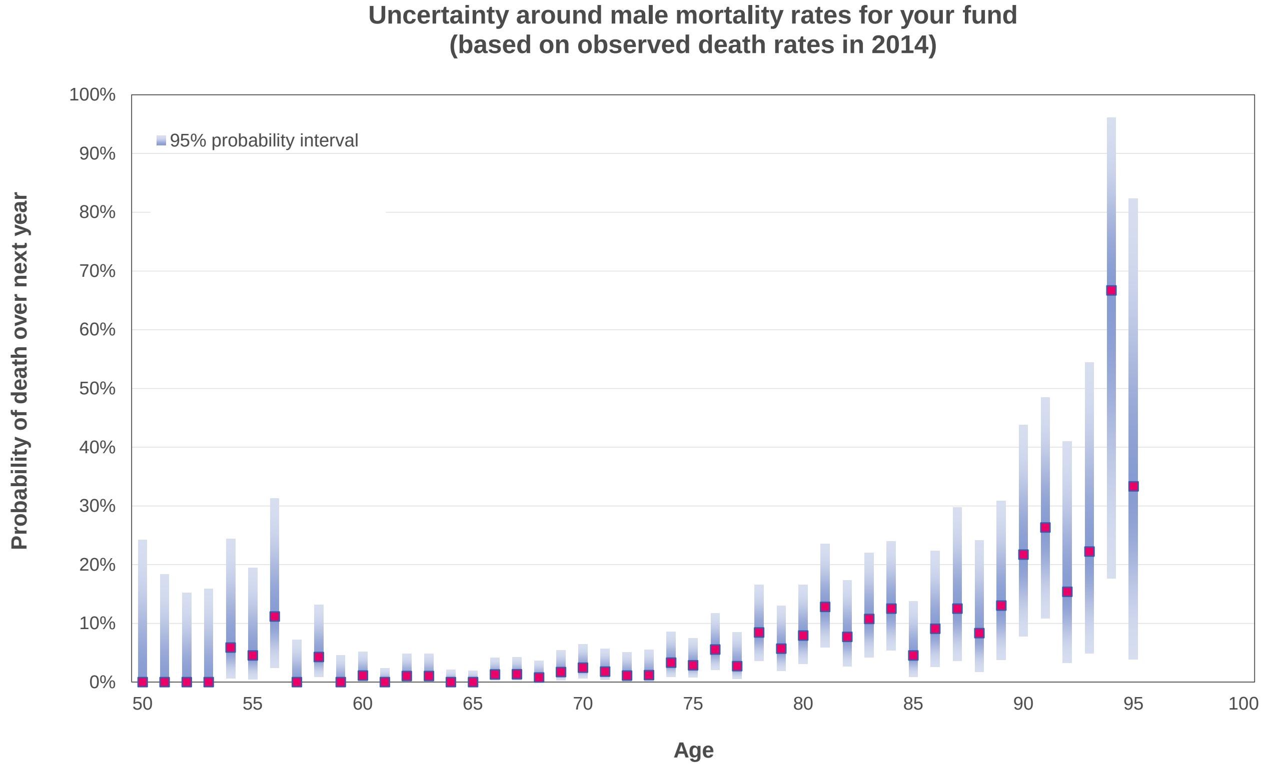
2.2 Death is 'fuzzy'

For individual funds it can be very difficult to draw conclusions about baseline longevity from recent experience alone – this is especially the case for small and medium sized funds such as yours.

Crude death rates and a best guess at mortality rates (men)

It is possible to analyse the 'crude' death rates experienced at different ages for individual pension schemes, in an effort to work out what proportion of people might reasonably be expected to survive to their next birthday, or more morbidly what proportion died at each age (the death rate). In the chart below we see the pattern of death rates by age (illustrated by the pink dots) for your fund in 2014.

Chart 2A – Crude death rates and a 'best guess' at mortality rates



At some ages the dots/bars may be missing – this occurs where your fund has no members of those ages alive in 2014 and so we are unable to draw any conclusions about the death rates at those ages in that year.

The actual death rates are 'spiky' – while there is a general pattern that the death rates are lower at younger ages, and not unsurprisingly, tend to increase with age, the death rates (pink dots) do not form a smooth curve.

The 'spikiness' identified above (by the pink dots) makes it difficult to say with certainty what proportion of individuals might, at each age, reasonably be expected to survive, or die during, the next year. The challenge when setting a longevity assumption becomes working out what the underlying 'pattern' is – i.e. how to draw a gradually increasing (smooth) curve through, or between, the observed points.

For your fund, what we can actually say is that the 'true' death rates are likely[3] to be somewhere in the blue bars (i.e. in all except one in twenty ages the 'true' mortality rates pass through the bar). In addition, the deeper the shade of blue the more likely it is that the true death rate lies in that part of the bar.

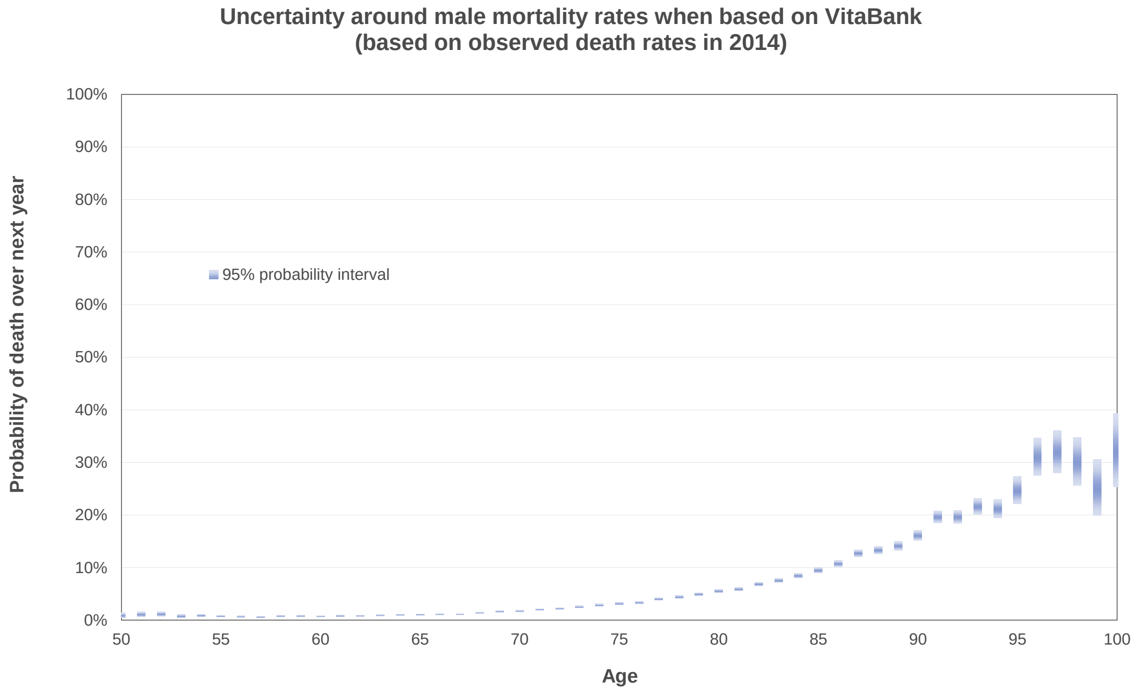
Whilst we have some certainty at those ages where there are lots of pensioners and widow(er)s (i.e. the younger ages) the uncertainty as to the true mortality rates generally increases with age as there tend to be fewer pensioners and widow(er)s at those older ages. Since it is at the older ages (75+) where pension liability values are typically most sensitive to the mortality rates assumed, the uncertainty we see above is particularly unhelpful when trying to set longevity assumptions.

2.3 Lifting the fog on longevity

One way to remove some of the uncertainty seen above is to pool data over a number of calendar years – however for small funds in particular this often requires use of a large number of years worth of data before the noise is reduced. An alternative to this is pooling the data across a large number of funds – as done in Club Vita.

Chart 2B – Clarity in numbers

The chart below shows the comparable chart to 2A – but for VitaBank as a whole in 2014.



[3] For the technical reader: the shaded blue bars are 95% beta-binomial Bayesian probability intervals for the 'true' average mortality rate at each age in light of the observed crude death rates.

The blue bars are now considerably shorter – this shows how much more certain we can be about the ‘true’ mortality rates when working with the greater data volumes in VitaBank.

It remains a little difficult to draw a nice smooth curve through the bars above – this reflects the fact that the mix of people differs at each age i.e. each bar is based on lots of people with different longevity characteristics and so different chances of dying.

Because of the large amount of data obtained by pooling we can start to look at smaller groups of individuals defined by the characteristics that we have found to affect longevity, and identify with confidence the mortality rates experienced by such groups. (We explored this and the complex statistical methods we have used to identify the underlying patterns in your first VitaIndex report.)

3 Every fund is different

3.1 Who lives longest – you, your peers or everyone else?

This section looks at the extent to which life expectancies are different in the individual funds participating in Club Vita.

Jargon buster

Life expectancy is the average length of time an individual can expect to live. Life expectancy can either be expressed as **future life expectancy** (for example 20 years for someone currently aged 65) or as **total life expectancy** (for example 85 for someone currently aged 65). In this report we use total life expectancies.

The chart overleaf plots the life expectancy for men against women, with each fund[4] identified by a single marker. These 'period' life expectancies represent the lifespans that would be expected if mortality rates observed over the last five years were repeated in future[5] - this makes no allowance for future improvements.

Jargon buster

When looking at life expectancies it is important to know whether they include any allowance for future changes in longevity. **Period life expectancies** are based on mortality rates experienced for one particular period, whilst **cohort life expectancies** are determined using projected death rates for one particular generation and so assume some future change (usually reduction) in the chances of dying at each age. Throughout this report we use period life expectancies.

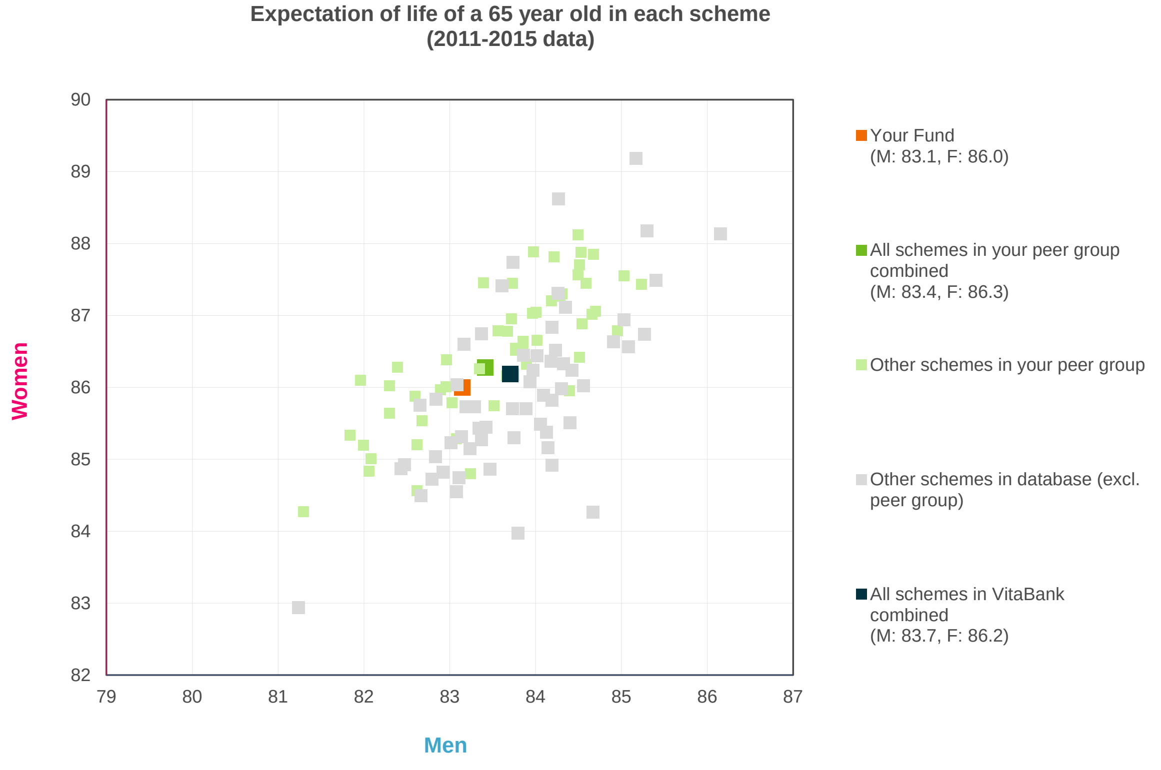
In calculating the life expectancies we have included the information relating to widow(er)s as this provides insight into mortality rates at the oldest ages, where, as seen in Chart 1A there is considerable volumes of data in relation to widows in particular.

We have highlighted your fund so that you are able to compare your experience against that of other funds in the database and in particular your peer group of other LGPS Schemes - which are highlighted in green.

[4] Please be aware that markers are not shown for all schemes in the dataset as those with less than 1,000 years of exposed to risk over the period 2011-2015 are likely to be subject to too much random variation for the marker to be meaningful. Immature schemes (i.e. those with no or very few individuals at the older ages (85+) have also been excluded.

[5] To avoid problems with the sparseness of data at extreme old ages for some schemes the mortality rates have been calculated in five year age bands and at the oldest age bands VitaBank's average data is used where schemes have insufficient data to use their own crude death rates.

Chart 3A – Variations in life expectancy



If men and women demonstrate the same mortality patterns in each fund then within this chart we would observe a diagonal line. It is therefore encouraging to see that the funds appear to follow a diagonal suggesting that men and women exhibit similar mortality patterns in each fund. Some of the funds which appear off of the diagonal may be due to distortions caused by relatively small bodies of data, or differences between the male and female populations in those funds in terms of the other key longevity differentiators we identify in section 4.

You, your peers and everyone else

The gap between highest and lowest appears considerable: from 81.2 to 86.2 for men and from 82.9 to 89.2 for women within the database as a whole. In particular:

- Within LGPS Schemes there is a range of life expectancies of between 81.3 and 85.2 for men and between 84.3 and 88.1 for women.
- Within your peer group the average life expectancy is 83.4 for men and 86.3 for women. For both men and women this is similar to the average life expectancies for VitaBank.
- The life expectancies within your fund are 83.1 for men and 86.0 for women. For both men and women this is similar to the life expectancies seen for other LGPS Schemes and for the combined data in VitaBank.
- Your previous Index report may have shown slightly different life expectancies within your fund for men and women. The main reason for this change will be the updating of our analysis for the more recent experience observed within your Fund and the other Club Vita participants.

4 Everyone is different

Many of the characteristics that Club Vita has identified as affecting longevity (gender, lifestyle, affluence, occupation and retirement health) are inter-related. For example, the average income of former non-manual employees is typically higher than that of manual employees. In other words, if you were to consider the effect of occupation on longevity (ignoring other characteristics), some of the higher mortality seen for former manual workers relative to non-manual workers will be due to income and lifestyle differences rather than simply due to their occupation.

In order to make appropriate allowances for different longevity characteristics it is important to be able to identify the impact that individual characteristics have in isolation and how the impact of these characteristics decrease with age. Our research team has used sophisticated statistical techniques designed to separate out the impact of individual longevity predictors i.e. the effect of different parts of your fund's demographic DNA – a summary of these methods is included in Appendix B in our original VitaIndex report.

As part of this analysis our statistics team have also identified the groupings of salary and pension which provide most insight into differences in longevity.

Change in longevity characteristic	Impact on life expectancy from age 65 (if all other characteristics are unchanged)
Male to female	Increase of 2 to 2½ years
Normal to ill health retiree (men)	Typically a decrease of 3 to 3½ years (the impact is biggest for those combinations of lifestyle and affluence with the longest life expectancy in normal health)
Geo-demographic longevity group A to G for men	Increase of 4 to 4½ years
Increase in pay at retirement from below £14,800 p.a. to over £62,900 p.a. (men)	Increase of 2½ to 3 years
Manual to non-manual (men)	Increase of around ½ year (the impact is larger for women at around 1 year)

Technical note: Above values are based upon the adjusted impact of the change in a single characteristic as derived from logistic generalised linear models fitted to the 156 schemes loaded onto VitaBank as at January 2016 and stratified by sex and adjusted for age, occupation, retirement type, affluence (salary at exit/retirement and pension) and postcode based longevity group (including any significant interactions between these covariates). For additional details please see Appendix B in our original VitaIndex report. Please note that the above results are based upon our latest research and so may be slightly different to results in earlier reports reflecting changes in the impact of different factors over time and the additional insights we continue to gain from the dataset.

In order to understand why different funds exhibit different life expectancies we need to understand more about why the different members of those funds may have different life expectancies and how your fund differs from others in terms of its **demographic DNA** (i.e. the makeup of your membership in terms of the different longevity characteristics that we have identified). The demographic DNA of your fund is explored in the following section and some additional summary statistics are provided in an Appendix to this report.

5 Your fund's demographic 'DNA'

Please note that:

- The charts show only members for whom we hold the relevant data – the proportion of your members for whom we hold relevant data is shown in footnotes; and
- With the exception of charts 5B and 5C, the charts consider only the pensioner membership of the fund i.e. widow(er)s have been excluded.

Chart 5A – The sick die young ... your ill health 'DNA'[6]

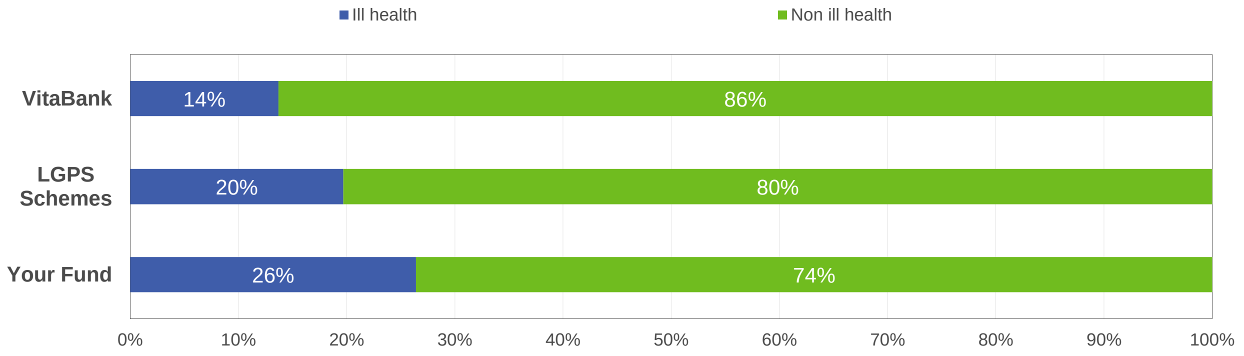
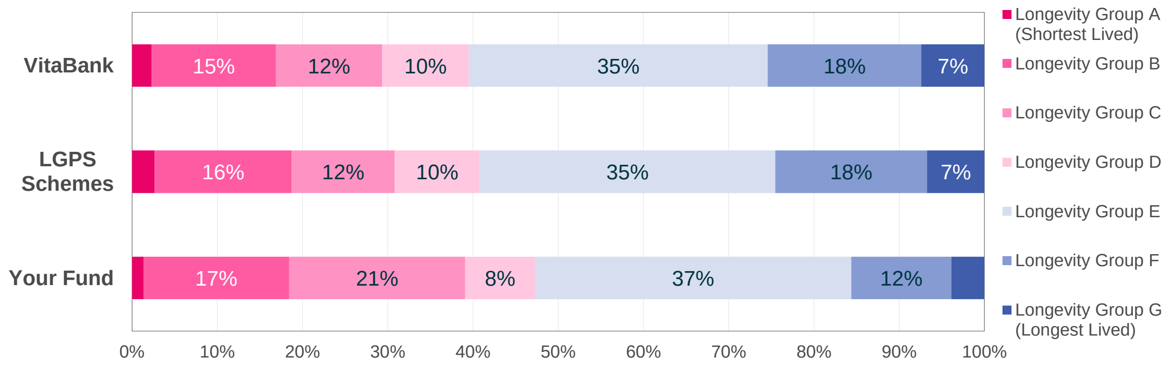
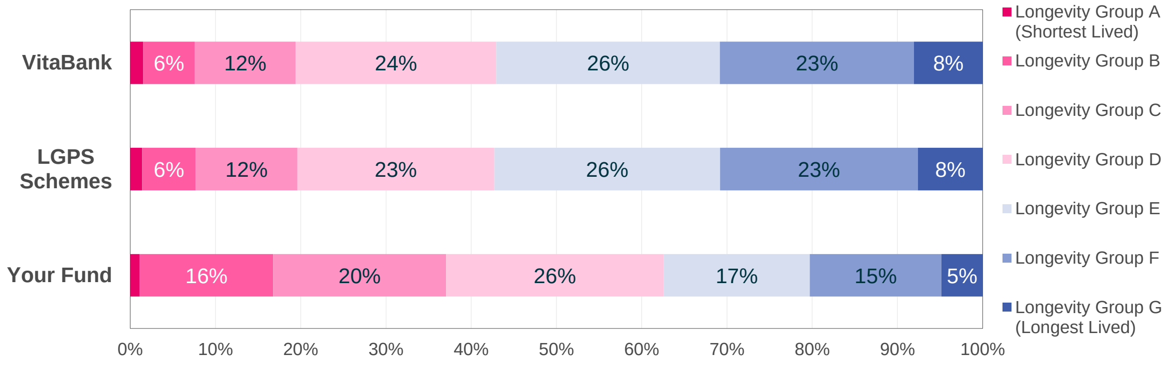


Chart 5B (men) & 5C (women) – Life is more than just work ... your geo-demographic 'DNA'[7]





[6] Retirement health was supplied for all of your pensioners.
[7] We have recorded usable postcodes for 94% of your pensioners and dependants – please see our VitaCleansing report for more information.

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Chart 5D – Money matters ... your male affluence ‘DNA’[8]

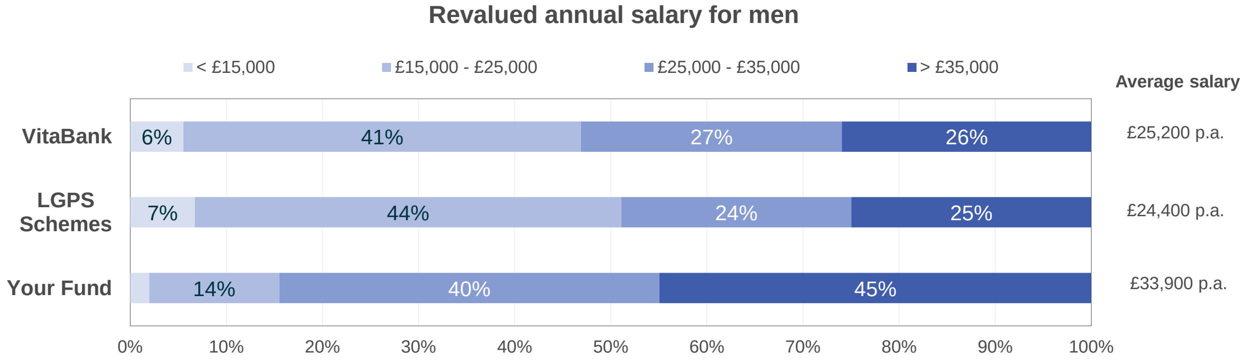


Chart 5E – Money matters ... your female affluence ‘DNA’[9]

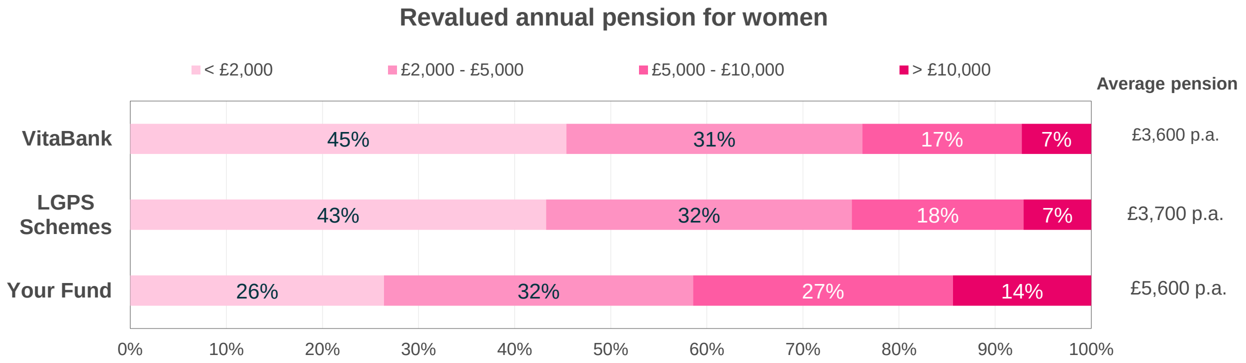
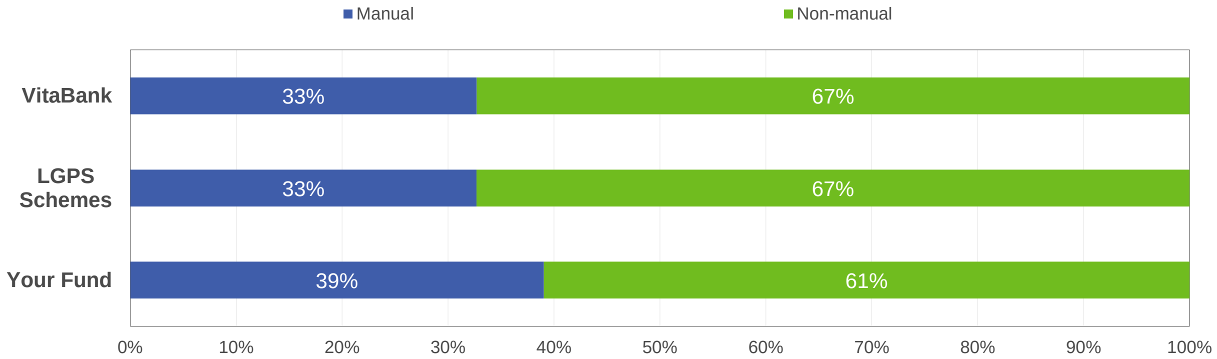


Chart 5F – A job for life and death ... your occupational ‘DNA’[10]



Typically we would expect that, all else being equal, relative to the average occupational pension scheme:

- funds with a higher proportion of ill health retirees will have a lower average life expectancy;
- funds where a higher proportion of members live in postcodes associated with the ‘worst’ lifestyles (shortest lived) will have a lower average life expectancy;
- funds with lower salaries or pensions in payment will have lower average life expectancy; and

[8] A reliable salary value was supplied for 75% of your pensioners – please see your VitaCleansing report for more information.
[9] Pension was supplied for all of your pensioners – please see your VitaCleansing report for more information.
[10] This information is known for almost all of your members - please see your VitaCleansing report for more information.

- funds with a higher proportion of former manual employees will have a lower average life expectancy.

We can look at the DNA of your pensioners to see if it helps explain the life expectancy seen in Chart 3A relative to other LGPS Schemes and VitaBank. In the table below ⇧, ⇩ and ⇔ indicate that your demographic DNA suggests that you should have on average higher, lower or similar life expectancy to other schemes, respectively.

Longevity Characteristics		What does your demographic DNA suggest about how your fund's average life expectancy should compare to...?	
		Peer group	**VitaBank**
Retirement health		⇩	⇩
Lifestyle	Male	⇩	⇩
	Female	⇩	⇩
Affluence	Male	⇧	⇧
	Female	⇧	⇧
Occupation		⇩	⇩

Based upon the table above it is difficult to draw definitive conclusions on how the fund's longevity characteristics contrast to either other LGPS Schemes or VitaBank. In practice, though, the fund's membership is a diverse mix of individuals that exhibit a range of different combinations of longevity characteristics and this is reflected by the position of the fund on chart 3A. This is explored further in your VitaCurves report.

Further information on our analysis of your scheme's longevity characteristics, including the consideration of non-pensioner members, is provided in your **VitaCurves** report. In particular the **VitaCurves** report considers the impact on the value of your liabilities of adopting the latest version of **VitaCurves** as your longevity assumptions.

6 Living longer but how much longer?

So far the focus of our analysis in VitaIndex has been on identifying which factors distinguish between those who are expected to live longer or shorter than others – i.e. factors which it may be important for you to take into account when setting the baseline assumption for funding purposes – and investigating your fund's demographic 'DNA'.

However, mortality rates are likely to change in the future and in order to put possible future projections into context it is important to understand how mortality rates and life expectancies have been changing in the past. In this section we start to consider the changes that have been happening over the last 22 years.

6.1 Two years a decade

The following two charts demonstrate a helpful way of summarising the information we hold on recent improvements in longevity into a single figure – a life expectancy.

To generate life expectancies we have taken the crude death rates across all ages in each single calendar year to calculate the implied expected age of death if the same death rates continued to apply in all future years. As the death rates in a single year do not allow for further improvements in longevity they can be useful for comparing year-on-year trends in mortality, and variations between membership groups, but cannot be used to give a best estimate of future life expectancy. In each case we have considered someone who has reached age 65 in each single complete calendar year of experience (i.e. from 1993 to 2015).

One benefit of not making any allowance for future changes in mortality is that the life expectancy figures produced do not incorporate any judgemental views on 'longevity improvements', and are simply functions of the observed data[11].

The charts reveal:

- The life expectancy for males (at age 65) has risen from 79.6 in 1993 to 83.9 in 2014 – an increase of around 2.4 months each year, or around 2.0 years per decade[12].
- The life expectancy for women has also risen, but less rapidly than for men. This shows that the life expectancy for men has been catching up with women. One of the drivers for this is that more men smoked historically and so the quitting of smoking which has happened in recent decades has been most beneficial to men.
- The life expectancy of individuals within the fund has been far more variable over time, highlighting the clarity that comes from pooling data.

Further information on our analysis of longevity improvements was provided in your first VitaIndex report and annual updates to this will be provided in your VitaMonitor report.

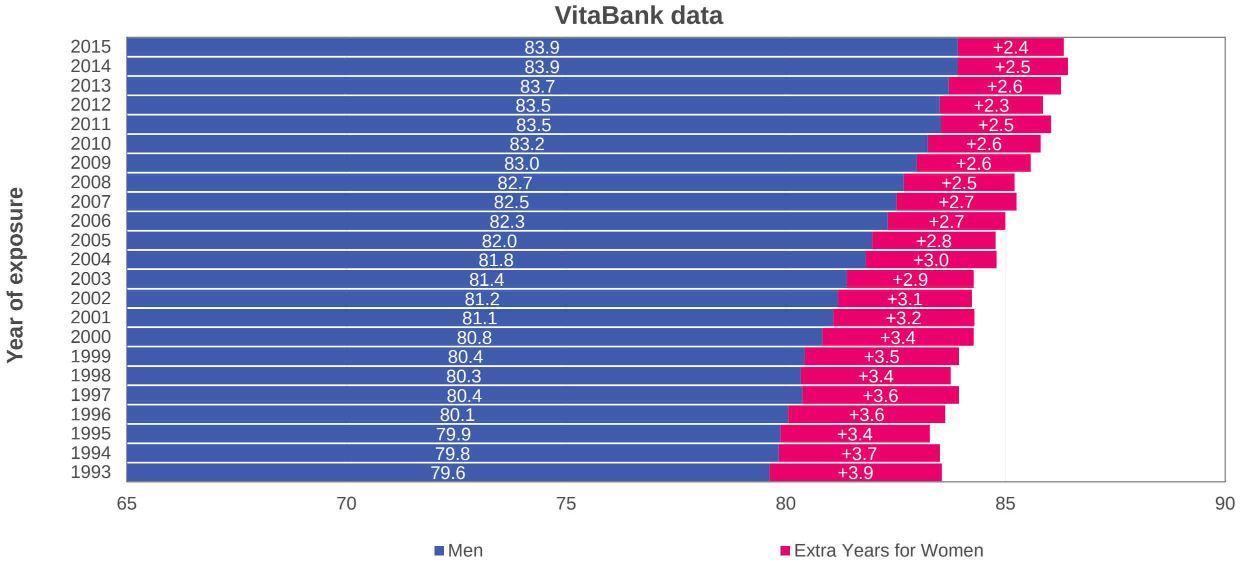
[11] However, this introduces a limitation because we do not have complete information at all ages – for instance at some ages where we are observing a small number of individuals there will be some years where no one is observed to die, suggesting a misleadingly low death rate of 0%. Similarly at other ages there may only be a small number of individuals all of whom die, or there may be no one alive at all. To avoid these problems some smoothing of the crude death rates has been carried out at ages over 100.

[12] The results are also similar to those observed in the UK population, as evidenced by National Statistics studies.

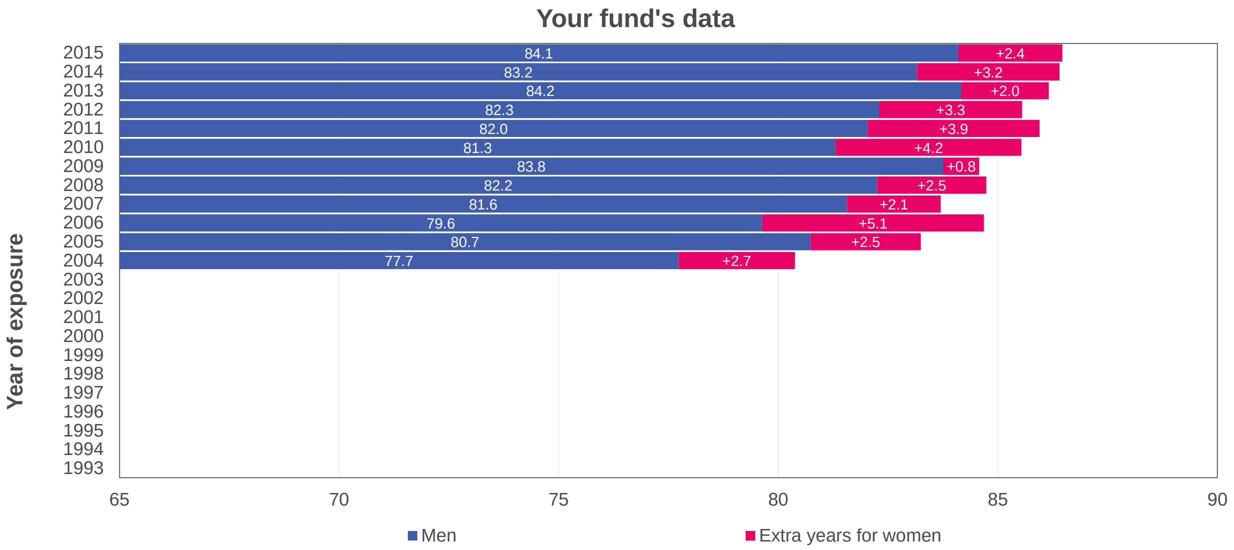
Chart 6A and 6B – Increasing life expectancies

Period expectations of life derived from calculated crude mortality rates

Expected age at death of a 65 year old, based on crude mortality rates in year of exposure



Note: Not all schemes have submitted data covering all of 2015. As such, the life expectancy shown above for 2015 is provisional.



Appendix – Your fund, your peer-group and VitaBank

The table below contrasts the London Borough of Hackney Pension Fund with your peer group (LGPS Schemes) and the combined dataset of the first 221 occupational pension schemes to participate in Club Vita.

		Men			Women			Combined		
		Within your fund	Within your peer group	VitaBank	Within your fund	Within your peer group	VitaBank	Within your fund	Within your peer group	VitaBank
Population Profile (2014)	Active	28%	32%	25%	36%	39%	32%	33%	37%	29%
	Deferred	39%	31%	34%	39%	35%	36%	39%	34%	35%
	Pensioners (excluding widow(er)s)	30%	33%	38%	19%	21%	22%	24%	25%	29%
	Widow(er)s and dependants	2%	3%	2%	7%	5%	9%	5%	4%	6%
	Split by gender	47%	39%	49%	53%	61%	51%	-	-	-
Pensioner Profile (2014) Retirement Type	Proportion retiring on 'normal health'	73%	74%	79%	74%	78%	78%	74%	77%	78%
	Proportion retiring on grounds of ill health	27%	22%	12%	26%	17%	14%	26%	19%	12%
	Proportion retiring where retirement reason is unknown	0%	4%	9%	0%	5%	8%	0%	4%	10%
Pensioner Income (2014) excl. widow(er)s (revalued to 2013)	Proportion with pensions of less than £2k p.a.	11%	21%	22%	26%	43%	45%	18%	34%	32%
	Proportion with pensions of between £2k and £5k p.a.	20%	27%	27%	32%	32%	31%	25%	29%	29%
	Proportion with pensions of between £5k and £10k p.a.	37%	26%	24%	27%	18%	17%	32%	21%	21%
	Proportions with pensions in excess of £10k p.a.	32%	26%	27%	15%	7%	7%	25%	16%	18%
Average Pensions in Payment (revalued to 2013)	All former employment types	£9,361	£7,717	£7,904	£2,255	£3,727	£3,620	£6,923	£5,115	£5,760
	Former manual employees	£6,449	£4,575	£5,182	£3,425	£1,644	£1,668	£5,146	£3,301	£4,009
	Former non-manual employees	£11,474	£10,814	N/A	£6,729	£4,923	N/A	£9,153	£7,364	N/A
Average Salary at Retirement/Exit (revalued to 2013)	All former employment types	£33,889	£24,415	£25,196	£26,607	£18,697	£18,685	£31,042	£20,715	£21,751
	Former manual employees	£28,421	£19,763	£20,509	£21,855	£14,400	£14,517			
	Former non-manual employees	£40,765	£31,989	N/A	£32,023	£21,152	N/A			
Average Ages (inc widow(er)s)	Pensioners (2004)	67.0	68.5	68.9	69.4	70.2	71.3	68.2	69.4	70.1
	Pensioners (2014)	70.2	69.9	70.3	72.1	70.9	72.2	71.2	70.6	71.4
	Age at death of pensioners (2004)	74.8	77.0	77.7	77.4	N/A	N/A	76.0	78.7	79.5
	Age at death of pensioners (2014)	78.8	78.9	80.0	83.5	82.0	83.7	81.1	80.7	81.8
Period Life Expectancy (2011-2015)	Pensioners inc widow(er)s	83.1	83.4	83.7	86.0	86.3	86.2	84.6	85.1	84.9

Reliances and Limitations

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For the avoidance of doubt, this report does not constitute actuarial advice. Furthermore, this report should not be construed as providing advice on the appropriateness of any mortality assumption for the purposes of scheme funding as required under Part 3 of the Pensions Act 2004 and The Occupational Pension Schemes (Scheme Funding) Regulations 2005.

The information in the report has been compiled by or on behalf of Club Vita LLP and is based upon our understanding of legislation and events as at December 2016. It should be noted that Club Vita LLP does not provide legal services and therefore, we accept no liability to you or to any other third party in respect of any legal opinions expressed in this report. You are advised to take independent legal advice in respect of any legal matters arising out of this report.

Utilisation of Data

The contents and conclusion of this report are reliant upon the extract of the current and historic data held by the fund's administrators. This was supplied to us by Alasdair Hood of Equiniti Pension Solutions on 30 September 2016. We have carried out a number of checks on the data to ensure that it is suitable for the purposes of longevity analysis. The results of this analysis are summarised in our **VitaCleansing™** report dated December 2016 and has resulted in the data from your fund having been included in our longevity analyses from 1 January 2004. Please be aware that the checks we have performed are designed to verify the data as adequate for the purposes of longevity analysis and does not warrant the data as suitable for other purposes.

The data analysed within this report relates solely to pensions in payment. In all of the analyses, pensioners aged below 40 have been excluded as the data on child dependants' (or young widow(er)s) pensions is sparse and unreliable.

Within this report we have identified a number of predictors of longevity which explain a considerable proportion of the variation observed in the mortality experience of the contributing schemes. However, not all of the variations between funds are explained in terms of the factors identified within this report. It is likely that there are additional factors which explain the residual variation in mortality experience. To the extent that some of these additional factors are found more or less frequently in the membership of the London Borough of Hackney Pension Fund it may be particularly important for the sponsor and trustees of the fund to appreciate the impact of these factors on longevity.

Compliance statement

The following Technical Actuarial Standards are applicable in relation to the information referred to in this report:

- TAS R – Reporting;
- TAS D – Data;
- TAS M – Modelling; and
- TAS P - Pensions

This report complies with each of the above Standards.

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London Borough of Hackney Pension Fund

VITAMONITOR

Monitoring longevity experience for the London Borough of Hackney Pension Fund

December 2016

CLUB VITA

Welcome to VitaMonitor...

Welcome from all the Club Vita team to your annual **VitaMonitor** report.

Longevity is one of the largest risks that any pension scheme runs, yet typically one which is monitored less frequently – often leading to nasty surprises at triennial valuations. Over the last decade the funding positions of most pension schemes will have been repeatedly revised downwards in light of emerging longevity patterns. We cannot promise to always be the bearer of good news, but we hope that you will find our regular monitoring useful in managing your longevity risk.

Our report is split in to two sections, and whilst we have tried to explain any jargon as we go along, we have included a jargon buster in Appendix A:

What has been happening? (page 5 onwards)

As trustees you have had to make an assumption as to how long people will live for. However have the members of your scheme been living (and dying) in accordance with the funding assumption? In sections 1-5 we see how:

- fewer pensions remain in payment at the year ending 31 August 2016 than anticipated under your funding assumptions. The impact of the last year's experience has been to decrease the value placed on your liabilities by 0.1%
- the experience over the last three years has been varied - with some years having fewer pensions surviving than would have been anticipated, and some years with more pensions surviving than anticipated.
- the estimated net effect of this experience has been, allowing for the ages of members for which any extra pensions are payable, to decrease liabilities since your last valuation at 31 March 2013 by 0.1%
- we can also consider the combined evidence for all Club Vita subscribers. If you were to update your longevity assumptions to reflect the latest experience from Vita it would decrease the value placed on your liabilities by 1.6%

Steven Baxter

Andrew Gaches

Steve Hood

For and on behalf of Club Vita LLP

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Managing longevity risk (page 16 onwards)

For most schemes longevity ranks in the top three risks faced by trustees, and as such deserves actively monitoring and managing. In particular the behaviours of your membership can influence your risk exposure which we explore in section 8 and summarise in a **longevity risk register** in section 9. Our observations include:

- we estimate that 10% of your liabilities are concentrated in just 1.1% of your members - how long these members actually live for will play an important role in the ongoing funding position of the fund
- the average age of new retirees (from active service) within your fund has been variable over the last decade but is generally lower than other LGPS Schemes
- 1% of active members who retired over year to 31 August 2016 did so on grounds of ill health and a decreasing proportion of members have been retiring on ill health

Contents

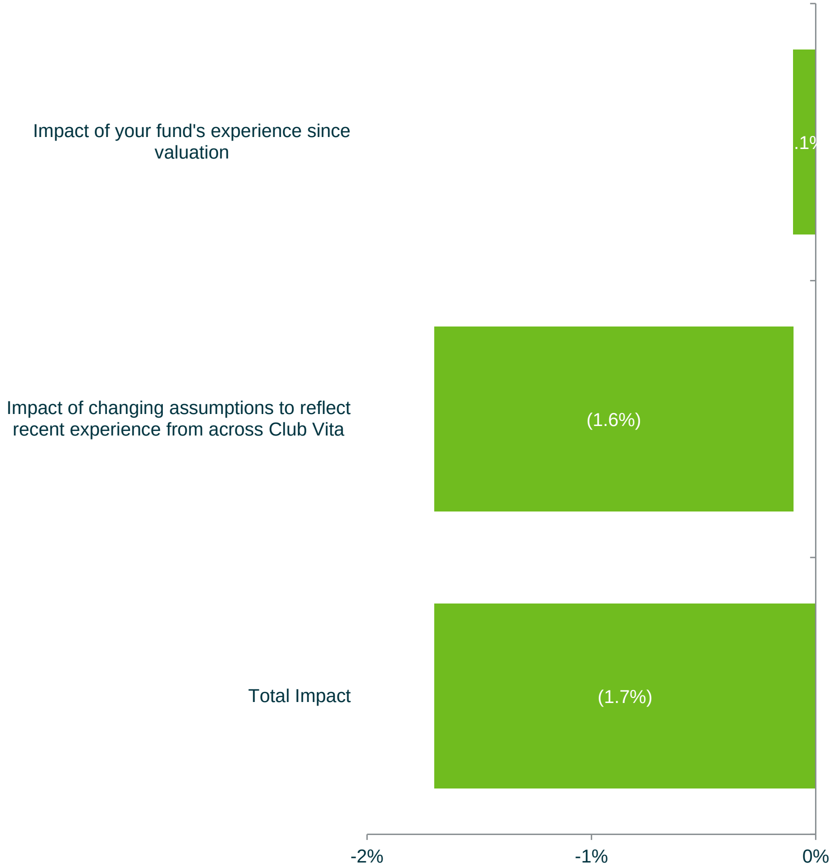
What has been happening?

1 Emerging experience at a glance

The financial impact

Over recent years estimates of how long people are living for have seemed to steadily risen, often increasing much faster than anticipated by trustees and sponsors alike leading to a succession of increases in the valuation of pension scheme liabilities.

In this section we provide a summary of the impact of the longevity experience of your fund since your last valuation and identify how the emerging insights from Club Vita may lead to you taking a different view in subsequent valuations. In sections 2 to 5 we then explore this summary picture in more detail.



Less pension remains in payment in your fund at 31 August 2016 than would be expected under your current funding assumptions. All else being equal, this suggests that your liabilities are currently 0.1% lower than previously anticipated. **(Section 3)**

Although less pensions are in payment than anticipated this does not necessarily mean your assumptions about how long people are currently living for are wrong. Your membership has a variety of individuals as seen in your VitaCurves report. Looking across the data for all Club Vita subscribers we see that allowing fully for this variety in the mortality assumption you use would decrease your liabilities. **(Section 4)**

The combined impact of the two items above – the actual survivorship of your members, and reflecting our latest longevity insights – suggests a decrease in your liabilities of 1.7%.

This impact reflects actual experience and is therefore objective. Within your assumptions you will also be making a subjective allowance for how longevity will change in the future. In light of recent experience and the information on emerging trends in **Section 5**, you may wish to review your allowance for future improvements.

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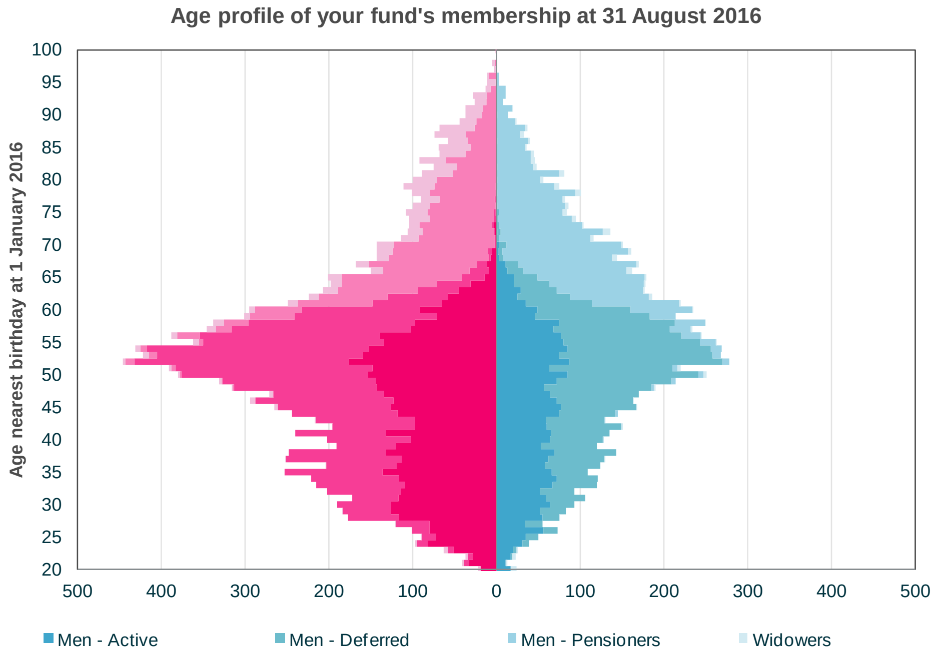
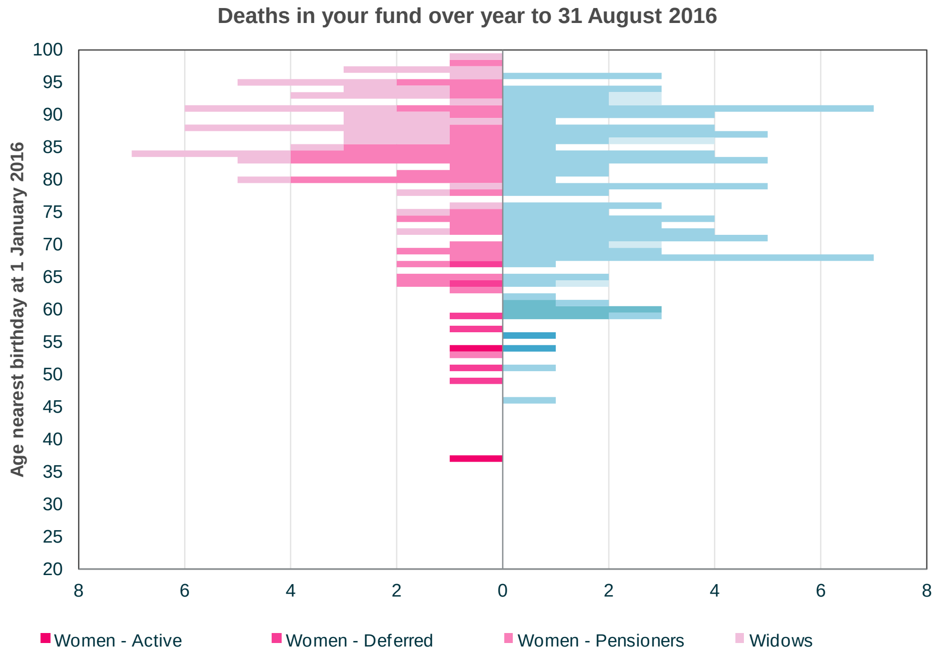
2 Your experience

A matter of life and death

The ‘population pyramids’ below show the number of members in the scheme at each age (left) and the profile of the deaths which occurred over the year to 31 August 2016:





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We see that the majority of the membership of the fund is aged below 70. However, the chances of dying before age 70 are very low, and consequently most of the deaths occurred at older ages.

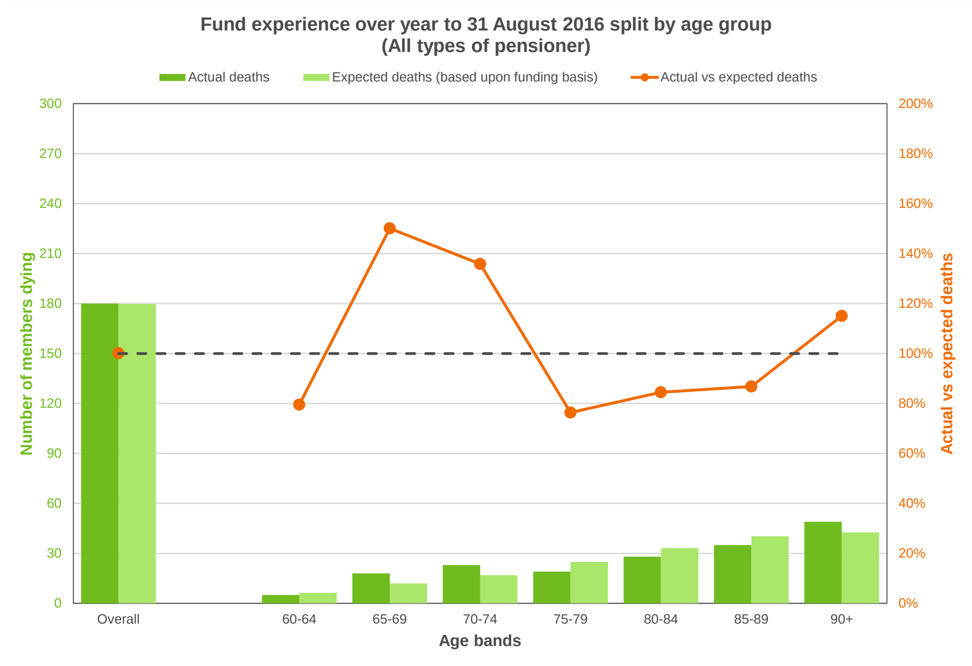
When funding for future payments you will have made an allowance for the pattern of deaths with age. This will have assumed a smooth pattern of deaths with age. In contrast the charts above show actual deaths have been ‘spiky’. This begs the question were more, or fewer, members alive as at 31 August 2016 than anticipated under your funding plans?

2 Your experience (con't)

What you expected to happen

In order to identify whether more, or fewer, members survived the year to 31 August 2016 than anticipated under your funding plans we start by contrasting the number of members who died during the year with the number expected to have died under your funding assumptions.

In the chart to the right the dark green bars show the actual number of deaths for different age bands, with the total across all ages shown in the leftmost bar. This is contrasted with the number of deaths which would have been expected had experience been in line with your funding assumptions[1] (the light green bars).



The ratio of the actual deaths to the expected deaths is shown as the orange line and dots. An actual vs. expected deaths of 100% suggests that the number of deaths has been in line with expectations, whilst if it is less than 100% then fewer deaths have occurred than anticipated. We can see that:

- Overall more deaths have occurred than anticipated
- There has been considerable variation in experience with age; for example:
  - amongst those aged 75-79 the actual deaths have been lower than expected; whilst
  - amongst those aged 65-69 the actual deaths have been higher than expected.

As (overall) more deaths have occurred than anticipated, fewer people are alive at the end of the year than anticipated.

However, in the world of pension funding it is less important whether the 'correct' number of people died but rather who died and who survived, and whether the amount of pension in payment at the end of the year is higher or lower than expected.

1 Our interpretation of your current funding assumptions can be found in Appendix C

3 Understanding your experience

Just a bad year?

The chart on the right looks at the experience over the three years to 31 August 2016 for your fund and contrasts the actual amount of pension ceasing (dark green bars) to the expected amount ceasing (light green bars) at each age under the trustees' funding basis. The ratio of these two numbers is shown as a dark orange line.

Experience over last three years

The chart to the right shows that over the last three years:

- fewer pensions ceased than expected at some ages (e.g. 80-84)
- whilst at other ages (e.g. 90+) more pensions ceased than expected

Financial impact of this experience

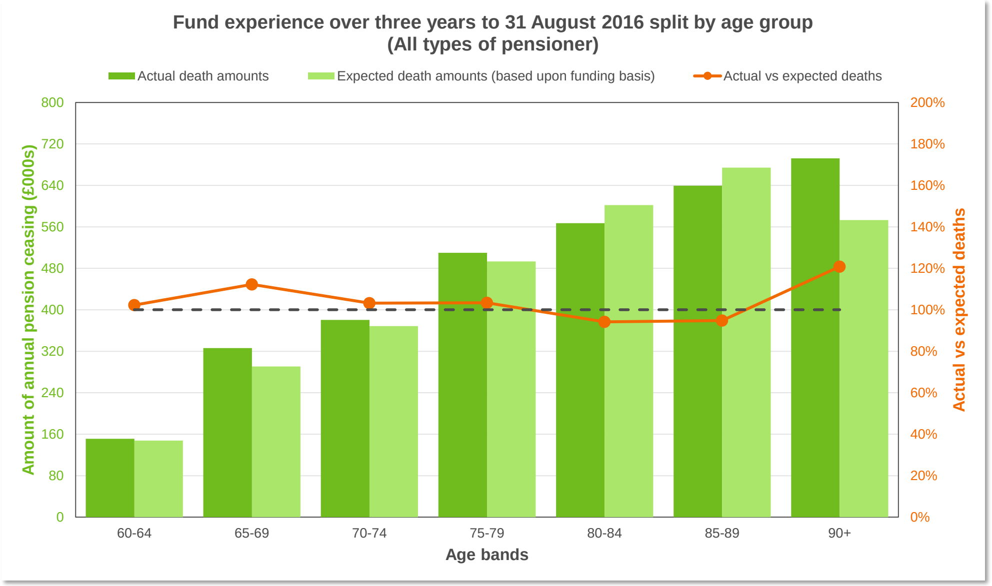
Ultimately, the pattern of deaths and amount of pensions ceasing with age is crucial - fewer pensions ceasing than expected is most costly at the youngest ages. This is because we would expect this 'additional' pension to be paid for longer.

The table to the right shows that:

- the last three years have been varied in terms of more or less pension surviving each year compared to expectation
- the net effect of experience since the last valuation has been to decrease the liabilities by an estimated 0.1%

Time to update assumptions?

However, to what extent has your experience over the last three years been unique to your fund and, does it mean you should review your assumption as to how long people are currently living for?



Impact on liabilities of membership survival

	Year ending			Since last valuation
	31 August 2016	31 August 2015	31 August 2014	
Extra (less) pension alive at year end (£k)	(68)	(162)	53	(242)
Estimated % increase (decrease) in liabilities	(0.1%)	0.0%	0.1%	(0.1%)

The impact since the last valuation is based on proportional allocation of experience within years ending on 31 August and so actual impact may differ slightly from that shown here.

If you have received Monitoring reports in earlier years then the table above may show slightly different values to previous reports. This will be due to a combination of any changes to the assumptions we are comparing against (for example if you have finalised a valuation report since last year), any extra information in your most recent data, and any changes to the financial assumptions we have used (see Appendix C for the financial assumptions used in this report).

NB. Pension amounts have been revalued in line with RPI to previous years in order to remove the effect of pension increases. To the extent your fund provides pensions that increase at a different rate to inflation the expected amounts ceasing may differ to those shown here.

3 Understanding your experience *(con't)* Knowing your members

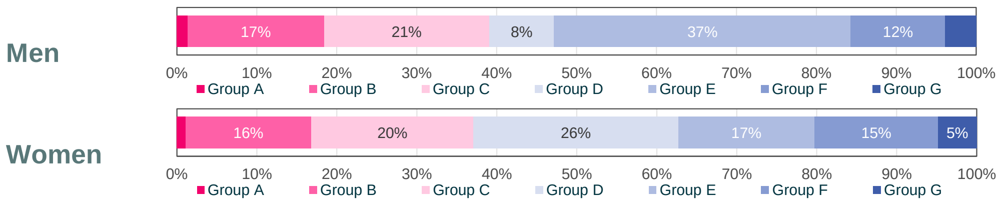
Actuarial assumptions tend to assume a certain chance of surviving a year – or put another way, that a certain proportion of the membership will die each year. The unique characteristics of your individual members will mean that we would expect some differences from your funding assumptions – for example the healthy members of your membership will have a greater chance of surviving the year than the less healthy members.

The rest of this section recaps on the three main longevity characteristics – namely lifestyle, affluence, and retirement health of your 'Demographic DNA', more details of which are provided in our VitaIndex and 'Tailoring VitaCurves' reports.

The demographic DNA of your pensioners

Lifestyle

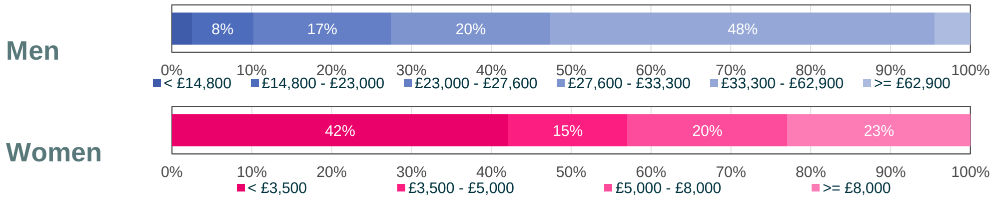
One of the most important predictors of longevity is an individual's lifestyle. The chart to the right illustrates the mix of lifestyles within your fund for those individuals where their postcode is known. Please note that Group G are those with the healthiest lifestyles and so longest life expectancies.



Affluence

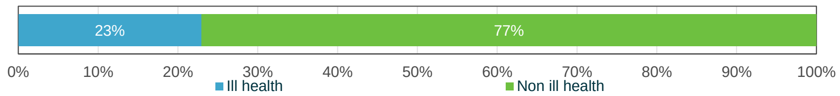
How people spend their money, their lifestyle, is important to longevity. However it is also important how much they have to spend. The larger an individual's income the longer he or she will tend to live.

The charts to the right show the spread of salaries for men (blue bars) and the spread of pensions for women (pink bars) within your fund for those individuals where this information is known.



Retirement health

Those who retire on grounds of ill health typically have a shorter lifespan than those who retire on grounds of normal health. The chart to the right shows the mix within your fund.



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4 Updating your assumptions for the passage of time

The assumptions you currently use for funding capture the unique mix of people found in your scheme and use the experience across our database (VitaBank) of similar individuals to identify an appropriate 'baseline' longevity assumption for each member known as VitaCurves. This is described in our 'Tailoring VitaCurves' report (see also 'Bill and Ben').

Since your last valuation we have continued to gather data, and regularly update our assumptions to ensure they reflect the most recent experience possible.

We estimate that the impact of changing your assumptions for current longevity to reflect the emerging Club Vita experience is to decrease the value placed on pensioner liabilities by 1.8%. Taking into account the characteristics of your actives and deferred pensioners we estimate that the overall impact is to decrease the value placed on liabilities by 1.6%. This decrease reflects the following:

- Actual emerging longevity improvements compared to those assumed in your latest funding valuation
- Any extra data available to Club Vita which was not available when identifying the characteristics of your members, and so the VitaCurves, used for the funding valuation
- Refinements to VitaCurves to reflect the latest emerging insights – for example we have recently been able to incorporate additional information on very high earners

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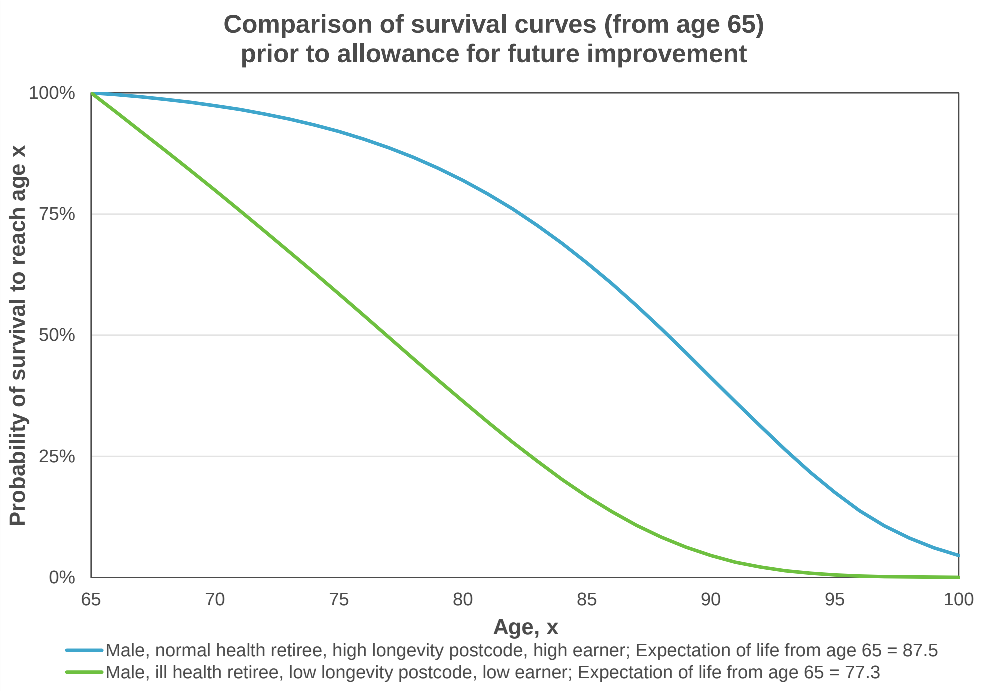
Impact on funding position

We estimate that the overall impact of changing your assumptions for current longevity to reflect the emerging Club Vita experience is to decrease the value placed on your fund's liabilities (for all members) by 1.6%.

If you have received Monitor reports in earlier years then the overall impact of changing your assumptions to reflect VitaCurves shown above may differ from that shown in previous years. The likely reasons for this are set out in our accompanying 'Tailoring VitaCurves' report.



Bill and Ben...

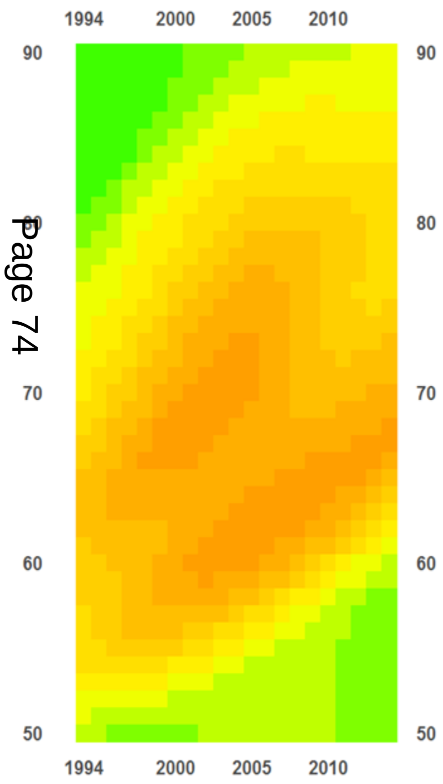
Bill and Ben have both recently retired. They are both 65, yet Bill can reasonably expect to survive to age 88, whilst Ben can consider himself fortunate if he survives to age 77. Why is this? Bill retired in normal health, from a well paid job and has a healthy lifestyle – his chance of surviving to older ages is the blue line in the chart above. In contrast, Ben retired in ill health, from a low paid job and has a less healthy lifestyle – he is the green line in the chart above.

5 Trends

Golden generations

So far we have considered how recent experience has impacted your fund. However in setting a longevity assumption you also need to consider how longevity will evolve in the future. One thing most people will agree on is tomorrow's world is likely to be very different from today's world – and life expectancy is just one such difference. However whether longevity will continue to increase, and if so how quickly is open to debate. In the short to medium term though – wars, pandemics or magic cures aside – we would expect life expectancy to be a gentle continuation of patterns in recent experience. But what are these patterns?

Men

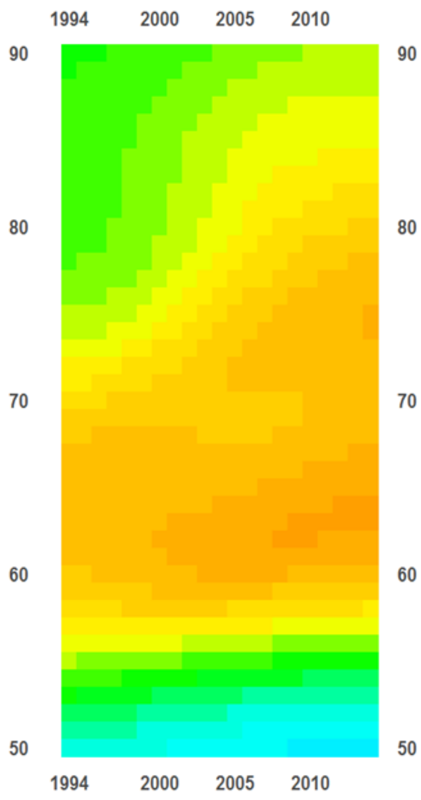


One way to visualise recent trends is via the colourful images to the right and left. In these charts ages run from bottom to top, and time from left to right – and crucially individuals born at similar times *(cohorts)* move along diagonals from the bottom left to top right. The colours represent how much mortality rates have been falling. The 'warmer' the colour (i.e. the deeper the orange and red) the higher the fall.

Looking at **men**, we see that there is a diagonal of strong oranges, broadly centred on those currently aged in their late 60s. This suggests that there is a 'golden generation' born around the late 1940s for whom life expectancy is rapidly improving. There also appears to be some 'cooling' of this cohort in recent years, particularly amongst older members of this cohort. Some commentators have suggested that this is the first sign of a slow down in improvements. It is worth noting that 2012/13 was a particularly heavy winter, resulting in a marked increase in winter deaths compared to previous years. This was then followed in 2014/15 by another period of high death rates, driven this time by a virulent flu, which we are starting to see the first signs of here. A key question therefore is whether these recent periods of high death rates are simply down to volatility, or are indicative of a change in trend. At Club Vita we remain to be convinced that we have entered a period of lower improvements. We will of course continue to monitor how mortality rates are developing over time, and your Club Vita consultant will be able to provide the latest update when you next meet.

The situation for **women** is rather different. Their strongest colours seem to be centred on those in their mid 60s and also mid 70s, suggesting that longevity trends have been impacting men and women differently. Why might this be? One possible reason may be the differences in smoking cessation – men born in the mid 1930s were much more likely to give up smoking.

Women



Want to know more about how to read these heat maps? Please see Appendix B.

5 Trends *(con't)*

The big killers (1)

Changes in longevity can also be looked at in terms of the underlying causes of death, and what has caused the changes seen in those causes of death. The vast majority of members of occupational pension schemes are expected to reach age 75 – for example nearly 70% of all men (and 80% of all women) currently aged 40 can expect to reach age 75, even if there are no future health improvements. It is informative therefore to focus in on the causes of death amongst those aged 75 and older.

The charts to the right consider the number of deaths amongst over 75 year olds by each of the major causes of death at older ages, namely cancers, circulatory disease and respiratory diseases for each year since 1950. We see that:

- **circulatory disease** (e.g. heart attacks and strokes) deaths are continuing the sustained decline which has been seen over the last 60 years
- **cancer** mortality has stayed fairly level over the last 30 years for women but increased for men, reaching a peak in the late 1980s. For men it is the second most common cause of death amongst the over 75s.
  (this pattern is most likely due to men having historically been more likely to smoke, with smoking rates amongst men peaking in the 1940s and 1950s, combined with the latency period of in excess of 20 years between smoking and lung cancer)
- the number of deaths from **respiratory diseases** (e.g. pneumonia) has been falling over recent years
  (the 'dip' between 1983 and 1993, and after 2000 relates to changes in the rules for classifying the underlying cause of death)
- '**other'** causes of death (e.g. 'old age') have overtaken respiratory diseases to be the second most common cause of death amongst women

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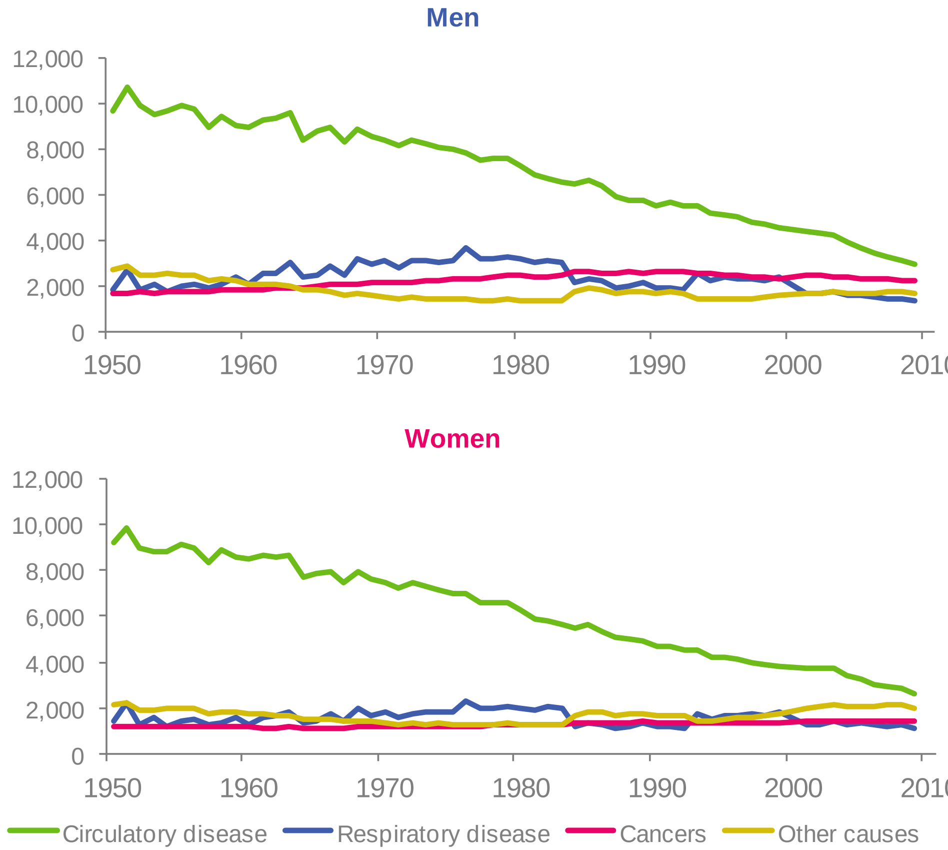
The long term prospects for longevity are likely to be determined by the prospects for medical treatments which prolong life and/or cures, along with trends in individuals' lifestyle choices such as smoking, diet and exercise. We explore this further on the next page.

Technical note: The profile of the UK population has changed a lot since 1950. To compensate for this the charts are based on 'standardised' rates i.e. as if the population had the same age profile as seen in 2008.

Deaths per 100,000 lives from major causes amongst aged 75 and over in UK **(based on 2008 UK age profile)**



5 Trends *(con't)*

The big killers (2)

Respiratory Diseases

One of the major contributors to respiratory disease deaths is COPD (a form of lung disease) which accounts for over 30% of all respiratory deaths amongst the over 75s. Other major contributors include occupational related diseases such as mesothelioma from asbestos exposure.

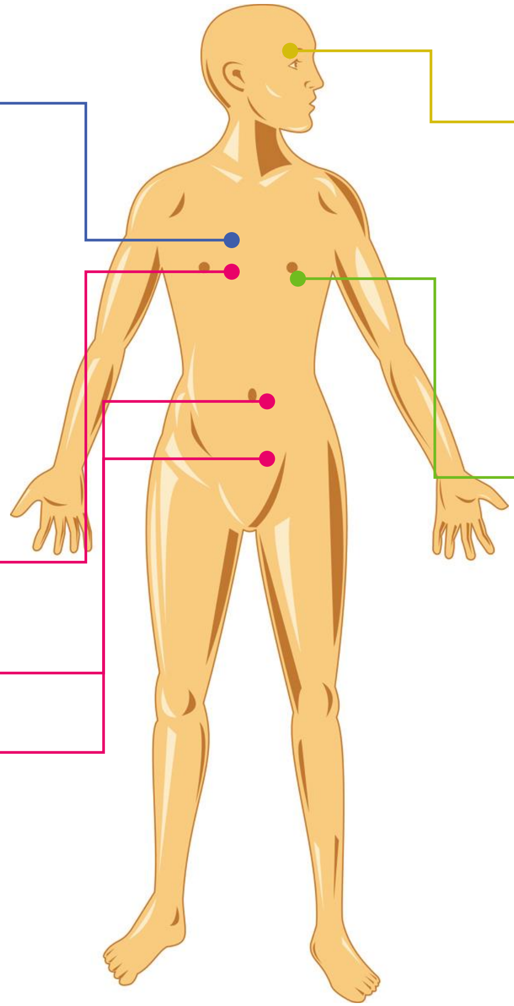
The British Thoracic Society estimates that 44% of all respiratory diseases are associated with social inequalities. In July 2011 the Department of Health launched a new strategy for tackling COPD and Asthma in England, with particular focus on these social inequalities.

Cancers

Cancer mortality is dominated by the 'big four' – **lung**, **colorectal**, **breast** and **prostate** cancer.

Cancers range from the very aggressive (lung cancer) to those which respond well to surgery (colorectal and breast cancer), making it hard for medical science to make unilateral breakthroughs.

Smoking, diet and exercise are recognised risk factors for many cancers. Continued smoking cessation means declines in cancer rates in the short term are likely. The Department of Health has also launched campaigns to raise public awareness of the symptoms of both lung and bowel cancer to aid early diagnosis.



Other causes

Other causes include infections, 'old age' (senility without psychosis) and dementia. One of the main reasons for recent increases in this group is the increasing recognition that factors such as dementia are the root cause of deaths.

In March 2012 David Cameron outlined plans to increase funding for dementia research, aiming to make the UK a world leader in dementia care and research.

Circulatory Diseases

Despite death rates dropping to barely a third of levels in the early 1960s, diseases of the heart and circulatory system remain the single biggest killer of the elderly.

Medical treatments, such as low dose aspirin and balloon angioplasty to help open up blocked arteries have had an important role to play in this dramatic fall. However, direct treatment only accounts for approximately 40% of the fall – the rest being due to behavioural changes such as smoking cessation and increased management of blood pressure / cholesterol.

Continued benefits from smoking cessation, bans on smoking in public places, increased use of statins and government targets all suggest continued falls in future. For example the Scottish Government has a stated aim to "Reduce mortality from coronary heart disease among the under 75s in deprived areas".

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Managing longevity risk

Being prepared

6 Understanding longevity risk

Money, interest and death

A one year change in life expectancy increases the value placed on your liabilities by around 3%. For most schemes longevity risk is second only to investments and sponsor covenant in terms of importance. At Club Vita we split longevity risk into four key parts.

Individual risk

A typical pension scheme valuation identifies the necessary funds if each member were to survive to his or her life expectancy. In practice some members will live longer than their ‘allotted time’ and some will die prematurely.

Funding valuations assume that these variations will ‘average out’. However, if the liabilities of a scheme are concentrated in just a few members of the scheme, then a key risk is how long these members ***actually*** live for. We explore this in **Section 7**.

Estimation risk

Your members will not live and die precisely in line with the actuarial funding schedule (‘individual risk’). But what if the schedule is wrong?

Estimating current longevity is a bit like trying to guess the number or sweets in the jar at a school fete – it is very hard to get it spot on. However by allowing for the different shapes and sizes of the sweets (or the longevity of your members through VitaCurves) we can get a better estimate.

Trend risk

In making an assumption about the longevity of your members it is necessary to project how longevity will change in the future.

Inevitably, future experience will differ from the projections you are using and this leads to the risk that future trends differ from predictions in a financially material way.

Geared risk

For some schemes the financial risk of members living longer is increased owing to the knock-on consequences of individuals living longer on the sponsor covenant.

For example Insurer Plc sells annuities. If life expectancy increases in an unexpected way, so annuities sold previously become less profitable. The pension scheme of Insurer Plc may find itself needing more money during tough times for Insurer Plc.

Your exposure to these risks can change over time. For immature schemes dominated by actives and deferred pensioners the long time horizon of the benefit promises makes the scheme particularly sensitive to long term trends in mortality. As a scheme becomes dominated by pensioners so shorter term trends and the concentration of liabilities in certain individuals become key.

Your exposure to longevity risk also changes owing to the choices members make – for example commuting pension for cash reduces the amount of benefit payments linked to the vagaries of future longevity. We explore this further in **section 8**.

7 Concentration hurts

Individual risk

In funding for pension scheme liabilities, trustees typically aim to have sufficient funds to pay pensions for as long as an individual is *expected* to be alive. However individuals continue to defy expectations. For example, how many pension schemes would have anticipated, back in 1961, when the late Henry Allingham was 65, that a member of their scheme could go on to become the oldest lived man ever in the UK, collecting a pension for some 48 more years!

One thing is certain – not everyone in your pension scheme will live to the age anticipated in your trustees' funding assumptions. However, it is hoped that this will broadly average out, with some members living longer than expected and some dying prematurely. This is fine if the pension scheme is large, and everyone has similar size benefits and similar life expectancies. In practice though the liabilities can be concentrated in a handful of members and so the *idiosyncrasies* of how long these members **actually** live for can be key to the financial health of the pension fund.

In any pension scheme the different ages and pensions of different members means that they have different liabilities and so some concentration of liabilities is to be expected. One way to visualise how concentrated the liabilities are is using the chart to the right. In this chart members are listed from left to right in order of increasing liabilities. The blue area shows the total liabilities as we move through the members. We can see that:

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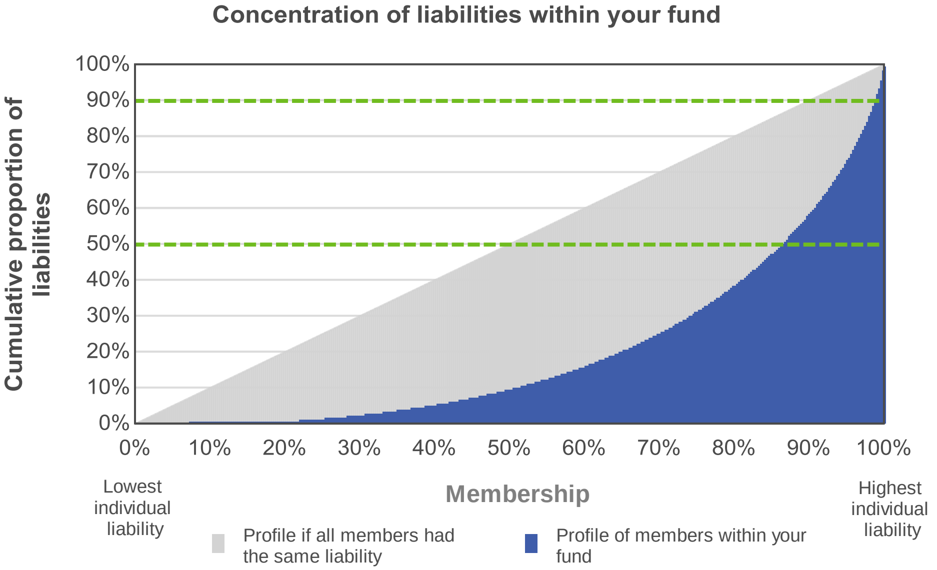
- 50% of the liabilities are concentrated on 14% of your members
- 10% of the liabilities are concentrated in just 1.1% of your members (i.e. 258 members)

How big an issue is this?

If each member represented a similar liability then in the chart to the right the blue area would fill the grey triangle. One way to measure the extent of this risk (and so monitor from year to year or indeed compare to other funds) is to consider how much of the grey triangle is visible – the more visible it is the greater the concentration risk. On this measure your concentration risk is currently 60% which is fairly typical.



In the chart above, members have been listed from left to right in order of increasing liabilities – i.e. the member with the single largest liability is at the far right. The blue area shows the total liabilities as we move through these members.

8 Demographic trends

Retirement trends

Living longer & working longer?

Over recent decades there has been a sustained trend towards people living longer – but are the members spending some of this extra lifetime working? Put another way are members retiring at older ages than in the past?

The age at which members retire is also important in terms of the fund's sensitivity to changes in life expectancy. A one year increase in life expectancy has a bigger impact for those retiring late than those retiring early since the increase represents a bigger proportion of the total payments. However, with late retirements the fund may also have more opportunity to spot trends in longevity and to therefore adjust the benefits before they come into payment (via late retirement factors) to reflect these trends.

The chart to the right looks at the pattern of retirements from active service. In order to avoid distortions arising from the changes in ill health retirement patterns we have excluded those members retiring in ill health. We see that:

- the proportion of members who retire early each year has been variable over the last decade
- the average age at which members have been retiring in your fund has been variable over the last decade
- the average age of retirement within other LGPS Scheme has generally been increasing
- the average age of new retirees (from active service) within your fund has generally been lower than other LGPS Schemes

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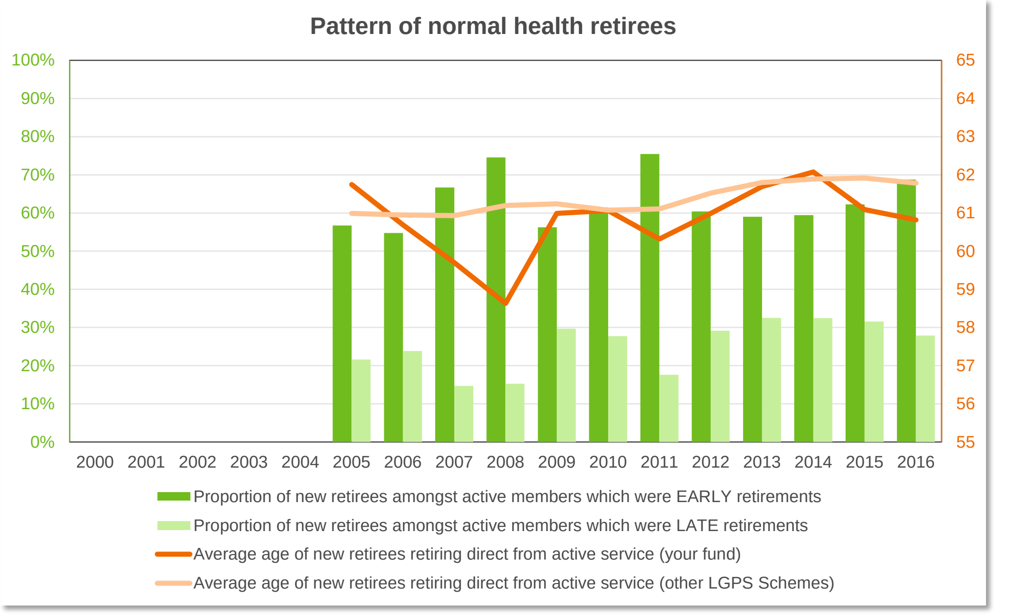
Technical Note: For the purposes of this chart (and the one on the following page) we have treated an early retirement as one before age 60 (or 'rule of 85' age if later) and a late retirement as after age 65 (or 'rule of 85' age if earlier)



Information is shown in respect of other LGPS Schemes for 2016 though note that not all schemes have submitted data spanning the year to 31 August 2016 yet.

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8 Demographic trends *(con't)*

Ill-health retirement trends

In sickness and in health...

Typically, the fewer the retirements that are happening due to grounds of ill health, so the healthier your new retirees are, and so the longer the members are expected to live. In this section we consider the ill health retirement patterns within the fund. Since ill health retirements typically occur from active status rather than amongst deferred pensioners we focus on retirements from amongst the active members.

Following our queries with the administrator, we understand that the actual amount of ill health retirements in 2015 and 2016 is higher than reported in the data we have received. We have worked with the administrator to identify the records involved and we understand they will be updated to show this in future extracts.

The top chart to the right shows that:

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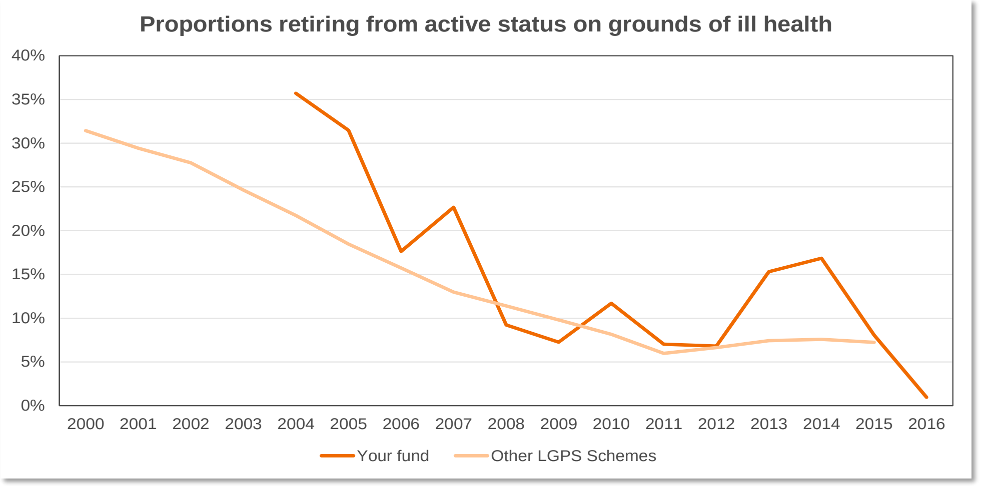
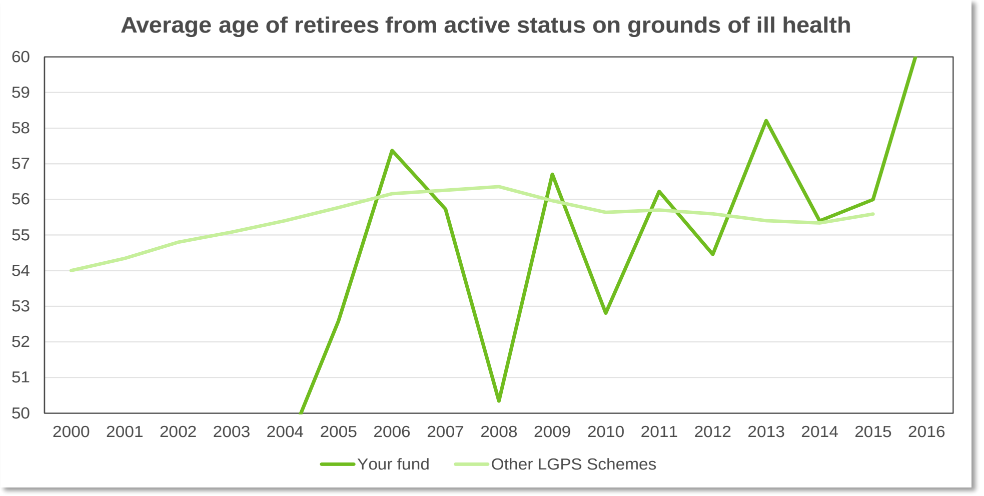
- 1% of active members who retired during the year to 31 August 2016 did so on grounds of ill health.
- whilst the proportion retiring on grounds of ill health each year is variable it has been decreasing over the last decade within your fund.

The lower chart considers the average retirement age of new ill health retirees. We see that:

- the average retirement age of your ill health retirees has been volatile, but has, on the whole, been increasing, however, in contrast, the average ill health retirement age has been relatively stable across other LGPS Schemes.
- Of course, these trends are not always a reflection of changing health of your membership – for example changes in the eligibility rules or discretion exercised by trustees and companies over time may explain these trends.





No information is shown in respect of other LGPS Schemes for 2016 as not all schemes have submitted data spanning the year to 31 August 2016 yet.

8 Demographic trends *(con't)*

Old widows tail

Marital bliss?

The longer members live for in your fund the longer the benefits are paid for. However the total amount of benefit which is ultimately paid to each member also depends on the extent to which the member is outlived by an eligible dependant.

The chart to the top right looks at the proportion of the deaths over the last year which gave rise to a dependant's pension within your fund. We can see that:

- those dying at older ages were generally less likely to leave a dependant. *This is unsurprising as the older someone is when they die the greater the chance that their spouse will have died before them.*

- men were generally more likely to leave a dependant than women. *Women tend to live longer than men, which makes it more common for a woman to outlive her husband than the reverse.*

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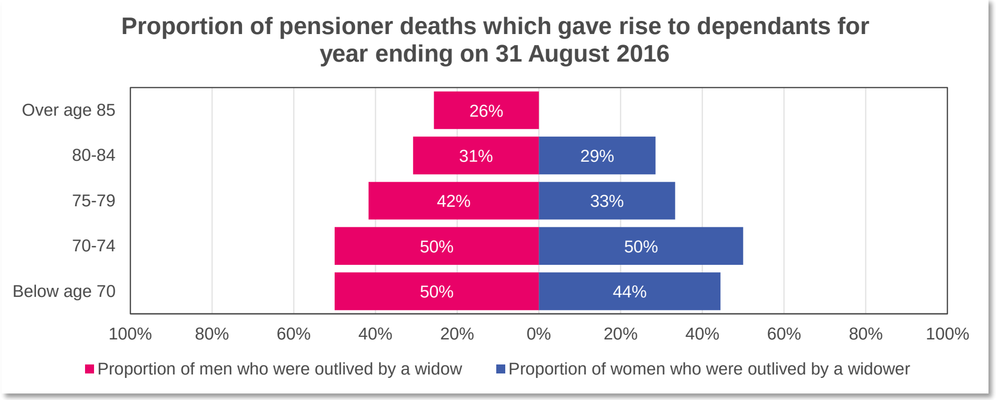
These patterns often receive little attention, yet can be significant, particularly if you are considering risk transfer options.

The chart to the bottom right considers how these patterns have been changing over time. We see that:

- at younger ages the proportion of members leaving a dependant has been variable reflecting the relatively low number of deaths happening each year at these ages within the fund. *As longevity increases so the deaths at younger ages tend to reflect 'premature' deaths and so, all else being equal, are more likely to leave a spouse.*

- at older ages the relatively low number of deaths happening each year within your fund means the proportion of over 85 years old leaving a dependant has been variable.



Keeping up with the Jones'

For many schemes the only way we can 'link' a widow(er) back to an original member is by identifying members who died just before the widow(er)'s pension commenced, and have the same surname. Of course, common names like 'Jones' can cause some false matches and this may distort the figures shown above.

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8 Demographic trends *(con't)* Age differences

Mind the gap

It is not just whether a member leaves a widow(er) which is important to pension schemes, but also how old he or she is. The younger the widow(er) the longer the benefit will be paid for and the greater the potential exposure to future increases in longevity.

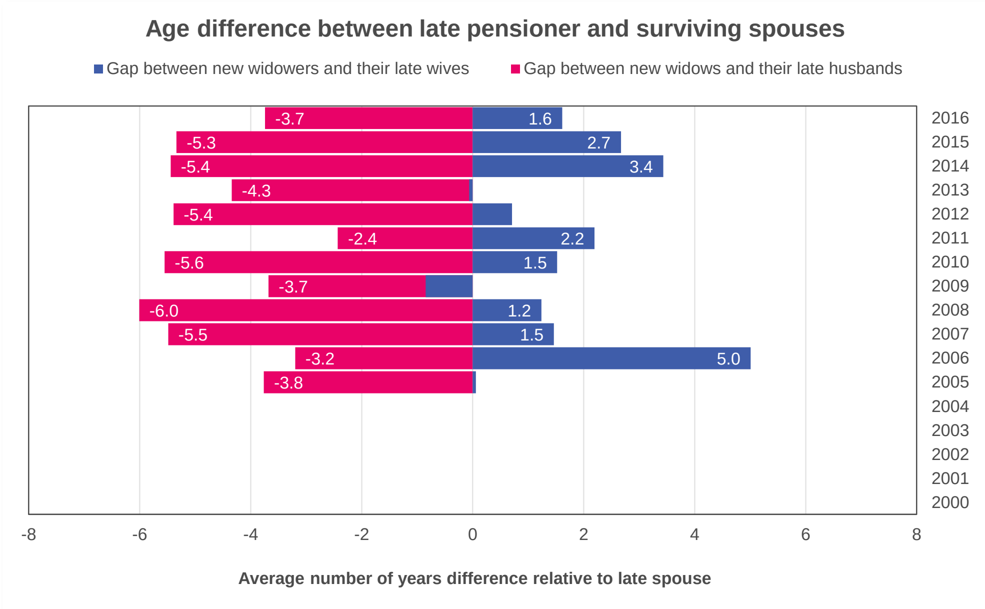
The chart to the right shows – for deaths in recent years in your fund – how much older or younger the surviving spouse was compared to the member.

It is well known that men tend to marry younger women. The older member of the marriage – typically the man – is more likely to die first. It is no surprise that we therefore see that:

- widows have generally been younger than their late husbands
- the age gaps are in the opposite direction for new widowers' pensions, but generally smaller (men who outlive their wives are likely to be those closest to their wife in age or indeed younger than their wife)

We can also see that over the last 16 years the age gap between:

- widows and their late husbands has been variable
- widowers and their late wives has been variable



9 Your longevity risks at a glance

Risk register

The tables below summarise your current level of exposure to longevity risk and the demographic trends in your fund. Those items identified in green are those where the trustee(s) (possibly in collaboration with the sponsoring employer) may be able to take proactive actions to manage longevity risk.

Risk Measure	Current value	Change over year	Overview
Concentration risk	60%	⇔	The more the liabilities are concentrated with a few individuals the greater the exposure to the risk that those particular members live longer than expected.

Demographic trend	Current value	Change over year	Overview
Proportion of new retirees, retiring early actives, exc. Ill health retirees)	69%	⇧	The more members that retire early the lower the exposure to longevity risk – if members live a year longer than expected then this extra year is a smaller proportion of the total number of payments than would have otherwise been the case. Similarly the older the average age of new retirees so the greater the longevity risk.
Ill health retirements	1%	⇩	Members retiring in ill health tend to have shorter life-spans, reducing the exposure to longevity trend risk, although the benefits paid will typically be higher.
Proportion of men (women) aged over 85 who died leaving a widow(er)	26% (0%)	⇩ ⇩	The more members who leave a spouse, the greater the exposure to the survival of a second life.
Age gap between late pensioners and surviving spouse for men (women)	-3.7 (+1.6)	⇩ ⇩	The younger members' husbands and wives are, the greater the risk that they will outlive the member, resulting in benefits being paid for longer.

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Appendices, Reliances and Limitations

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Appendix A

Jargon buster

Actual vs. expected deaths The ratio of the actual number of deaths observed to the number we would have expected to observe had the pattern of deaths with age and time been in line with some specified rate e.g. your funding assumption.

Baseline This is the part of a longevity assumption which is, in principle, objective and refers to how long people have been living for in recent years.

Cohort A group of individuals born around the same time.

COPD = Chronic Obstructive Pulmonary Disease A form of lung disease characterised by slow, progressive and largely irreversible reduction in the capabilities of the lung. The limitations to breathing are caused by varying combinations of diseases to the airways and destruction of lung tissue (emphysema).

Demographic DNA The unique mix of longevity characteristics within your membership.

Future improvements This is the subjective part of a longevity assumption and relates to how life expectancy may change in the future. Whilst changes at the personal level may be positive i.e. increasing life expectancy, or negative i.e. decreasing life expectancy, you will often see future changes referred to as future improvements.

Liability The financial value placed upon the benefits promised to members. The value is uncertain and based upon a number of assumptions, including how long individuals will live for. Ultimately, the fund is liable for the full benefit promise and so the actual cost may be higher or lower than the value place on that promise.

Life expectancy Life expectancy is the average length of time an individual can expect to live. Life expectancy can either be **future life expectancy** (for example 20 years for someone aged currently aged 65) or as **total life expectancy** (for example 85 for someone currently aged 65). In this report we use total life expectancies.

Longevity Longevity describes how long people will live for.

Mortality This describes how likely it is that someone will die within a specific timeframe, usually the next year.

Monoclonal antibodies Monoclonal antibodies are antibodies designed to specifically bind to certain substances in the body. Within cancer treatments the hope is that by designing monoclonal antibodies that bind to cancer cells it will be possible, for example, to deliver a specific toxin to destroy these cells.

Predicted A/E The A/E ratio we would have expected to see for your fund had the actual number of deaths you experienced been in line with the wider VitaBank experience, where the wider experience is weighted in line with the mix of longevity characteristics in your fund (i.e. your demographic DNA).

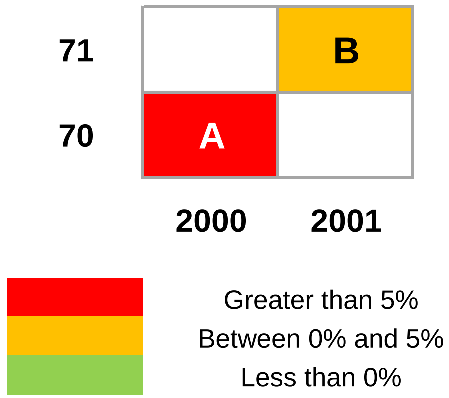
VitaBank The pooled data from all schemes participating in Club Vita.

Appendix B

How to read heat maps

The 'hot and cold' of life and death

The image below shows an example of a heat map, which covers two ages, 70 and 71, and two calendar years, 2000 and 2001. We will use this chart to explain how to read heat maps.

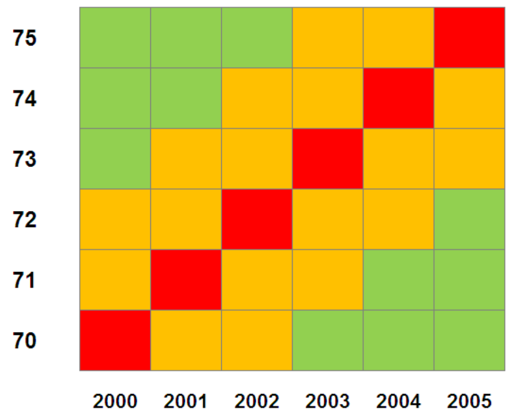


In a heat map each square represents the change in the death rate at a certain age compared to the rate in the previous year. In the example to the left, the square marked A represents how much lower the death rate was amongst 70 year olds in 2000, compared to the previous year, 1999. Since the square is a bright red this tells us that there was more than a 5% reduction in deaths per thousand for 70 year olds in 2000 compared to 1999.

Similarly, the square marked 'B' indicates that the death rate amongst 71 year olds in 2001 was lower, by up to 5%, than it was in 2000. So, if, for example, 100 in every one thousand 71 year olds died in 2000, then perhaps only 96 in every thousand 71 year olds died in 2001.

'Golden' cohorts

When reading heat maps it is also important to know that individuals born at similar times – known as *birth cohorts* – move along diagonals in these charts. For example someone aged 70 in 2000 will be aged 71 in 2001.



In the chart above we can see a strong diagonal of hot colours – reds – concentrated on those aged 70 in 2000, 71 in 2001 etc. This suggests that those born around 1930 (and so aged 70 in 2000 etc.) have been especially fortunate in seeing very beneficial changes in later life. This is often referred to as a 'golden cohort' and underlies the 'cohort' effect which your actuary may have referred to.

A Technical Note – Being smooth.,,,

In practice the year-on-year changes, even in a large dataset like **VitaBank™** can give a very multicoloured pattern to these 'maps'. In order to avoid this, some smoothing of the underlying rates is usually necessary – throughout this report the heat maps relate to smoothed data.

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Appendix C

Disclosure of assumptions

In comparing the experience of your fund against your funding assumptions, and assessing the financial impact of your fund's experience we have had to both interpret your current longevity assumptions, and make a number of other assumptions. We disclose these below.

Your current longevity assumption

We usually express a longevity assumption in two parts – an assumption about current longevity (the 'baseline') and an assumption about future improvements.

Baseline (2013):

For the purposes of expressing the 'current' longevity assumption we have described it in terms of the assumption which applied in 2013. We have chosen this year as it is also the same year to which our most recent VitaCurves relate.

Current male pensioners

VitaCurves (calibrated to data spanning 2009 - 2011) with future improvements in line with ClubVita calibrated CMI projections with a long term rate of improvement of 1.25% p.a.

Future male pensioners

As above.

Current female pensioners

VitaCurves (calibrated to data spanning 2009 - 2011) with future improvements in line with ClubVita calibrated CMI projections with a long term rate of improvement of 1.25% p.a.

Future female pensioners

As above.

Future improvements (from 2013):

Improvements in line with ClubVita calibrated CMI projections with a long term rate of improvement of 1.25% p.a.

Other assumptions specific to your scheme

We have assumed the following:

- A normal retirement age of 65
- That active members will retire early at, on average, age 62, whilst deferred members will retire at 65
- A lump sum benefit is payable at retirement of 3 times pension
- Upon death after retirement a spouse's pension is payable of 50% of the member's pension prior to any commutation

Please note that our analysis of the financial impact of experience is sensitive to these assumptions, as described in Appendix B of your 'Tailoring VitaCurves' report.

Assumptions which are not specific to your scheme

We have made the following financial assumptions, which are designed to broadly reflect a market consistent basis:

- Net discount rate whilst member in active service of 0%
- Net discount rate whilst member in deferment of 1%
- Net discount rate whilst benefits are in payment of 0.0%

We have also made the following general assumptions:

- Husbands are 3 years older than their wives
- 80% of members are married at retirement or current age if older
- Active members remain in service until they retire
- No allowance to be made for death prior to retirement
- No allowance for members opting to take transfer values

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The Small Print...

Reliances and Limitations

This report is provided for the benefit of the party set out on the cover page. It has been prepared by Club Vita LLP for the London Borough of Hackney Pension Fund (the 'fund'), pursuant to your membership of Club Vita LLP as governed by the Club Vita Rules (the "Rules"). It has been prepared for your exclusive use and must be used by you solely for the purpose of you monitoring the longevity experience of your pension fund (the "Purpose"). It must not be used for any other purpose, recited, referred to, published, quoted, replicated, reproduced or modified (in whole or in part) except as required by law, regulatory obligation or as set forth in the Rules, without Club Vita LLP's prior, written, express consent. The sole exception to this is that you may share this report for the Purpose, with your Scheme Actuary and/or sponsoring employer(s) and/or appointed longevity consultant ("Permitted Third Parties"), but without creating any duty or liability to them on the part of Club Vita LLP or its licensors. Prior to sharing this report with any Permitted Third Parties you must inform such Permitted Third Parties, that the contents of this report are confidential, must not be disclosed to any other party, replicated, reproduced, published, referred to or quoted, whether in whole or in part, without Club Vita LLP's express written consent and that if they, or any other third person, place reliance on the report they do so at their own risk and have no recourse against Club Vita LLP or its licensors in respect of such reliance.

This report contains commercially sensitive and proprietary confidential information (including copyright and other intellectual property rights) of Club Vita LLP and its licensors. You shall not do anything to infringe Club Vita or its licensors' copyright or intellectual property rights.

For the avoidance of doubt, this report does not constitute actuarial advice. Furthermore, this report should not be construed as providing advice on the appropriateness of any mortality assumption for the purposes of scheme funding as required under Part 3 of the Pensions Act 2004 and The Occupational Pension Schemes (Scheme Funding) Regulations 2005.

The information in the report has been compiled by or on behalf of Club Vita LLP and is based upon our understanding of legislation and events as at 22 December 2016. It should be noted that Club Vita LLP does not provide legal services and therefore, we accept no liability to you or to any other third party in respect of any legal opinions expressed in this report. You are advised to take independent legal advice in respect of any legal matters arising out of this report.

Utilisation of Data

The contents and conclusion of this report are reliant upon the extract of the current and historic data held by the fund's administrators. This was supplied to us by Alasdair Hood of Equiniti Pension Solutions on 30 September 2016. This data is summarised in our VitaCleansingTM report. We have carried out a number of checks on the data to ensure that it is suitable for the purposes of longevity analysis, the results of which are summarised in our VitaCleansingTM report. Please be aware that the checks we have performed are designed to verify the data as adequate for the purposes of longevity analysis and does not warrant the data as suitable for other purposes.

Within this report we have identified a number of predictors of longevity which explain a considerable proportion of the variation observed in the mortality experience of the contributing schemes. However, it is likely that some residual variation remains explicable by factors other than those identified here. To the extent that some of these additional factors are found more or less frequently in the membership of the fund it may be particularly important for the trustees of the London Borough of Hackney Pension Fund to appreciate the impact of these factors on longevity.

Simplifying assumptions

In analysing the experience of the fund we have made a number of assumptions. In addition to the assumptions disclosed in Appendix C the main simplification made is to calculate expected deaths amongst widow(er)s based upon the actual widow(er)s alive during the year rather than, for pensioners which die during the year, allowing for the chance each death will result in a widow(er) who could then go on to die during the year.

In identifying whether a member gave rise to a dependant pension upon death we have sought to use any connections in the unique member key syntax where this has been made available to us. Beyond this we rely on deducing connections by assuming that a dependant's pension coming into payment to an individual within 30 days of the death of a member with the same surname.

Compliance statement

The following Technical Actuarial Standards are applicable in relation to the information referred to in this report:

- TAS R – Reporting;
- TAS D – Data;
- TAS M – Modelling; and
- TAS P - Pensions

This report complies with each of the above Standards

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

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Hackney

REPORT OF THE GROUP DIRECTOR, FINANCE & CORPORATE RESOURCES		
PENSION FUND CASHFLOW **Pensions Committee** **27th June 2017**	**Classification** **PUBLIC** **Ward(s) affected** **ALL**	**Enclosures** **One**

1. INTRODUCTION

1.1 This report provides the Committee with a review of the Pension Fund's cashflow following the changes to the Council's contribution rate as a result of the 2016 valuation. The review considers a range of scenarios for cashflow for the Fund over the coming years and considers actions required over the short to medium term.

2. RECOMMENDATIONS

2.1 The Pensions Committee is recommended to note the report

3. RELATED DECISIONS

3.1 27th November 2013 - Pension Fund Cashflow

4. COMMENTS OF THE GROUP DIRECTOR, FINANCE & CORPORATE RESOURCES

4.1 For a number of years, the Pension Fund has received considerably more in contributions than it has paid out in benefits and has therefore experienced strong positive cashflow. However, in light of ongoing budgetary pressures for the Council and the recent reduction in its contribution rate, it is prudent to ensure that the likely impacts of reduced cashflows into the Fund are understood and planned for.

4.2 Budget monitoring on a quarterly and annual basis along with the additional cashflow work undertaken by the Fund actuary assists the Committee in understanding the full impact of potential changes as a result of any significant falls in membership numbers or planned changes in contribution rates. Whilst there are costs to carrying out monitoring exercises, these are negligible in comparison to the benefits of understanding the Fund's likely future cashflows and planning for these accordingly.

5. COMMENTS OF THE DIRECTOR, LEGAL

5.1 The Pensions Committee has been given delegated authority to manage the Pension Fund; under the Council's constitution they must therefore 'set the overall strategic objectives for the Pension Fund, having taken appropriate expert advice, and develop a medium term plan to deliver those objectives'. Monitoring the Pension Fund's financial position including the prospects for cash flow helps the Committee to ensure that they are meeting their fiduciary role in the management of the Fund. Management of the Fund's solvency is a key objective across the short, medium and long term; the monitoring of cash flow performance is an important part of ensuring that objective is met.

5.2 There are no immediate legal implications arising from this report.

6. BACKGROUND TO THE REPORT

6.1 For a number of years, the Pension Fund has received considerably more in contributions than it has paid out in benefits and has therefore experienced strong positive cashflow. Despite ongoing budgetary pressures, active membership has increased thanks to Auto-enrolment and a shift from temporary to permanent staff contracts, whilst the Council's contribution rate has remained consistent. During 2016/17, contributions received exceeded benefits paid by £22.8m, which is relatively consistent with previous years.

6.2 The outcome of the most recent (2016) valuation has been a reduction in the Council's contribution rate from 36.9% to 34.9%, with further reductions to 34.0% and 33.0% planned for 2018/19 and 2019/20 respectively. Contribution rates beyond this point will depend on the outcomes of future valuations.

6.3 Additionally, ongoing reductions to the Local Government settlement mean that the Council remains under considerable financial pressure; whilst officers of the Fund are not currently aware of large scale plans for staff reductions, it is prudent to consider that these may be possible.

6.4 Although the scheme remains open, LGPS funds are beginning to mature, with increasing numbers of pensioners relative to their active membership. Large number of LGPS Funds are now cashflow negative, with many more predicted to become so in the short to medium term. The Fund's contribution rate is at the higher end of those paid by the LGPS, which has helped to insulate it from these pressures in recent years. However, given the ongoing budgetary pressures and planned contribution rate reductions over the next 3 years, it is appropriate to consider cashflow planning in the medium term, to ensure that likely notable reductions in the Fund's cashflow are anticipated and plans made accordingly.

6.5 Increasing scheme maturity and reduced cashflows often necessitate changes to investment strategy. As open schemes, often with substantial deficits, LGPS Funds have tended to use strategies focused on growth, maintaining high allocations to equities. However, this is beginning to change, as deteriorating cashflows require an increased focus on income, to avoid becoming a forced seller of assets. Forward planning is therefore essential to ensure that any necessary changes are made in timely and orderly manner.

7. RESULTS OF CASHFLOW EXERCISE

7.1 Appendix 1 sets out the results of the cashflow exercise undertaken by Hymans Robertson. The exercise modelled four separate scenarios, as follows:

1 Continue to pay the same rate from 2019/20 onwards and no reduction in active membership;

2 Allowance for council rate to reduce by 1% p.a. for 10 years from 2020/21 with the remaining rates being unchanged and no reduction in active membership;

3 Continue to pay the same rate from 2019/20 onwards and a reduction of 10% in the active membership from 1 April 2018;

4 Allowance for council rate to reduce by 1% p.a. for 10 years from 2020/21 and a reduction of 10% in the active membership from 1 April 2018.

The scenarios used are illustrative only and not indicative of likely outcomes. However, they do help to illustrate the sensitivity of the Fund's cashflows to reductions in active membership and to a reducing employer contribution rate.

7.2 Scenario 1, in which active membership does not reduce and the Council's employer contribution rate remains stable at 33% after 2019/20 indicates a stable positive cashflow. This should be contrasted with Scenario 2, which shows the impact of an ongoing gradual reduction in the Council's contribution rate (1% p.a. over 10 years). The modelling suggests that contributions received into the Fund exceed benefits only until 2025, after which the Fund can be considered cashflow negative.

7.3 Scenarios 3 and 4 both show the potential impact of a reduction of 10% in active membership. Even with the 2019/20 contribution rate maintained for the foreseeable future (Scenario 3), the current excess of inflows over outflows would be reduced by over half. Scenario 4 combines a gradual reduction in the contribution rate with a 10% reduction in active membership. It suggests that the Fund would be likely to be cashflow negative from around 2024, with the excess of outflows over inflows rising to around £20m.

7.4 The results suggest that, although under current conditions the Fund's cashflow remains strongly positive, it is highly sensitive to both reductions in contribution rate or to a decline in active membership, with particular sensitivity to a reducing contribution rate. It should also be remembered that a number of other factors will significantly impact the Fund's cashflows, including mortality rates, inflation (as benefit payments are tied to CPI) and salary increases.

7.5 The assumptions used for these factors in this exercise are those underlying the 2016 valuation; however, all are subject to considerable uncertainty. The impact of changes to these factors can also be complex; for example, increased rates of salary increase can be beneficial in terms of short term cashflow, but may have a less positive impact on the funding level, particularly where a large proportion of members still have significant final salary service. Additionally, certain combinations of factors could accelerate the deterioration of the Fund's cashflows, such as higher inflation combined with ongoing restrictions on salary growth.

7.6 In summary, although no immediate action is considered to be required, the Committee should be aware of the impact of reduced Council contributions which, depending on the level of reduction, could result in the Fund becoming cashflow negative within the next 10 years. As set out in the report, in addition to monitoring membership changes and other factors, some further work can be carried out by officers together with the Fund actuary to determine if further analysis is appropriate at employer level. Further updates will be provided to the Committee as necessary.

Ian Williams
Group Director, Finance and Corporate Resources

Report Originating Officer: Rachel Cowburn ☎020-8356 2630
Financial considerations: Michael Honeysett ☎020-8356 3332
Legal comments: Stephen Rix ☎020-8356 6122

Appendices
Appendix 1 – Results of the cashflow exercise

Background papers
None

Cashflow Investigation

Introduction

This paper is addressed to the Pensions Committee ("the Committee") of the London Borough of Hackney Pension Fund ("the Fund"). It has been prepared in order to assist with possible cashflow requirements. This paper is set out in the following sections:

- Scope of advice
- What is cashflow negativity and does it matter?
- Data, assumptions and methodology
- Modelling results
- Conclusions and next steps
- Reliances and limitations

Scope of advice

This document has been commissioned by London Borough of Hackney in its capacity as Administering Authority to the London Borough of Hackney Pension Fund ("the Fund"). It has been prepared by Hymans Robertson LLP in our capacity as advisers to the Fund, in order to provide the Administering Authority with an indication as to when benefit payments from the Fund may exceed contribution income.

What is cashflow negativity and does it matter?

A fund can be considered "cashflow negative" when the outflows exceed its contributions and income. For the purpose of this paper we have considered the Fund's income to consist of employer and employee contributions but excludes investment income. The Fund's outflows are the benefits payable to the members and their dependants (pensions, retirement lump sums, death in service benefits etc).

The contribution and investment strategies for most LGPS funds, including the Fund, are set on a long-term basis. They generally assume that a significantly higher degree of investment risk may be taken, than in most private sector schemes, in pursuit of higher returns, on the grounds not only of security of members' benefits and strength of employer covenant, but because the funds are still open and growing. As a result cashflow has tended to remain positive and funds have not been forced sellers of assets when investments fail to deliver the anticipated returns, although this is not the case for all funds.

Knowing when the Fund is likely to pay out more in benefits than it receives in contributions is important because it may in due course have implications for both the funding strategy and the investment strategy of the Fund.

In addition, for many funds income is automatically reinvested so the balance between contributions and benefits will have cashflow management implications.

Data, assumptions and methodology

To consider the effect on its cashflows of both possible changes in future contribution levels and a reduction in the active membership of the Fund, we have modelled four separate scenarios. The scenarios are as follows.

1. Continue to pay the same rate from 2019/20 onwards and no reduction in active membership;
2. Allowance for council rate to reduce by 1% p.a. for 10 years from 2020/21 with the remaining rates being unchanged and no reduction in active membership;
3. Continue to pay the same rate from 2019/20 onwards and a reduction of 10% in the active membership from 1 April 2018;

4 Allowance for council rate to reduce by 1% p.a. for 10 years from 2020/21 and a reduction of 10% in the active membership from 1 April 2018.

Data

The starting point for each scenario was the membership data as at the latest 2016 formal valuation. No changes were made to this data.

The membership for scenarios 3 and 4 was obtained by assuming a 10% reduction at the end of 2017/18 in the Fund's active membership. Since details of the actual leavers are uncertain, a random sample of active leavers has been chosen.

No allowance has been made for any additional retirement benefits being paid in the short term (e.g. redundancy) for these members as the circumstances which would result in a fall in membership of 10% are unknown. Further, more extensive, calculations could be carried out if it was considered to be appropriate to assume the leaving members were likely to be from a particular age group.

It should be noted the graphs contained in this report are purely illustrative, and not necessarily indicative of likely outcomes.

Benefit outgo

The benefits outgo assumed allows only for benefit payments in line with the valuation assumptions, i.e. expected lump sums and pensions on retirement and death. We do not anticipate transfers out (or in) in the valuation so no allowance is made for either of these in our projections.

The annual cash flows are shown for each year following 31 March 2017 (so the year 1 cash flows are payable during the period 1 April 2017 to 31 March 2018). The cashflows are assumed to be paid midway through their respective period.

We have shown cashflows separately for members who were active, deferred and pensioners at 31 March 2016. No allowance is made for members changing category after 2016, e.g. pension payments for active members assumed to retire after 2016 continue to be shown as active benefit payments.

Contribution income

We have included estimates of contribution income assuming that members contribute 6.4% of pay from 31 March 2016 in line with the rate calculated for the 2016 valuation. Employers are assumed to contribute as disclosed in the 2016 valuation. We have also allowed for lump sum deficit repayment contributions to be paid in line with the Rates and Adjustments Certificate prepared following the 2016 valuation.

Note that we have assumed that the total of employer and employee contributions would remain the same should employee contributions be increased. In practice there is currently no power to reduce employer contributions between valuations and the extent of any reduction from the next valuation would be dependent on a number of other factors. However, in the absence of any firm details on member contribution increases, we believe the approach we have taken is reasonable and should not materially affect the results of our analysis.

New entrants

During the modelling period we would expect natural membership reductions through voluntary leavers and retirals. To keep the membership stable we have assumed new entrants would join the Fund and replace the departing active members. We have assumed a 100% replacement ratio over the next 20 years which results in a stable salary roll over this period. The projected cashflow position could be markedly different if a different replacement ratio was assumed.

For scenarios 3 and 4 where 10% reduction in active membership are applied, we make no allowance for replacement of the 10% reduction but do allow for replacement in respect of the leavers, retirements etc among the remaining active membership.

The new entrants joining are assumed to be spread appropriately between ages 25 and 64 with an average at age 32. The demographic and salary assumptions that apply to the new entrants are based on those for the existing members but have been simplified. Despite the simplifications, we believe that these assumptions are reasonable given the highly significant uncertainty associated with the level and profile of new entrants.

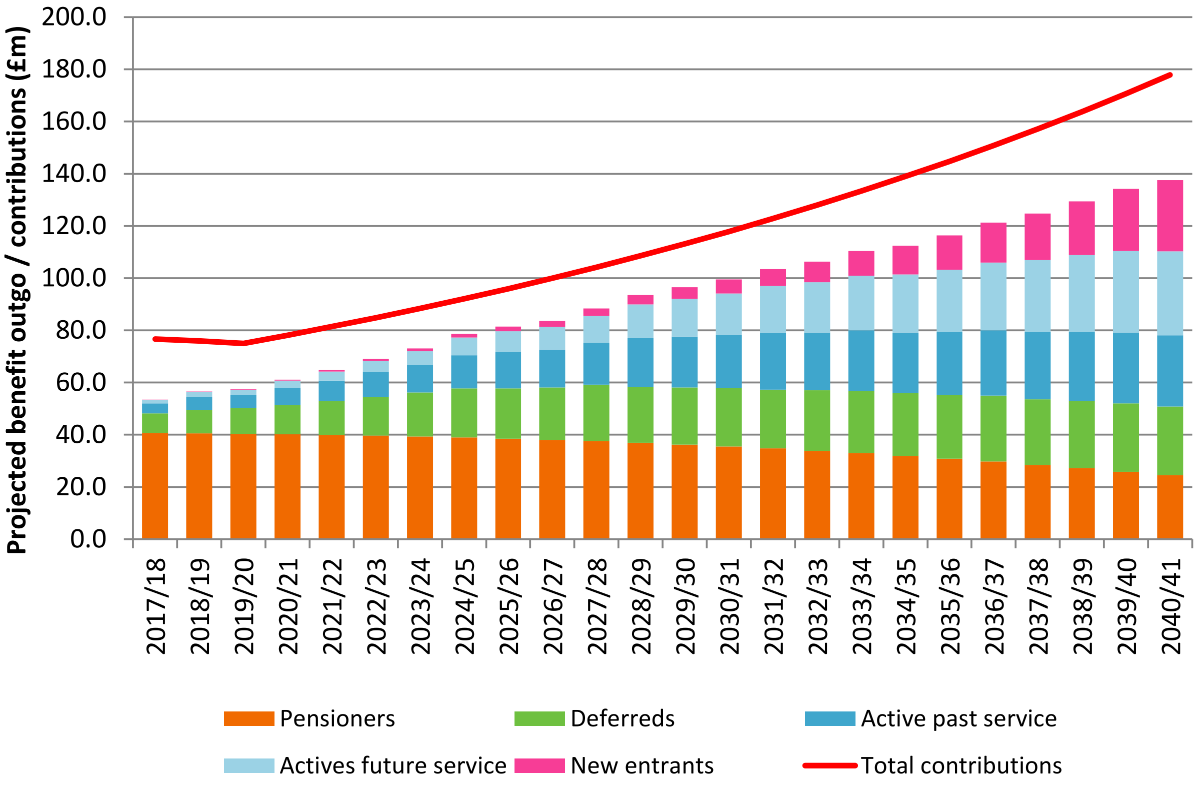
Assumptions

The financial and demographic assumptions used to project the benefit payments from the Fund are those underlying the final results of the 2016 actuarial valuation. For further details of these assumptions please see the 2016 formal valuation report dated 30 March 2016.

Modelling results

The graphs below show the results of the modelling.

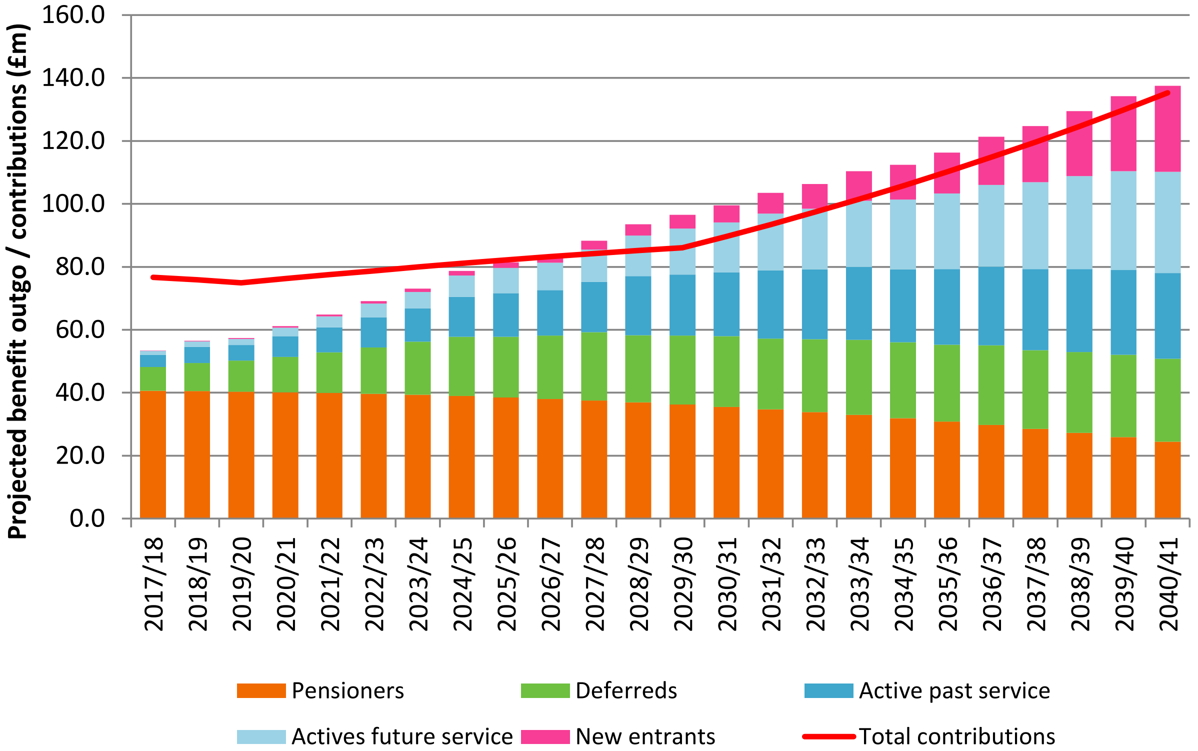
Scenario 1 (Same rate paid from 2019/20 onwards and no reduction in active membership)



From the cashflow graph above it can be seen that the estimated contributions paid into the fund are greater than the benefit outflow for the foreseeable future.

The stable level of contributions in the years to 2019/20 reflect the low level of salary increases in these years (1% p.a.) combined with the reduction in the contribution rate paid by the Council. From 2020, the level of salary increases are assumed to increase each year at a rate of 1% above RPI. Hence the increasing level of contribution income from 2020.

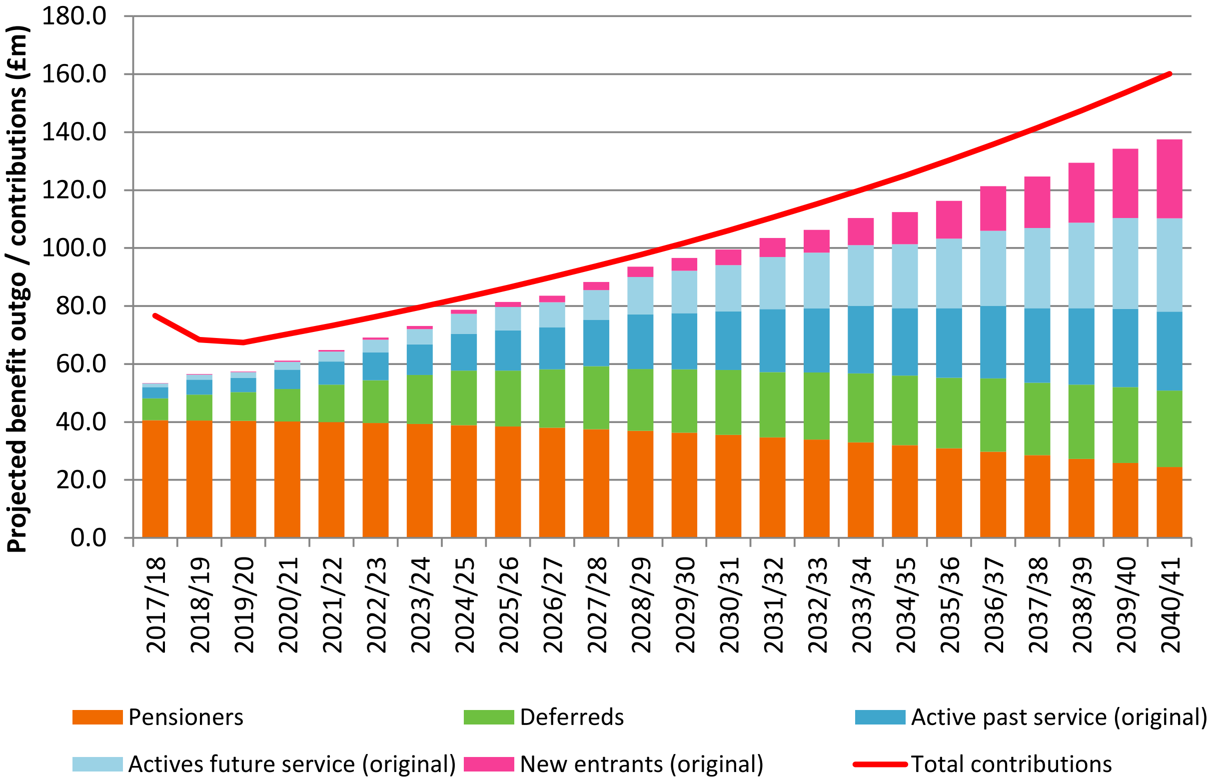
Scenario 2 (Council rate to reduce from 2020/21 by 1% p.a. for 10 years with the remaining rates remaining unchanged and no reduction in active membership)



With the council rate to reduce by 1% p.a. for 10 years you can see, from the chart above, that the estimated contributions paid into the fund are greater than the benefit outflow only until approximately 2025. The Fund is considered cashflow negative from this point.

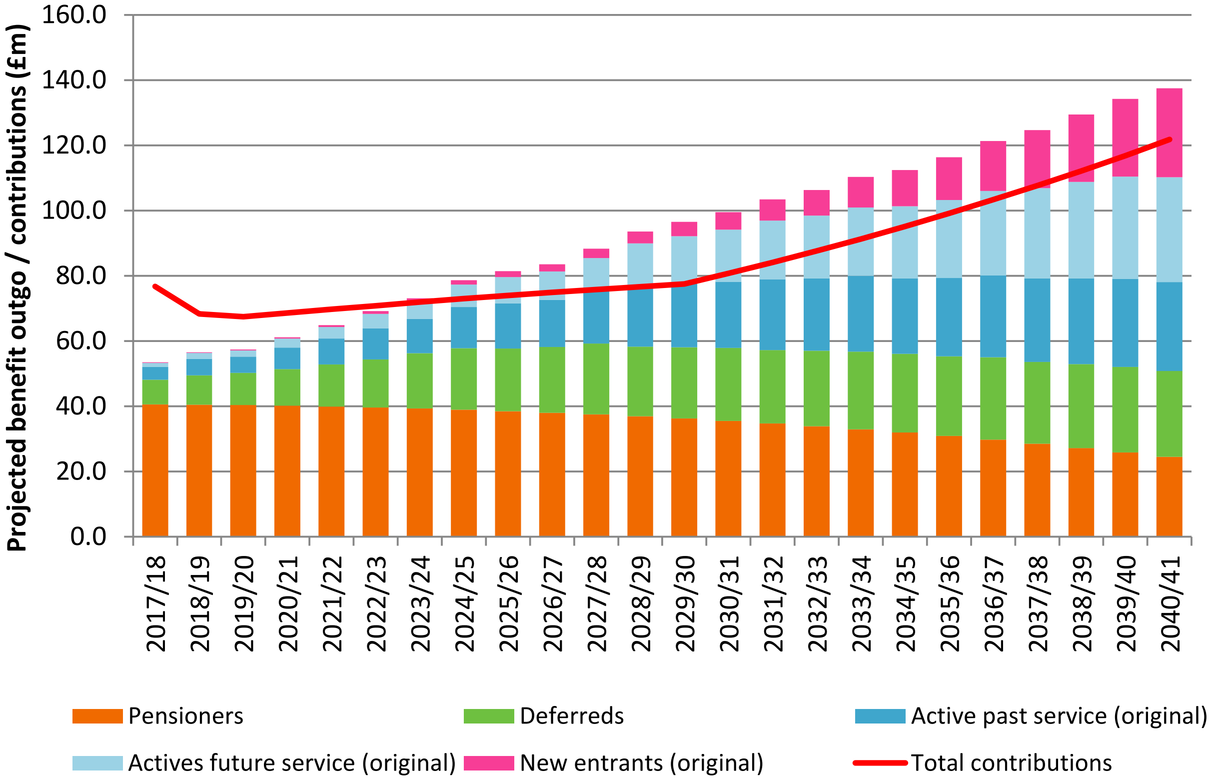
The same comments in scenario 1 in relation to salary increases apply in this scenario. However, contribution income is reduced as a result of the reduced rate of contributions for the 10 year period from 2020.

Scenario 3 (Same rate paid from 2019/20 onwards and 10% of actives leave at end of 2017/18)



From the cashflow graph above it can be seen that the estimated contributions paid into the fund are greater than the benefit outflow for the foreseeable future, although the fall in active membership will result in the level of positive cash flow being much reduced than would otherwise have been the case.

Scenario 4 (Council rate to reduce from 2020/21 by 1% p.a. for 10 years with the remaining rates remaining unchanged and 10% of actives leave at end of 2017/18)



With the council rate to reduce by 1% p.a. for 10 years you can see, from the chart above, that the estimated contributions paid into the fund are greater than the benefit outflow only until approximately 2024. The Fund is considered cashflow negative from this point.

Summary

The scenarios above show that contributions are expected to exceed benefit outflow if the membership does not reduce significantly, although, not surprisingly, the level of positive cash flow is reduced if there are subsequent reductions in the number of contributing members. However, if the there is a steady reduction in the Council's contribution rate (say 1% p.a. from 2020/21) this will more than likely result in a negative cash flow within the next 10 years.

Cashflow negativity

When benefit outgo exceeds the contributions income, the Fund would begin to rely on investment income to meet the difference. In this situation the Administering Authority would need to:

- carefully monitor ongoing cash requirements, factoring in the expected amount and timing of investment income;
- make operational changes to their investment mandates; for the appropriate segregated mandates consider asking managers not to automatically reinvest income and instead to deliver income back to make benefit payments and for appropriate pooled mandates change accumulation units to income units– the current arrangements are summarised in Appendix 1;
- factor the potential need for liquidity into consideration of any changes to investment strategy or management, and
- consider the effect of other membership movements, including bulk transfers, large redundancy exercises, the flow of new entrants and the effect of employers leaving the Fund to assist in predicting ongoing cash requirements.

Conclusions and next steps

In our view no immediate action is required. However, the Fund should be aware of the impact of reduced Council contributions which, depending on the level of reduction, could result in the Fund becoming cashflow negative within the next 10 years.

The next steps for the Fund are:

(a) to consider whether further analysis, potentially leading to changes in the investment policy, is appropriate at employer level (since some employers will already be cashflow negative and, due to the operation of a single investment strategy, this will lead to an element of cross-subsidy between employers[1]);

(b) to monitor membership changes and their effect on the Fund's cashflow position; and

(c) to consider whether there are other factors which might have an effect

As you may be aware a few years ago a Government review put forward the idea of increasing employee contributions and changes to the benefit structure of public sector pension schemes. The modelling results in this report do not allow for the possible effects that may occur from potential future increases to employee contribution rates or potential future benefit changes.

[1] This cross-subsidy is not new and is not, per se, an issue of concern, however as conditions change the Administering Authority may wish to better understand the extent and implications of the cross subsidy.

Reliances and limitations

This document should not be released or otherwise disclosed to any third party without our prior consent, in which case it should be released in its entirety. Hymans Robertson LLP accepts no liability to any other party unless we have expressly accepted such liability.

The cash flow projections are based on a specific set of deterministic assumptions, which are highly unlikely to be borne out exactly, but which were deemed appropriate for funding purposes. They do not represent all possible cashflows; in particular no allowance is made for transfers in or out.

Any party must accept full responsibility for establishing that the cashflows are appropriate for the purpose to which they want to put them and any decisions that are taken based on their analysis. We cannot be held responsible for any losses sustained as a result of third parties relying on the cashflows provided, or if the cashflows are used for any inappropriate purpose, for instance:

- directly for investment strategy changes, or
- at individual employer level.

The extent of the deviations from the assumptions underpinning the cashflow projections depends on uncertain economic events as well as other factors that are not known in advance such as members' decisions, variations in mortality rates, retirement rates and withdrawal rates, fluctuations and rates of salary increase, changes in the regulatory environment and possible changes in retirement benefits. These other uncertainties are often not related to any particular investment and economic eventualities.

Two of the important uncertainties are the rate of pension increases, the vast majority of which increase at the annual increase in CPI inflation, and the extent to which members elect to exchange pension for cash at retirement. The cash flows provided assume that 50% of members retiring will opt to take the maximum permissible amount of tax-free cash (equivalent to 75% for service from 1 April 2018).

In summary, it should be noted that there is significant uncertainty in the cash flows both into and out of the Fund, particularly the benefit outflow, which are largely unrelated to investment conditions.

The following Technical Actuarial Standards[2] are applicable in relation to this report:

- Pensions TAS
- TAS M - Modelling
- TAS R – Reporting; and
- TAS D – Data.

Geoff Nathan FFA

For and on behalf of Hymans Robertson LLP

Andrew Johnston

For and on behalf of Hymans Robertson LLP

6 June 2017

[2] Technical Actuarial Standards (TASs) are issued by the Board for Actuarial Standards (BAS) and set standards for certain items of actuarial work, including the information and advice contained in this report.

Appendix – Current investment arrangements

The table below provides a summary of the Fund's investments, highlighting which investments can distribute income if required and the estimate yield.

Manager	Asset Class	Distribution Capability	Estimated Yield
UBS	UK Equities	Distributing share class is not available	n/a
Lazard	Global Equities	Distribution share class is available	0.26%
Wellington	Global Equities	Distribution share class is available	2.78%
RBC	Global Emerging Market Equities	Distribution share classes for the underlying funds are available	Emerging Markets Equity Fund – 0.69% Emerging Markets Value – 1.39% Emerging Markets Small Cap Fund – n/a
BMO	Bonds	Income can be distributed	2.00%
Columbia Threadneedle	Balanced Property	Distribution share class is not available	n/a
	Low Carbon	Currently distributes income	Distributions have yet to be paid. Columbia Threadneedle are currently undertaking an exercise to calculate the distribution yield.
Invesco	Target Return	Distributing share class is not available	n/a
GMO	Absolute Return	Distributing share class is not available	n/a

Hackney

REPORT OF THE GROUP DIRECTOR, FINANCE & CORPORATE RESOURCES		
PENSION FUND – QUARTERLY UPDATE **Pensions Committee** **27th June 2017**	**Classification** **PUBLIC** **Ward(s) affected** **ALL**	**Enclosures** **None**

1. INTRODUCTION

1.1 This report is an update on key quarterly performance measures, including an update on the funding position, investment performance, engagement and corporate governance, budget monitoring, administration performance and reporting of breaches.

2. RECOMMENDATIONS

2.1 The Pensions Committee is recommended to note the report.

3. RELATED DECISIONS

- Pensions Committee 29th March 2017 – Approval of Pension Fund Budget 2017/18
- Pensions Committee 29th March 2017 – Approval of 2016 Actuarial Valuation and Funding Strategy Statement

4. COMMENTS OF THE GROUP DIRECTOR OF FINANCE & CORPORATE RESOURCES

4.1 The Pensions Committee act as quasi-trustees of the London Borough of Hackney Pension Fund and as such, has responsibility for all aspects of the Pension Fund. Quarterly monitoring of the key financial variables which impact the Fund is crucial to ensuring good governance.

4.2 Monitoring the performance of the Fund and its investment managers is essential to ensure that managers are achieving performance against set benchmarks and targets. Performance of the Fund's assets will continue to have a significant influence on the valuation of the scheme's assets going forward. The investment performance of the Fund is a key factor in the actuarial valuation process and therefore directly impacts on the contributions that the Council is required to make into the Pension Scheme.

4.3 The Committee's responsibilities include setting a budget for the Pension Fund and monitoring financial performance against the budget. Quarterly monitoring of the budget helps to ensure that the Committee is kept informed of the progress of the Fund and can provide the Committee with early warning signals of cashflow issues and cost overruns.

4.4 Reporting on administration is included within the quarterly update for Committee as best practice governance. Monitoring of key administration targets and ensuring that the administration functions are carried out effectively will help to minimise costs and ensure that the Fund is achieving value for money.

4.5 Whilst there are no direct immediate impacts from the information contained in this report, quarterly monitoring of key aspects of the Pension Fund helps to provide assurance to the Committee of the overall financial performance of the Fund and enables the Committee to make informed decisions about the management of the Fund.

5. COMMENTS OF THE DIRECTOR, LEGAL

5.1 The Pensions Committee, under the Council's Constitution, has delegated responsibility to manage all aspects of the Pension Fund.

5.2 The Local Government Pension Scheme Regulations 2013, Regulation 62, requires an Administering Authority to obtain an actuarial valuation of its fund every 3 years. The last valuation was carried out as at 31st March 2016, with the next due in 2019. There is no requirement for the Administering Authority to undertake interim valuations, although it has the ability to do so. Nevertheless, given the volatility of the financial markets it is a matter of good governance and best practice to monitor funding levels between formal valuations to ensure that all necessary steps can be taken in advance of any valuation.

5.3 The Council must monitor the performance of the pension fund in order to comply with its various obligations under the Local Government Pension Scheme Regulations. Those obligations include monitoring performance of investment managers and obtaining advice about investments. Ultimately the Council is required to include a report about the financial performance of the Fund in each year in the Annual Report. The monitoring of performance of the Fund is integral to the functions conferred on the Pensions Committee by the Constitution. The consideration of the present report is consistent with these obligations.

5.4 The Committee's terms of reference provide the responsibility for setting an annual budget for the operation of the Pension Fund and for monitoring income and expenditure against the budget. In considering the draft budget the Committee must be clear that the financial assumptions on which the budget is based are sound and realistic. It must also satisfy itself that the budget is robust enough to accommodate the potential pressures outlined in the report whilst ensuring that the Fund is managed as efficiently as possible to maximise the benefits to members of the Scheme.

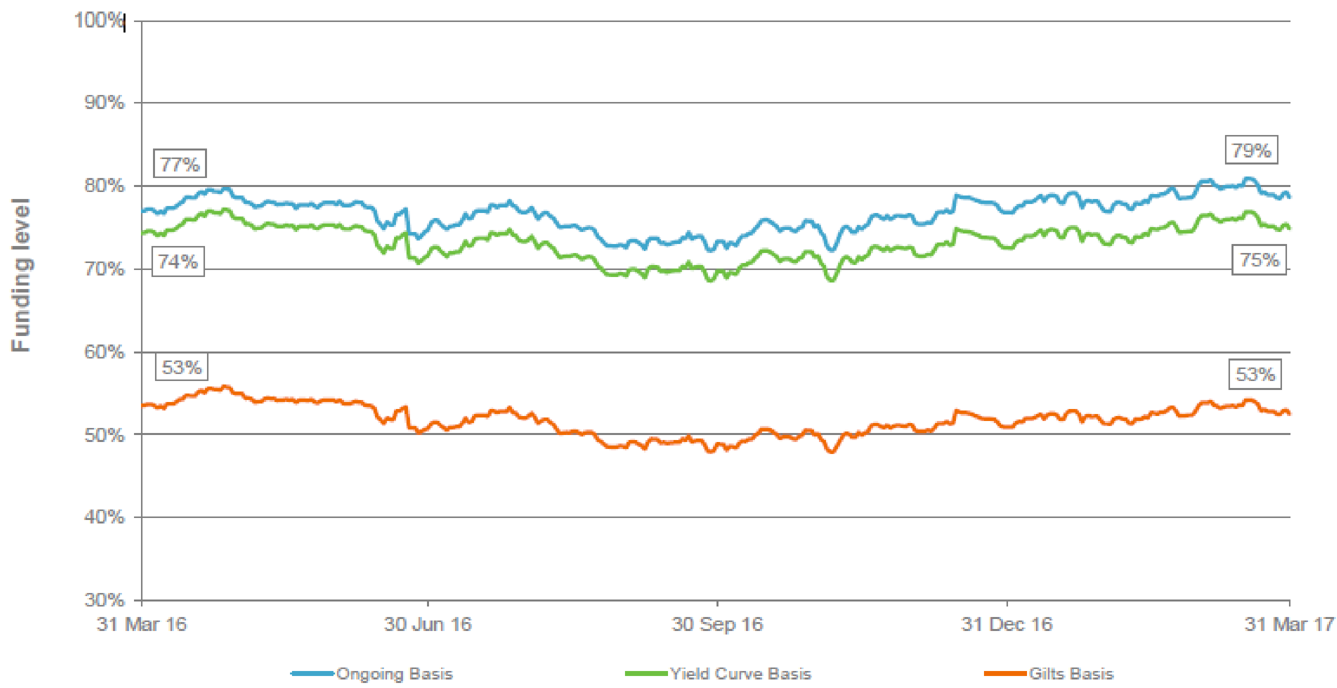
5.5 There are no immediate legal implications arising from this report.

6. FUNDING POSITION BASED ON 2016 TRIENNIAL VALUATION

6.1 The Fund's actuary, Hymans Robertson, provides a quarterly update on the funding position of the Fund illustrating how the overall position has changed since the last actuarial valuation. The actuarial valuation as at 31st March 2016 set the contribution rates which have been applied from 1st April 2017. As at the end of March 31st 2017, the funding level was 79% compared to 77% as at the end of March 2016.

6.2 The chart below highlights the funding position as at 31st March 2016 (77%) compared to 31st March 2017 (79%) showing a slight decrease in the funding position at the start of the period, followed by recovery, then an increase towards the end.

Progression of Funding Level from 31st March 2016 to 31st March 2017



6.3 The funding level of 79% at 31st March 2017 is based on the position of the Fund having assets of £1,409m and liabilities of £1,790m, i.e. for every £1 of liabilities the Fund has the equivalent of 79p of assets. It should be noted that the monetary deficit remains high, and has increased from £350m in March 2016 to £382m in March 2017, an increase of £32m. The liabilities are a summation of all the pension payments which have been accrued up to the valuation date in respect of all scheme members, pensioners, deferred members and active members. These will be paid over the remaining lifetime of all members, which could stretch out beyond 60 years. The actuary then calculates the contributions which would be required in order for the Fund to meet its liabilities in respect of benefits accruing and to recover any deficit which has arisen.

7. GOVERNANCE UPDATE

7.1 During 2015/16 The Fund's Benefit Consultants, AON, were asked to carry out an audit of the administration arrangements for LGPS 2014. The audit covered both the performance of the third party administrators, Equiniti, and the quality and timeliness of data being supplied to the Fund by Employers. The results were reviewed at the January 2016 meeting of the Pensions Committee. The audits highlighted both positive aspects and some areas for improvement; whilst many employers are providing good quality data, others have struggled to provide data by requested deadlines and to the quality standards expected. Together with Aon, the Fund has conducted a review of the initial audit to assess where improvements have been made and where further progress is required; this is discussed in more detail in a dedicated paper.

7.2 The Pensions Regulator has raised this as a national issue, as many payroll providers have struggled since the introduction of LGPS 2014. Officers have been working closely with the relevant parties to resolve the issues; new data checking procedures have been put in place by both the Hackney Pensions Team and Equiniti to ensure that errors in monthly returns are detected and followed up more quickly.

7.3 Whilst the Pensions Team have been working with the Council's payroll provider and Master Data team to improve the quality of data provided, the year-end data for 2015/16 provided by the Council was not sufficient to produce annual benefit statements for all active members by the 31st August 2016 deadline. All statements for deferred members were sent by the deadline, as were approximately 4000 statements for active members. Equiniti issued the majority of the remaining statements by 31st December 2016. This breach was reported to the Pensions Regulator

7.4 Officers of the Fund and Equiniti staff have been working closely with the iTrent implementation team and Midland HR to test reporting outputs from the Council's new payroll system. This work is still ongoing, and testing is being conducted on the new outputs during the parallel run period. Equinti have worked closely with the Fund on the new reports, and have made changes to streamline their own reporting requirements.

7.5 The ongoing concerns over data quality have been discussed with the Pension Board, who have asked that officers closely monitor the provision of year end data for 2016/17 and provide the Board with an update on progress. This report is being made alongside ongoing work on implementation of the new payroll contract with Midland HR; this is being worked on by officers from the Pensions Administration team in conjunction with Equiniti.

8. INVESTMENT UPDATE

8.1 Asset Allocation Q1 2017/18

The following table sets out the Fund's asset allocation as at 31 March 2017 against the target allocation. The valuations have been provided by the Scheme's investment managers

Manager	Mandate	Asset Allocation £	Asset Allocation %	Target Allocation %	Relative %
UBS	UK Equity	325,051,000	24.2	25.0	-0.8
Lazard	Global Equities	218,088,008	16.2	15.5	0.7
Wellington	Global Value	223,086,896	16.6	15.5	1.1
RBC	Global Emerging Markets Equities	72,133,372	5.4	4.5	0.9
Total Equities		**838,279,276**	**62.3**	**60.5**	**1.8**
BMO	Fixed Income	229,321,00	17.0	17.0	0.0
Columbia Threadneedle	Property	106,789,134	8.2	10.0	0.0
Columbia Threadneedle	Low Carbon Property	24,372,816	1.8		
Invesco	Multi-Asset	56,654,834	4.2	5.0	-0.8
GMO	Multi-Asset	86,762,446	5.4	7.5	-1.1
Total Fund			**100.0**	**100.0**	-

Note: Numbers may not sum due to rounding

8.2 Performance summary

The following table sets out the performance of the Scheme's investment mandates as at 31st March 2017 against their respective benchmarks. Details of the performance benchmarks for each mandate are set out in Appendix 1.

The table also shows the total Scheme performance against benchmark as calculated by Hymans Robertson. The performance and benchmark numbers have been provided by the Scheme's investment managers.

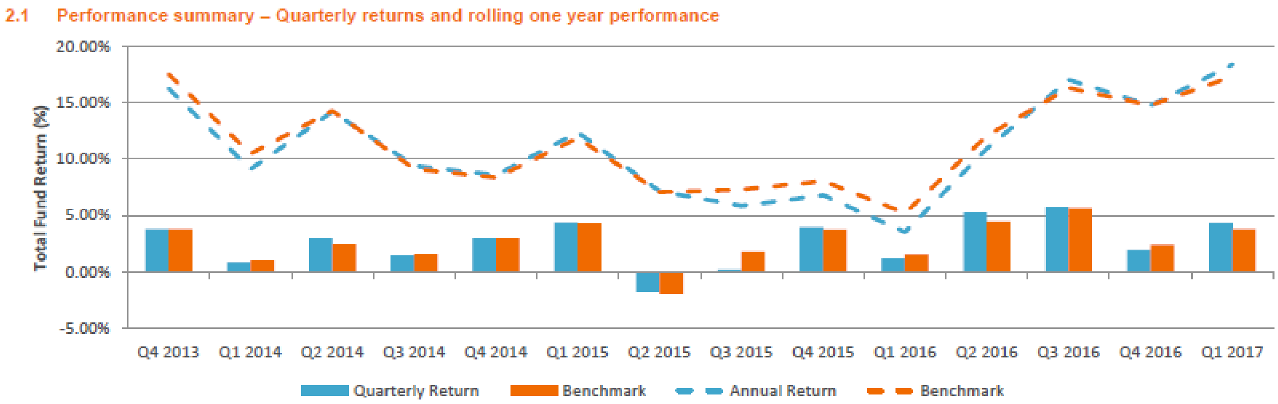
		Wellington Global Eq	Lazard Global Eq	UBS UK Eq	RBC EM Eq	Columbia Threadneedle Property	Columbia Threadneedle LCW	BMO Fixed income	GMO Multi asset	Invesco Multi asset	Total Scheme
Q1 17 (%)	Fund	5.5	6.2	4.1	10.2	2.0	0.7	2.1	4.2	1.9	4.3
	Benchmark	5.8	5.8	4.0	10.1	2.0	2.0	1.8	0.6	0.1	3.8
	Relative	-0.3	0.4	0.1	0.1	0.0	-1.3	0.3	3.6	1.8	0.5
12 month (%)	Fund	32.4	23.0	22.0	33.9	3.6		12.6	6.5	5.1	18.9
	Benchmark	26.1	26.1	22.0	34.7	3.7	n/a	11.5	1.7	0.5	17.5
	Relative	5.0	-2.5	0.0	-0.6	-0.1		1.0	4.8	4.6	1.1
3 years (% p.a.)	Fund	14.5	10.5	7.7		10.9		9.5	0.7		9.7
	Benchmark	12.3	12.3	7.7	n/a	10.2	n/a	9.5	0.9	n/a	9.3
	Relative	2.0	-1.8	0.0		0.6		0.0	-0.2		0.4
Since Inception (% p.a.)	Fund	10.5	8.8	8.7	36.9	6.7	2.3	7.1	3.0	5.3	
	Benchmark	10.0	10.0	8.7	40.3	5.8	3.6[1]	6.8	1.1	0.5	
	Relative	0.5	-1.1	0.0	-2.4	0.9	-1.3	0.3	1.9	4.8	
Since inception dates		April 2010	April 2010	August 2003	December 2015	March 2004	May 2016	September 2003	September 2012	December 2015	

Note: Long term returns Calculated by rolling up historic quarterly returns and includes contribution of all current and historical mandates over the period.

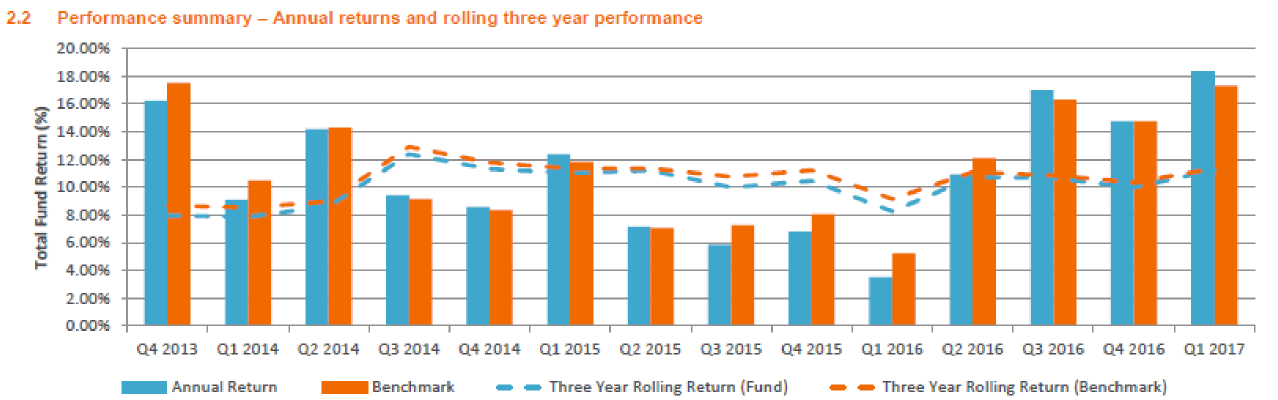
[1] The benchmark only measures performance quarterly, therefore the benchmark return is shown from June 2016.

8.3 The tables below show quarterly and annual returns, together with rolling 1 and 3 year performance respectively

Performance Summary – Quarterly returns and rolling one year performance



Performance Summary – Annual returns and rolling three year performance



8.4 Performance analysis

The table below represents the manager performance over the quarter and illustrates Stock Selection contributions from each of the Fund's managers and the impact from over/underweight positions relative to benchmark/target weighting (Asset Allocation).

Manager	Asset Class	Benchmark	Market Value £'000 31 Mar	Weight % 31 Mar	Target %	Fund Return %	Benchmark Return %	Asset Allocation	Stock Selection
UBS	UK Equities	FTSE All Share	325,051	24.2%	25.0%	4.1	4.0	0.00	0.02
Lazard	Global Equities	MSCI AC World (50% hedged)	218,008	16.2%	15.5%	6.2	5.8	0.01	0.06
Wellington	Global Equities	MSCI AC World (50% hedged)	223,087	16.6%	15.5%	5.5	5.8	0.02	-0.05
RBC	Global Emerging Market Equities	MSCI Emerging Markets	72,133	5.4%	4.5%	10.2	10.1	0.04	0.00
Total Equities			**838,279**	**62.3%**	**60.5%**	**5.5**	**5.4**	**0.06**	**0.04**
BMO	Bonds	Bonds Composite [1]	229,321	17.0%	17.0%	2.1	1.8	-0.01	0.05
Threadneedle	Property	IPD UK Quarterly All Balanced Property Index	110,486	8.2%	8.5%	2.0	2.0	0.00	0.00
Threadneedle	Low Carbon Property	IPD UK Quarterly All Balanced Property Index	24,373	1.8%	1.5%	0.7	2.0	0.00	-0.02
Invesco	Targeted Return	£LIBOR 3M	56,655	4.2%	5.0%	1.7	0.1	0.02	0.07
GMO	Absolute Return	OECD CPI G7 (GBP)	86,762	6.4%	7.5%	4.2	0.6	0.03	0.23
Total Scheme			**1,345,876**	**100**	**100**	**4.3**	**3.8**	**0.11**	**0.38**

1. BMO benchmark is 37.5% FTA Govt All stocks; 37.5% ML £ Non-Gilt All Stocks Index; 25% FTA Govt IL >5yrs
Note: We do not have the details of the cash held in the trustee bank account. As a result, the effective asset allocation may differ from that shown in the table above.

- At the end of March 2017, the Fund was overweight to equities.

<u>Positives</u>

- Outperformance from Lazard, Invesco, and BMO.
- Overweight to equities.

Negatives

- Underperformance from Wellington and Threadneedle Low Carbon Property.

The table below represents the manager performance over the **12 months to 31st March 2017** and illustrates Stock Selection contributions from each of the Fund's managers and the impact from over/underweight positions relative to benchmark/target weighting (Asset Allocation).

Manager	Asset Class	Benchmark	Market Value £'000 31 Mar	Weight % 31 Mar	Target %	Fund Return %	Benchmark Return %	Asset Allocation	Stock Selection
UBS	UK Equities	FTSE All Share	325,051	24.2%	25.0%	22.0	22.0	-0.05	0.00
Lazard	Global Equities	MSCI AC World (50% hedged)	218,008	16.2%	15.5%	23.0	26.1	0.01	-0.39
Wellington	Global Equities	MSCI AC World (50% hedged)	223,087	16.6%	15.5%	32.4	26.1	0.01	0.78
RBC	Global Emerging Market Equities	MSCI Emerging Markets	72,133	5.4%	4.5%	33.9	34.7	0.04	-0.03
Total Equities			**838,279**	**62.3%**	**60.5%**	**25.9**	**25.0**	**0.01**	**0.37**
BMO	Bonds	Bonds Composite [1]	229,321	17.0%	17.0%	12.6	11.5	-0.05	0.19
Threadneedle	Property	IPD UK Quarterly All Balanced Property Index	110,486	8.2%	8.5%	3.6	3.7	-0.21	-0.01
Threadneedle	Low Carbon Property	IPD UK Quarterly All Balanced Property Index	24,373	1.8%	1.5%	n/a	n/a	0.00	-0.02
Invesco	Targeted Return	£LIBOR 3M	56,655	4.2%	5.0%	5.1	0.5	0.03	0.22
GMO	Absolute Return	OECD CPI G7 (GBP)	86,762	6.4%	7.5%	6.5	1.7	0.04	0.34
Total Scheme			**1,345,876**	**100**	**100**	**18.9**	**17.5**	**-0.18**	**1.09**

1. BMO benchmark is 37.5% FTA Govt All stocks; 37.5% ML £ Non-Gilt All Stocks Index; 25% FTA Govt IL >5yrs

Note: We do not have the details of the cash held in the trustee bank account. As a result, the effective asset allocation may differ from that shown in the table above.

Positives:

- Outperformance from Wellington, BMO, Invesco and GMO.

Negatives:

- Underperformance from Lazard and RBC

The table below represents the manager performance over the **3 years to 31st March 2017** and illustrates Stock Selection contributions from each of the Fund's managers and the impact from over/underweight positions relative to benchmark/target weighting (Asset Allocation).

Manager	Asset Class	Benchmark	Market Value £'000 31 Mar	Weight % 31 Mar	Target %	Fund Return %	Benchmark Return %	Asset Allocation	Stock Selection
UBS	UK Equities	FTSE All Share	325,051	24.2%	25.0%	7.7	7.7	0.02	0.00
Lazard	Global Equities	MSCI AC World (50% hedged)	218,008	16.2%	15.5%	10.5	12.3	0.03	-0.30
Wellington	Global Equities	MSCI AC World (50% hedged)	223,087	16.6%	15.5%	14.5	12.3	0.04	0.38
RBC	Global Emerging Market Equities	MSCI Emerging Markets	72,133	5.4%	4.5%	n/a	n/a	0.04	-0.01
Total Equities			**838,279**	**62.3%**	**60.5%**	**10.7**	**10.4**	**0.13**	**0.06**
BMO	Bonds	Bonds Composite [1]	229,321	17.0%	17.0%	9.5	9.5	0.04	0.01
Threadneedle	Property	IPD UK Quarterly All Balanced Property Index	110,486	8.2%	8.5%	10.9	10.2	-0.11	0.08
Threadneedle	LCW	IPD UK Quarterly All Balanced Property Index	24,373	1.8%	1.5%	n/a	n/a	0.00	-0.02
Invesco	Targeted Return	£LIBOR 3M	56,655	4.2%	5.0%	n/a	n/a	0.03	0.07
GMO	Absolute Return	OECD CPI G7 (GBP)	86,762	6.4%	7.5%	0.7	0.9	0.10	-0.01
Total Scheme			**1,345,876**	**100**	**100**	**9.7**	**9.3**	**0.20**	**0.19**

1. BMO benchmark is 37.5% FTA Govt All stocks; 37.5% ML £ Non-Gilt All Stocks Index; 25% FTA Govt IL >5yrs

2. Asset Allocation and Stock Selection for RBC and Invesco mandates are the 12 month period to 31 December 2016.

Positives

- Outperformance from Wellington, Threadneedle Property.
- Overweight to equities for the majority of the 3 year period to 31st March 2017.

Negatives

- Underperformance from Lazard.
- Underweight to Threadneedle Property foe the majority of the 3 year period to March 2017.

9. BUDGET MONITORING

9.1 The final outturn position on the 2016/17 budget is detailed in the table below, along with explanations for the most significant variances. By far the most significant is that on contributions – this forecast was adjusted mid-year, as a forecast reduction in the active membership of the Fund did not materialise.

9.2 The Budget for 2017/18 was approved at the March 2017 Committee meeting; reporting against this budget will be provided from September 2017.

Description	2016-17 Budget	2016-17 Q3 Forecast for the year	2016-17 Year end actual	2016-17 Variance	Explanation for variance
	£'000	**£'000**	**£'000**	**£'000**	
Member Income					
Employers Contributions	56,590	62,796	67,162	10,572	Very high variance as budgeted decrease in active membership did not materialise - forecast updated in year. Changes to deficit repayments from ceased employers also drove an increase in contribution income.
Employees Contributions	11,767	12,171	12,155	388	
Transfers In	4,871	3,560	4,719	-152	Outside the Fund's control
Member Income Total	**73,228**	**78,527**	**84,036**	**10,808**	
Member Expenditure				0	
Pensions	-40,239	-41,646	-41,807	-1,568	Within tolerance
Lump Sum Commutations and Death Grants	-11,057	-13,333	-13,546	-2,489	
Transfer Out	-4,717	-6,633	-5,632	-915	Outside the Fund's control
Refund Of Contributions	-176	-176	-201	-25	Within tolerance
Member Expenditure Total	**-56,189**	**-61,789**	**-57,123**	**-934**	
Net Member Surplus	**17,039**	**16,738**	**26,913**	**9,874**	
Admin Management Expenditure				0	
Finance Recharge and Pension Admin	-789	-764	-784	5	Within tolerance
Oversight and Governance Costs	-425	-366	-474	-49	Within tolerance

Pension Audit Fee and Miscellaneous Costs	-37	-37	-21	16	Expenditure better classified as oversight and governance
Net Administration Expenditure	-1,250	-1,166	-1,279	-29	
				0	
Surplus from Operations	**15,788**	**15,572**	**25,634**	**9,846**	
Investment Income/Expenditure				**0**	
Investment Income	14,338	13,105	14,423	85	Within tolerance
Investment Expenses and Management Fees	-2,557	-3,714	-4,590	-2,033	Previous budgets have not included an allowance for performance and transaction fees. As the Fund has now improved its reporting of these within the accounts, an estimate will be made in the budget to reflect non-invoiced fee expenditure.
Net Investment Income/Expenditure	**11,782**	**9,391**	**9,833**	**-1,949**	
				0	
Cash flow before Investment Performance	**27,570**	**24,962**	**35,467**	**7,897**	
				0	
Total Investment Assets and Liabilities				**0**	

10. ENGAGEMENT AND CORPORATE GOVERNANCE

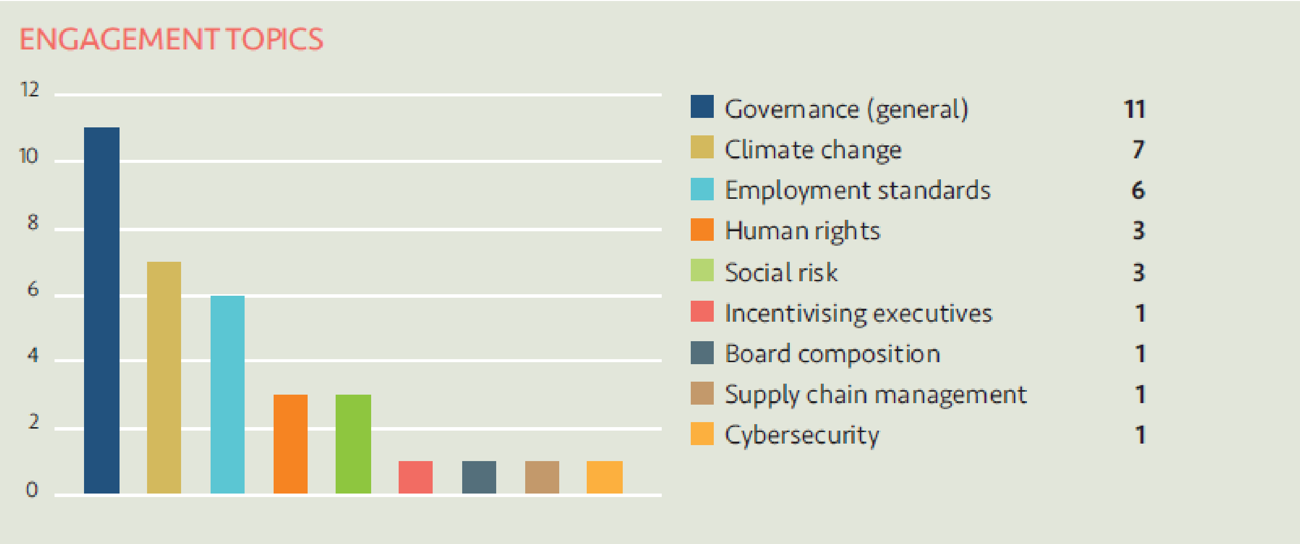
10.1 The Pensions Committee has looked to increase the level of engagement with the underlying companies in which it invests. This includes taking a more proactive role in encouraging managers to take into consideration the voting recommendations of the Local Authority Pension Fund Forum (LAPFF). This section of the quarterly report therefore provides the Committee with an update on the work of the LAPFF and also voting recommendations and how managers have responded. In addition the update will include key topical issues concerning environmental and social governance issues in order to provide scope for discussion on these key issues.

10.2 A further special strategy meeting of the Pensions Committee took place at the end of January 2016 to consider the Fund's approach to fossil fuel investment. The outcome of this meeting was a series of resolutions around future workstreams designed to help the Fund fully understand its carbon footprint and the risks this poses and, over the longer term, promote decarbonisation of the portfolio through positive investment in low carbon or clean energy funds.

10.3 A key element of the planned work programme was a carbon footprinting exercise – the results of this were delivered at the 19th September Committee meeting, and it has since been used to inform a carbon reduction commitment contained within the Investment Strategy Statement (ISS). With the ISS now approved, work has begun on implementation of the commitment to consider low carbon options for a proportion of the Fund's passive equity investments. Officers are working with Hymans Robertson to consider available options with an update due at the September 2017 meeting of the Pensions Committee.

10.4 The agenda for this Committee includes an update on the Fund's approach to voting and engagement, with a recommendation for the Committee to approve the use of the National LGPS Stewardship Advisory Services Framework to procure an engagement overlay service. The paper also briefly summarises some of the likely difficulties of implementing the Fund's voting policy in a pooled environment and sets out the need to work with other London funds and the London CIV to ensure that the Fund's priorities are achieved.

10.5 The table below shows LAPFF's engagement activities over the quarter, listed by company, area of interest and engagement activity. LAPFF members conducted 34 engagements over the quarter; Key topics of engagement included governance, climate change, employment standards and human rights.



10.6 Of the companies discussed in the report, the Fund's only holding through a segregated mandate is Shell. LAPFF welcomed the news that Shell was divesting most of its oil sands interests in Canada and at a collaborative meeting with Chad Holliday, the Shell chairman, asked how the company could better illustrate how action to mitigate exposure to carbon risk is integrated into Shell's business model and strategic planning.

10.7 The Fund holds a number of other companies referenced through its FTSE All share index tracker, most notably BP and Sports Direct. In a collaborative call with LAPFF the chair of the BP remuneration committee, Professor Ann Dowling, gave an update on the proposed new pay arrangements at the company and how these linked into company strategic action on climate. Part of the performance indicators for the long term incentive plan now include a reflection of strategic priorities to support a lower carbon future with the focus on 'value over volume'. In doing so, the use of the 'reserves replacement ratio' criticised in the past, has been removed as a metric for remuneration.

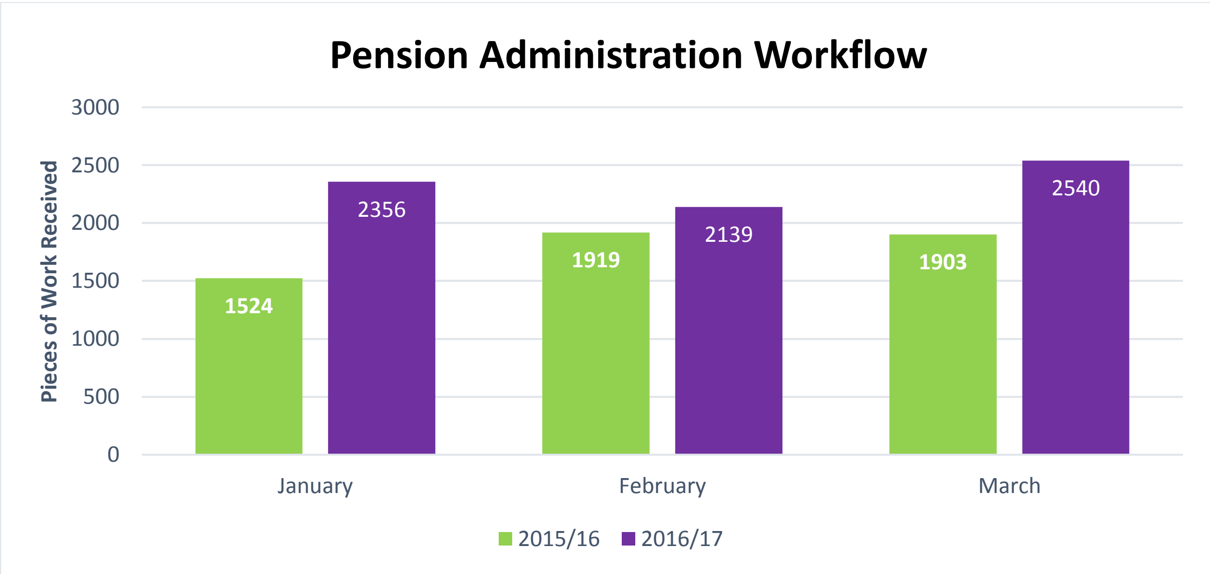
10.8 LAPFF has had a number of engagements with Sport Direct, and had previously agreed a meeting with the company. Despite best efforts from LAPFF, this did not take place, with no apology forthcoming. LAPFF have continued to try to engage; Communications stressed concerns that Keith Hellawell was re-appointed as chairman at the EGM despite overwhelming opposition from independent shareholders. They also highlighted the falling holdings in Sport Direct of LAPFF members and concerns by some members that the drop in the company's financial performance was being driven by governance and workplace concerns. LAPFF was told that engagement would be discussed at a February 2017 board meeting. The Forum has since followed up to enquire about the results of that discussion but has received no response from any Sports Direct representative.

11 PENSION ADMINISTRATION

11.1 Pension Administration Management Performance

The case load for the administrators during Q4 2016/17 has significantly increased in comparison to the same period in 2015/16. A total of 7,035 new cases were received during the current quarter, compared to 5,346 during Q4 in 2015/16.

A comparison of the workflow for the administrators between Q4 2015/16 and the reporting quarter is set out below:-

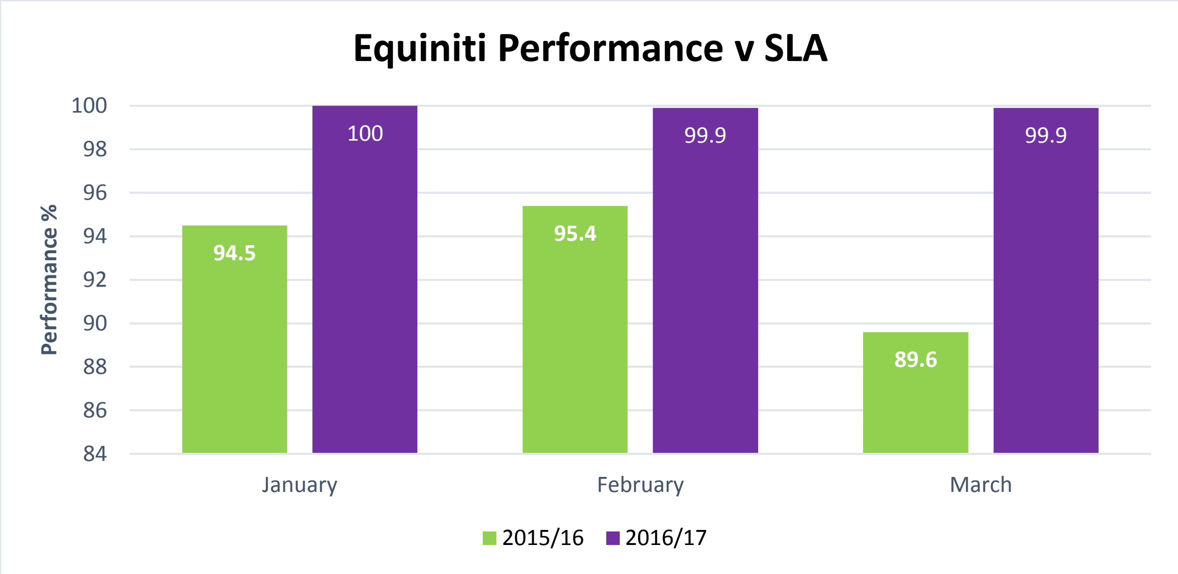


The average number of pieces of work received per month during Q4 2016/17 was 2,345 compared to an average of 1,782 received during the same period in 2015/16.

Much of the increased workload during the period continues to be in relation to the administrators having to continually resolve data issues. The fact that the Council, the Funds largest employer, did not submitted a year end file to the administrators within the regulatory timeframe, and lack of monthly interface continues to exacerbate the problems.

The performance of the pension administrators is monitored by the Financial Services Section at Hackney on a monthly basis.

The administrator's performance against the SLA for Q4 2015/16 and Q4 of the reporting period 2016/17 is set out below:



As previously report to Committee (Sept 2016), the Fund agreed to a relaxation of Equiniti's SLAs in response to the continued increase of manual work-around to member records, with the majority of the additional work being caused by the continued lack of an interface from the Council's payroll provider that is fit for purpose. The Council is the largest employer in the Fund and therefore has the majority of the work.

Despite the additional work load, the administrators continue to deliver their service at the highest level and performance against the service level agreement (SLA) was an average of 99.9% for Q4 2016/17 compared to 93% for the same period in the previous year.

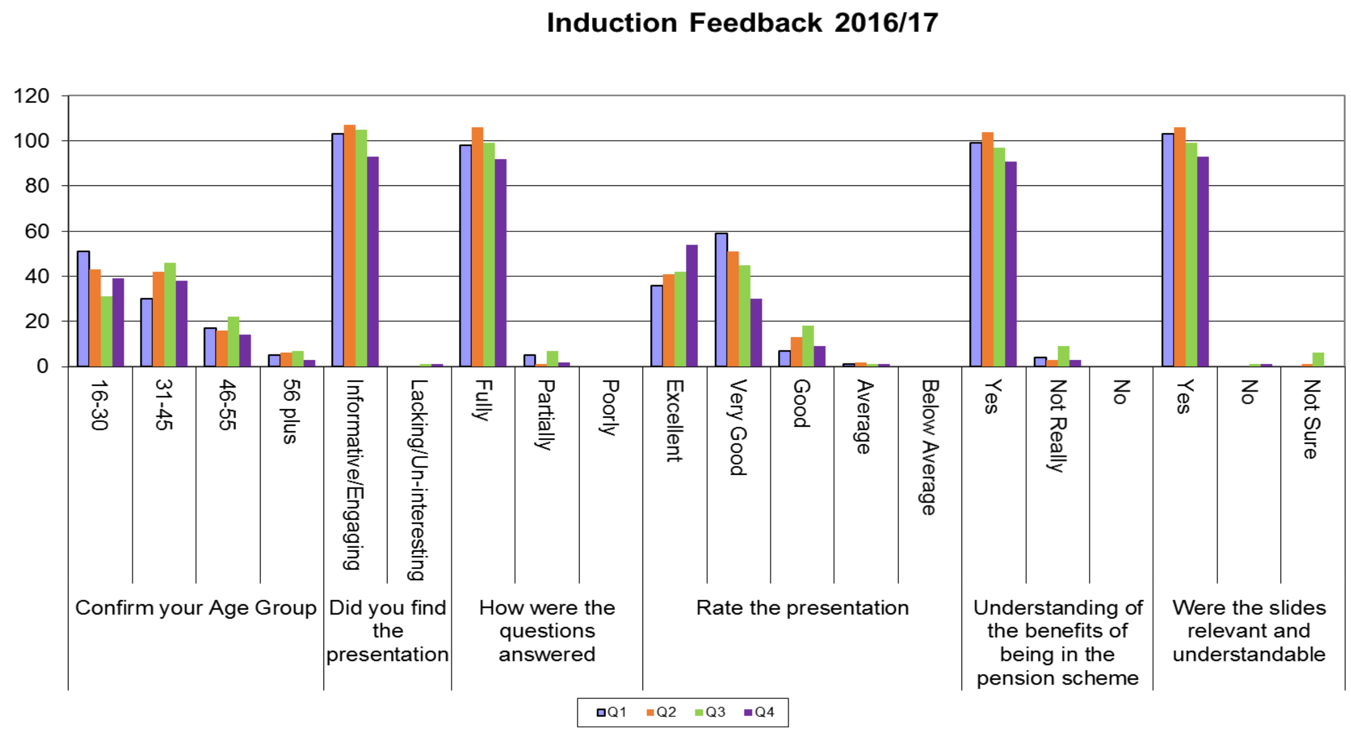
11.2 New Starters and Opt Outs

Following the completion of the Councils mandatory Re-Enrolment duties in Q2 where numbers of opt outs peaked at 308, the number of opt outs in Q4 2016/17 have normalised, and records indicate a total of 100 employees opted out during this quarter.

	Total Active Membership at End of Quarter	Total Opt Outs For Quarter
Q4 2015/16	7,715	120
Q4 2016/17	7,685	100

11.3 Scheme Administration

The in-house pension team facilitated at weekly induction sessions for 94 new employees during the reporting period. These sessions continue to receive very positive feedback with respondents rating the presentations as 'Very Good' or 'Excellent'.



Of those who attended the sessions in this quarter, 96% said they now have a greater understanding of the benefits of being in the scheme.

11.4 Ill Health Pension Benefits.

The release of ill health benefits fall into 2 main categories, being those for deferred and active members. The Financial Services in-house pension team process all requests for the release of deferred member's benefits on the grounds of ill health, as well as assisting the Council's Human Resources team with the process for the release of active member's benefits on the grounds of ill health.

Deferred member's ill health benefits are released for life and are based on the benefits accrued to the date of leaving employment, with the addition of pension increase, but they are not enhanced by the previous employer.

Active members' ill health pensions are released on one of three tiers:

- Tier 1 - the pension benefits are fully enhanced to the member's normal retirement date and is typically only paid to those with very serious health conditions or life limiting health problems – paid for life, no review

- Tier 2 – the pension benefits are enhanced by 25% of the years left to the member's normal retirement date - paid for life, no review

- Tier 3 - the pension benefits accrued to date of leaving employment - paid for a maximum of 3 years and a review is undertaken once the pension has been in payment for 18months.

For tier 3, a scheme member's prognosis is that whilst they are unable to fulfil their current role on medical grounds to retirement, they may be capable of undertaking some form of employment in the relatively near future. However should the members' health deteriorate further, there is provision under the regulations for their benefits to be uplifted from tier 3 to tier 2, if the former employer agrees that their health condition meets the qualifying criteria for the increase.

The chart below sets out the number of ill-health cases, both active and deferred, that have been processed during Q4 of 2016/17, compared to the same period in the previous year.

DEFERRED MEMBER'S ILL HEALTH RETIREMENT CASES					
	CASES RECEIVED	SUCCESSFUL	UNSUCCESSFUL	ONGOING	WITHDRAWN
Q4 2015/16	10	3	2	4	1
Q4 2106/17	3	0	1	2	0

ACTIVE MEMBER'S ILL HEALTH RETIREMENT CASES					
	NUMBER OF CASES	BENEFITS RELEASED ON TIER 1	BENEFITS RELEASED ON TIER 2	BENEFITS RELEASED ON TIER 3	UNSUCCESSFUL
Q4 2015/16	3	2	0	1	0
Q4 2016/17	1	1	0	0	0

11.5 Internal Disputes Resolution Procedure (IDRP)

This is the procedure used by the Fund for dealing with appeals from members both active and deferred. The majority of the appeals are in regard to either disputes around scheme membership or the non-release of ill health benefits. The process is in 2 stages:-

- Stage 1 IDRP's are reviewed and determinations made by a senior technical specialist at the Fund's pension administrators, Equiniti.

- Stage 2 IDRP's are determined by the Group Director, Finance & Corporate Resources taking external specialist technical advice from the Fund's benefits consultants.

There were 2 IDRP cases in the 4th quarter of 2016/17;

Stage 1

Both Stage 1 appeals were in regard to members appealing against the award of Tier 3 ill health benefits, and requesting the employer to uplift the benefits and award Tier 2.

Both appeals were unsuccessful and not up-held by the appointed person at Stage 1 of the appeal process.

11.6 Other work undertaken in Q4 2016/17

Voluntary Redundancy - update

As previously reported, the Chief Executive announced a Voluntary Redundancy (VR) Scheme that launched on 1 October 2015, and all staff (apart from essential services) were eligible to apply. After completing their statutory notice period, 179 members of staff left the organisation during Q4 of 2015/16, the majority left on 29 February with the remainder leaving on or by 31 March 2016.

Staff have continued to leave the organisation on a monthly basis as part of this Scheme up to 31 March 2017, and during Q4 2016/17 there were 4 members of staff who left.

Employer Audit 2016/17

At the end of Q3 2016/17, the Funds Benefits & Governance Consultants, AON Hewitt were again asked to carry out a review the quality of data being supplied to the Pension Fund from its employers. During Q4, Equiniti and officers at the Council have been co-operating fully with AON in regard to data gathering and providing relevant evidence for the report.

The results of the report will not be known until May 2017, and the findings will be reported to Pensions Committee in June 2017.

Employer Forum

The annual Employer Forum was held on 22 February 2017, and was attended by 8 of the Fund employers. The Forums agenda was varied and covered subjects from an outlook on the economy; employer roles and responsibilities; the triannual valuation results and individual employer rates; pension 'hot topics'; London CIV; and a presentation from the Prudential on AVCs.

Pensions Administration Strategy (PAS)

During Q4 of the reporting period, an updated PAS was finalised and brought to Pensions Committee in March 2017 prior to its distribution to schools and employers in the Fund. The updated PAS includes greater emphasis on the role of the Regulator (tPR) and its powers of enforcement, and also the responsibility of the Fund to report material failures of employers, and breaches of the law, to the tPR.

Third Party Administration contract (TPA contract)

In January 2017 the Fund issued a tender for the procurement of a new third party administrator, via the National LGPS Framework. Closing date for bids was 10 March 2017, with moderation and site visits taking place during mid/late March. Work on the tender was completed during Q1 2017/18, with Equiniti reappointed as the Fund's administrator.

12 REPORTING BREACHES

12.1 Reported Breaches Q4 2016/17

None

12.1 Unreported Breaches Q4 2016/17

Quarter	Date	Category (e.g. administration, contributions, funding, investment, criminal activity)	Employer / Org.	Description of breach	Traffic Light Syste	Reported / Not reported (with justification if not reported and dates)	Outcome of report and/or investigatio	Outstanding actions
Q4	Feb-17	Contributions	Manor House Development Trust	Payment received 27/03/2017	A	Not reported		

Ian Williams
Group Director of Finance & Corporate Resources

Report Originating Officers: Rachel Cowburn ☎020-8356 2630
Financial considerations: Michael Honeysett ☎020-8356 3332
Legal comments: Stephen Rix ☎020-8356 6122

Background papers
None

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Hackney

REPORT OF THE GROUP DIRECTOR, FINANCE AND CORPORATE RESOURCES		
STEWARDSHIP FRAMEWORK - ENGAGEMENT OVERLAY OPTIONS **Pensions Committee** **27th June 2017**	**Classification** **PUBLIC** **Ward(s) affected** **ALL**	**Enclosures:**

1. INTRODUCTION

1.1 The Fund currently places reliance on its fund managers to engage with companies whilst being mindful of the Fund's requirements as set out in the new Investment Strategy Statement. There are however a number of options available which the Fund could use to enhance its engagement with investee companies and these are considered in the report below.

2. RECOMMENDATIONS

2.1 The Pensions Committee is recommended to:

- **Approve the use of National Frameworks' Stewardship Framework to procure an engagement overlay service, pending further work by officers to establish the Fund's requirements and most appropriate service model.**

3. RELATED DECISIONS

- Pensions Committee (24th January 2017) – Voting and Engagement Overlay Services
- Pensions Committee (24th January 2017) – Investment Strategy Statement
- Pensions Committee (31st March 2015) – Stewardship Code

4. COMMENTS OF THE GROUP DIRECTOR, FINANCE AND CORPORATE RESOURCES

4.1 The exercise of voting rights and engagement with investee companies are a key part of the Fund's role as a long term steward of assets. Ensuring good corporate governance and the adoption of sustainable business models at the companies in which the Fund invests should over the longer term ensure that they are able to deliver superior returns to the Fund. Poor corporate governance and unsustainable business practices can impact on share prices and increases the risk that the Fund may experience a loss of value in its investments in the future.

4.2 The cost to the Fund for engaging a governance overlay service will vary depending on the services required. Whilst no procurement exercise has been conducted by the Fund to date, it is estimated that employing the services of such organisations could cost anywhere between £30k up to £100k depending on the level of engagement that the Fund wants to undertake.

5. COMMENTS OF THE DIRECTOR, LEGAL

5.1 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 Regulation 7 requires Administering Authorities to publish and maintain an Investment Strategy Statement which includes, amongst other items, details of:

- The authority’s policy on how social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments.
- The authority’s policy on the exercise of the rights (including voting rights) attaching to investments.

5.2 In addition, Government guidance on the preparation and maintenance of the Investment Strategy Statement states that Administering Authorities should explain their policy on stewardship with reference to the Stewardship Code, the seven principles of which apply on a ‘comply or explain’ basis.

5.3 The proposals outlined in this report would help to ensure that the Fund is able to demonstrate further its compliance with the LGPS Regulations and Statutory Guidance.

5.4 There are no immediate legal implications arising from this report.

6. BACKGROUND TO THE REPORT

6.1 The subject of voting and engagement has been considered by the Pensions Committee on a number of occasions. The Committee wishes to ensure that it is able to effectively express its views on ESG issues through the exercise of the Fund’s voting rights, as well as enhancing the Fund’s approach to engagement with its investee companies more generally. However, the rapid changes currently taking place across the sector have raised a number of questions about how voting rights, and Responsible Investment (RI) approaches more generally, can best be delivered through the new pooled structures.

6.2 The Fund currently delegates the exercise of its voting rights to its external equity managers, who are asked to comply as far as possible with the Fund’s voting policies. As discussed at the January 2017 meeting of the Pensions Committee, the move to a pooled structure over the medium term would significantly impact this arrangement as voting rights would need to be exercised at pool rather than fund level. The Fund will therefore need to ensure that it works with other London funds as well as the pool itself to ensure that in the future it is able to effectively express its views through the exercise of voting rights. As such, the Pensions Committee have agreed that pursuing a fund-level voting overlay approach is likely to be ineffective at this time.

6.3 The Fund also currently delegates broader engagement with investee companies around ESG issues to its external managers. The Fund is also a member of the Local Authority Pension Fund Forum (LAPFF), which currently comprises 71 local authority pension funds with combined assets of £175 billion. The Forum exists to promote the investment interests of local authority pension funds, and in particular to maximise their influence as shareholders to promote corporate social responsibility and high standards of corporate governance amongst the companies in which they invest.

6.4 Whilst this arrangement could continue under a pooled structure, the Committee wish to ensure that this area of the Fund's RI approach is enhanced. The Fund wishes to remain a member of LAPFF, but potentially enhance its engagement approach through use of an overlay service rather than relying on delegation to fund managers.

7. OVERLAY SERVICE OPTIONS

6.5 A range of organisations offer engagement overlay services, ranging from asset managers, some with dedicated stewardship advisory functions, through to specialist research organisations. Price ranges vary widely, with services ranging from £30k through to approximately £100k. It is therefore essential that further work is undertaken by officers to establish the range of services required by the Fund, to ensure that any services procured represent good value for money and do not duplicate work already undertaken e.g. through LAPFF.

6.6 The Committee is recommended to approve the use of the National LGPS Framework for Stewardship Advisory Services to undertake a procurement exercise. The framework offers stewardship services across a range of lots, with Lot 2 dedicated to the provision of engagement overlay services. Use of the framework ensures an efficient tender process using a tried and tested approach, with a range of providers who have met the necessary quality thresholds to be appointed to the framework.

6.7 Providers available under Lot 2 of the framework are as follows:

- BMO Global Asset Management
- Ethical Investment Research Services Ltd (EIRIS)
- GES Investment Services AB
- Hermes Equity Ownership Services
- Pensions and Investment Research Consultants Ltd (PIRC)
- Robeco Institutional Asset management B.V.

Ian Williams
Group Director, Finance & Corporate Resources

Report Originating Officers: Rachel Cowburn ☎020-8356 2630
Financial Considerations: Michael Honeysett ☎020-8356 3332
Legal Considerations: Stephen Rix ☎020-8356 6122

Background papers
None

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Hackney

REPORT OF THE GROUP DIRECTOR OF FINANCE AND CORPORATE RESOURCES		
GOVERNANCE – PENSION COMMITTEE – SELF-ASSESSMENT AND ASSESSMENT OF ADVISERS **Pensions Committee** **27th June 2017**	**Classification** **PUBLIC** **Ward(s) affected** **ALL**	**Enclosures** **None**

1. INTRODUCTION

1.1 This report covers the self-assessment of Pension Committee members and a review of advisers to the Committee.

2. RECOMMENDATIONS

2.1 The Pensions Committee is recommended to note the report.

3. RELATED DECISIONS

3.1 Pensions Committee 27th June 2017 – Pension Fund Business Plan 2017-2020

3.2 Pensions Committee 29th March 2017 – Governance: Self-Assessment and Performance of Advisers

4. COMMENTS OF THE GROUP DIRECTOR, FINANCE AND CORPORATE RESOURCES

4.1 There are no immediate financial consequences arising as a result of this report, however, the self-assessment and review of advisers ensures that Members understand their responsibilities as quasi-trustees of the Pension Fund and can assess the performance of their advisers. By reviewing the outcome of the assessment, officers will be able to focus further training needs and areas for development.

4.2 Ensuring that Members of the Pensions Committee are well informed and understand their responsibilities as quasi-trustees ensures that the financial decisions made by the Committee on behalf of the Fund are made with the requisite skill and knowledge and will help to protect the longer term financial interests of the Fund and its employers.

5. COMMENTS OF THE DIRECTOR, LEGAL

5.1 The London Borough of Hackney is the Administering Authority for the London Borough of Hackney Pension Fund and delegated powers have been given to the Pensions Committee to oversee the administration of the Fund. This places a significant responsibility on the Committee's Members to ensure that they are adequately trained and understand the decisions which they have to make in respect of the Fund.

5.2 The LGPS Regulations 2013 (Regulation 55) requires Administering Authorities to prepare, publish and maintain statements of compliance against a set of best practice principles for scheme governance and stewardship. The assessment being undertaken helps to identify where changes can be made or where there are requirements for further training, and thus helps the Pensions Committee to demonstrate best practice in scheme governance.

5.3 There are no immediate legal implications arising from this report.

6. BACKGROUND/TEXT OF THE REPORT

The Committee monitors on a quarterly basis both the investments held by the Fund and the performance of its investment managers, covering both the quarterly and longer term performance of each manager. In addition the Committee have a rolling programme of meetings with its external managers and Officers meet with managers on a regular basis outside of the formal presentations to Committee. Assessment of the Fund's advisers is more ad-hoc, although officers meet regularly with the Fund's advisers and provide feedback on performance.

6.1 A training session for Committee (and Pension Board members) is provided at the start of each Committee meeting to help ensure that Members are meeting CIPFA's Knowledge and Skills requirements. Training sessions are planned on the basis of CIPFA's requirements and delivered by either internal staff or the Fund's external advisors. Committee members are also encouraged to attend external training sessions hosted by relevant organisations.

6.2 Following the Committee meeting in March 2017, members were provided with a web link to a survey which covered a self-assessment and review of advisers due for completion and review by the next meeting. 57% of the Pensions Committee including the Co-opted members have completed the survey. Officers have reviewed responses and the results are summarised in this report. The results will be considered for the programme of training sessions and will also assist in the planning of future agendas.

6.3 The Public Service Pensions Act 2013 and the Pensions Regulator's Code of Practice require the establishment of a Pensions Board and for Board members to have the capacity to be on the Board and to undertake the necessary training in order to develop the necessary knowledge and understanding of both pensions legislation and the individual scheme that they sit on the Board of. Later in 2017/18 it is planned that Board Members will also undertake a self-assessment to assess any gaps in knowledge.

7. REPORT OF RESULTS

7.1 INTRODUCTION

7.1.1 Effective decision-making for the Pension Fund requires knowledge and understanding of a range of complex factors. Ensuring that members of the Pensions Committee are well-informed on these issues and understand their responsibilities helps to promote this effective decision-making and protect the interests of the Fund and its stakeholders.

7.1.2 This report covers the results of a self-assessment survey completed by Pensions Committee Members to assess their views on the advisers to the Pensions Committee and to assess their own knowledge and understanding about their role and responsibilities as a Committee Member. The results contained in this report are from the responses of 57% of the Pensions Committee including the Co-opted members. These results will be used to identify any training needs and tailor training and development accordingly.

7.1.3 This report covers the effectiveness and administration of Committee meetings, accessibility and format of information provided at meetings, effectiveness of training sessions provided to Committee members, review of Consultants and Advisers to the Committee, self-assessment of Committee Members and future planning for the activities within the Pensions Committee with the detailed results set out below.

7.2 Effectiveness of meetings

7.2.1 There has been an overall positive response towards the structure and coordination of Pensions Committee meetings. There is generally felt to be sufficient time available at Committee meetings to have detailed constructive discussions, whereby Committee members are able to raise any questions and concerns openly with each other, officers and advisers to the Committee. Meetings themselves are broadly felt to be too long; however it is important that Committee members are engaged in discussions and have the opportunity to request further explanations during presentations to allow them to make informed decisions on behalf of the Fund.

There has been one dedicated strategy meetings arranged in addition to the quarterly meetings, focused on investment strategy development. Feedback suggests that the dedicated strategy meeting was useful which demonstrates the need to review long term strategies to ensure the long term sustainability of the Fund. Generally, Committee members feel there is sufficient opportunity to include specific areas of business to meeting agendas; however, some items which could be considered further include:

- Analysis of economies of scale, comparing available data from other LGPS providers
- Attitudes to, and understanding of, Risk
- Understanding, and appropriate setting, of Benchmarks

The meetings play an important role in bringing Committee members together to share their views and raise any questions and concerns. Members have the opportunity to catch up on meetings with the help of minutes, Committee papers and arranging meetings with officers.

7.3 Administration of meetings

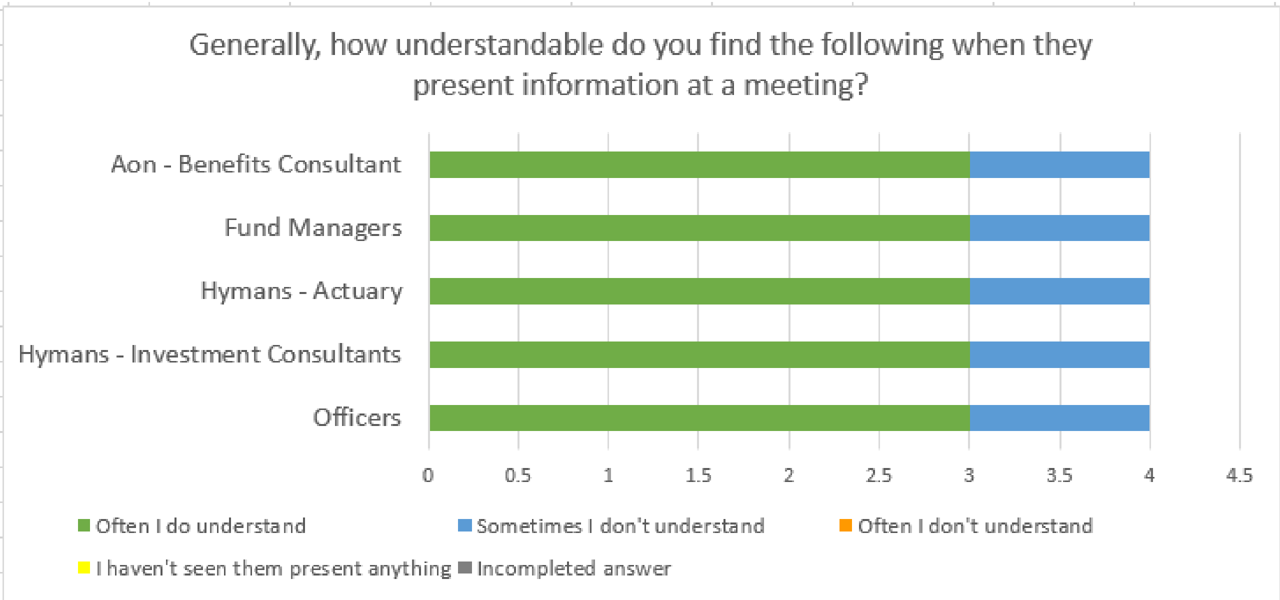
7.3.1 Committee papers are provided to Committee members in sufficient time to allow them to prepare for meetings. The minutes are considered to be an accurate representation of the discussions at meetings. The accuracy of the minutes is mostly considered appropriate, although there has been a suggestion for the meetings to be recorded to ensure a verbatim record.

7.4 Accessibility & Format of Information

7.4.1 It is important that the information provided for Committee meetings is suitable and sufficient for members to understand matters being discussed. Information is provided prior to meetings via Committee reports and supplemented with additional information during meetings. An assessment on how information is presented to Committee members suggests that there is a sufficient amount of information contained within reports, however there could be more graphical representation to help illustrate points.

7.4.2 Collectively, Committee members feel they have a good understanding on the topics presented to them, usually as a result of the combination of information provided beforehand and that provided during meetings. Members generally feel they have sufficient access to officers and advisers should they wish to have further discussions, although more contact with the Fund's investment consultant would be welcomed. Members also generally have sufficient access to key documentation, although some feel that access could be made quicker and easier.

7.4.3 The quality of reports, verbal updates and responses to Committee member questions is generally felt be good and provides members with appropriate recommendations to enable the Committee to make decisions. The financial comments in the reports are generally good to enable the Committee to understand the financial implication of decisions. Members mostly find that they gain a good understanding from presentations by officers and advisers at Committee, as set out in the graph below:



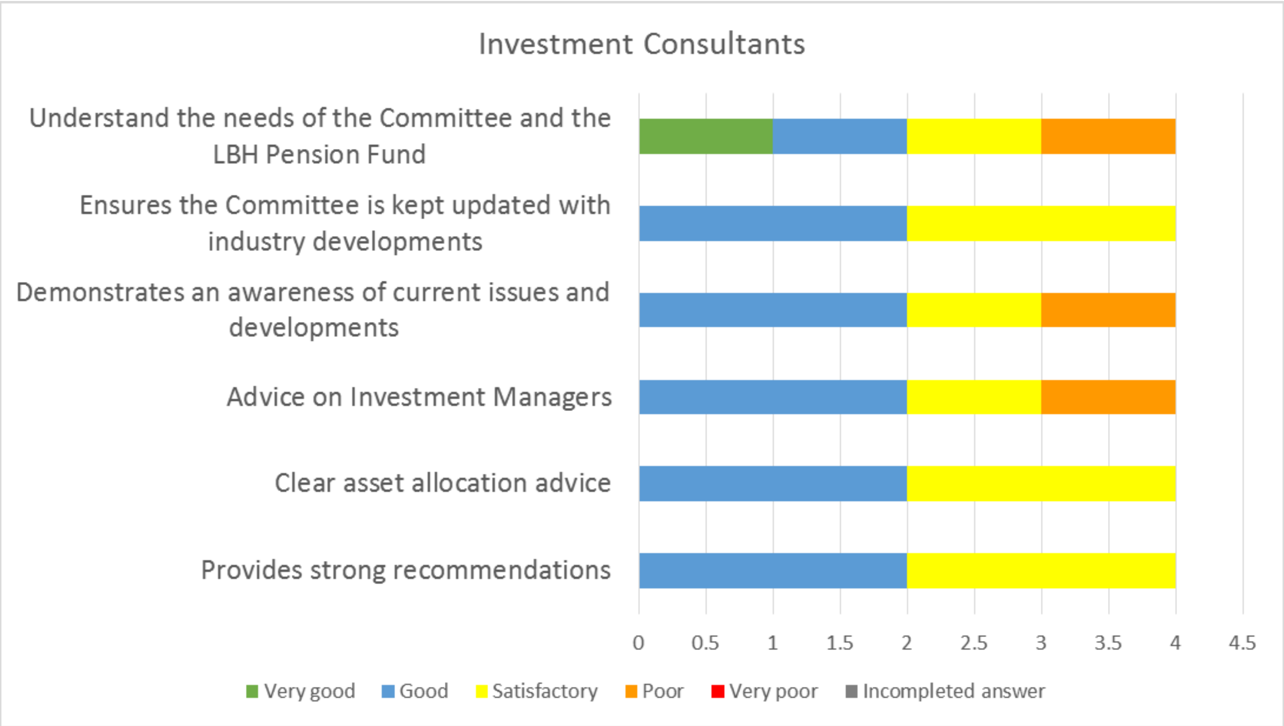
7.5 Training Sessions

7.5.1 Training sessions are provided internally by officers and advisers and externally by other training providers. Generally, members feel that the training sessions sufficiently in depth, although there are areas where more training is felt to be needed. Recommended topics for training sessions include investment in infrastructure and risk management and benchmarks.

7.5.2 Internal training sessions appeared to be preferred over external training and conferences, this is likely due to tailored training specific only to the Fund. Member preferences in terms of training format is for in person rather than online training. Members largely feel that sufficient time is allocated for training sessions, but 2 respondents suggested that more time should be dedicated to training.

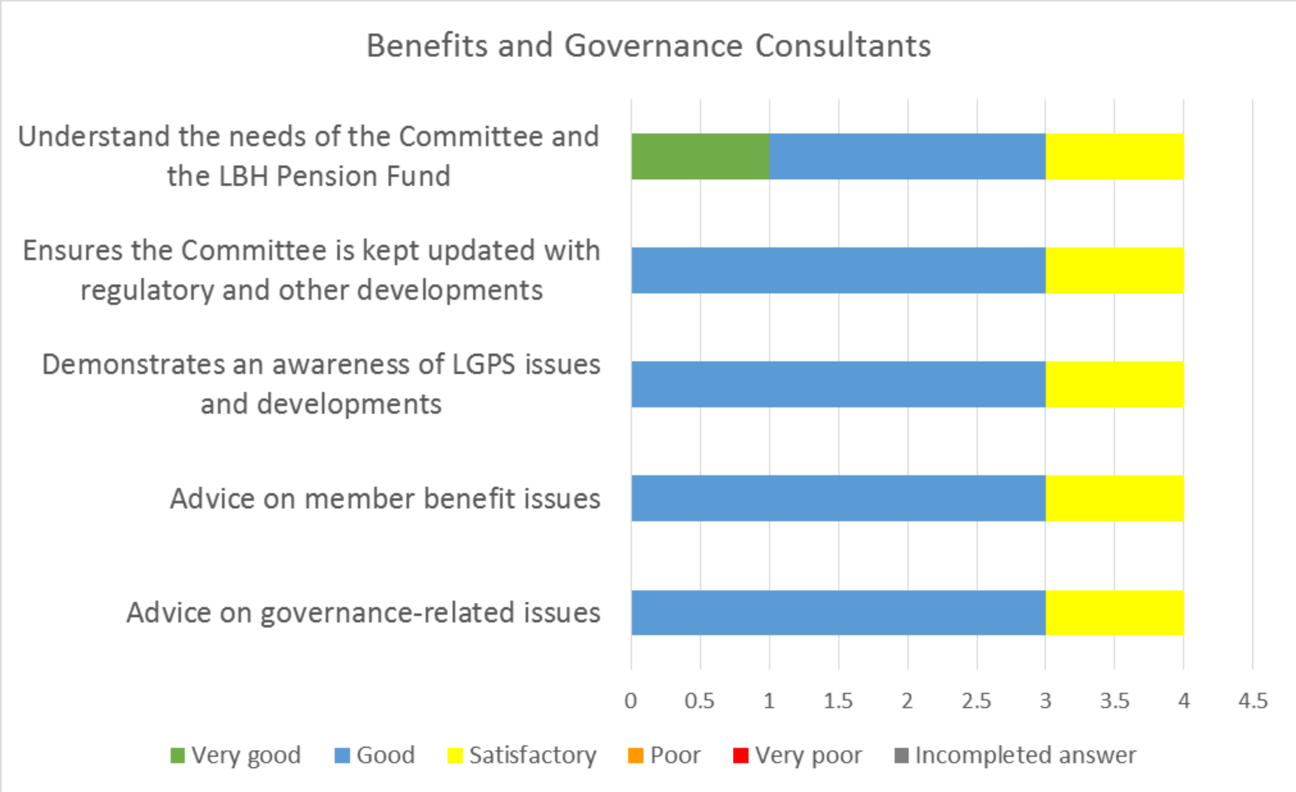
7.6 Performance of Advisers and Consultants

7.6.1 The Consultants and Advisers to the Committee have been rated on their ability to provide sound advice and recommendations towards the Pension Fund.



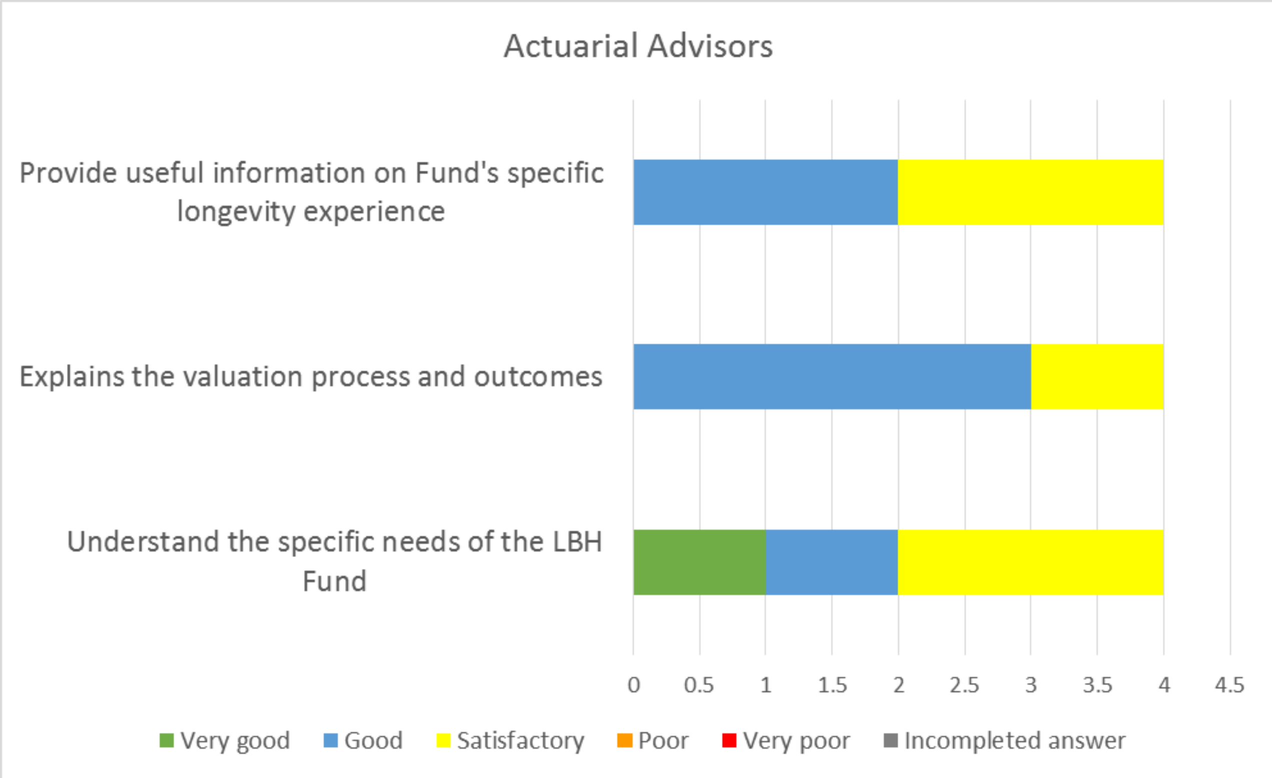
The responses from the Committee suggest that the investment consultants are generally willing to provide strong recommendations and advice on asset allocation, and are proactive in ensuring that the Committee is kept updated with industry developments. Responses are more mixed on understanding the needs of the Committee and the Fund, demonstrating an awareness of current issues and developments and advising on investment managers and their mandates.

7.6.2



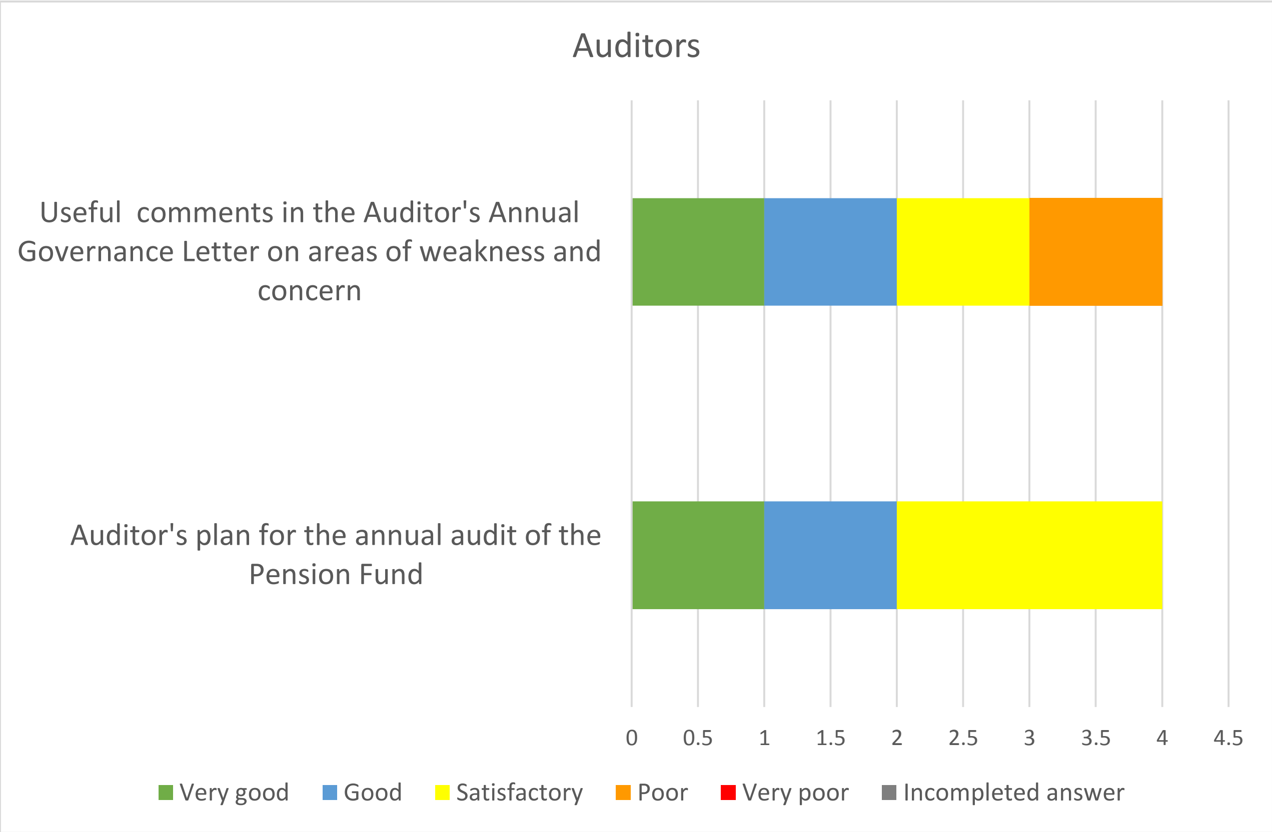
The responses for the Fund's Benefits and Governance consultants describe performance as 'very good' to 'satisfactory'. The consultants scored very well on, understanding the needs of the Fund. Responses are largely good on advising on member benefit issues, ensuring that the Committee is kept up to date with regulatory developments, advising on governance related issues and displaying an awareness of LGPS issues.

7.6.3



The Committee's view of the actuarial advisors is generally positive; the responses provided rate their performance as 'very good' to 'satisfactory' on all questions, with particularly positive responses on understanding the needs of the Fund and explaining the valuation process and outcome. .

7.6.4



The Committee's perception of the Auditors is generally good; however there is some concern over the usefulness of comments in the Auditor's Annual Governance letter detailing areas of weakness and concern.

7.6.5 The consultants and advisors play an important role in guiding the Committee, keeping up to date with markets and changes to the LGPS and wider pensions landscape. Ultimately, decision-making with regards to the Fund rests with the Committee, who must act in the best interests of the Fund and its stakeholders.

7.7 Compliance

7.7.1 The Committee feel confident that they seek and obtain appropriate advice before making decisions, and are appropriately made aware of any areas in which the Fund is not performing. The Committee are also confident in the Fund's approach to compliance with the Pensions Regulator's Code of Practice.

7.7.2 The performance of the Fund's 3rd party administrator is regularly reviewed and scheme members are generally considered to be kept well informed about their benefits and any changes to them.

7.8 Roles & Responsibilities

7.8.1 Committee members feel they have reasonable knowledge of their role, responsibilities and duties and mostly understand the full implications of decisions made at Committee meetings.

7.8.2 Members mostly feel that the amount of responsibility delegated to officers is appropriate and that clear and suitable delegations are in place to enable officers to carry out functions and progress recommendations. One respondent felt that too much was delegated to officers.

7.9 Knowledge & Understanding

7.9.1 Respondents rated their knowledge and understanding as good or satisfactory, and felt that the Committee as a collective generally has a sufficient level of knowledge in relation to pension fund matters. In relation to the specific points below, Members generally rated their knowledge as good, and particularly good in the area of fiduciary responsibility.

- Role of The Pensions Regulator and the TPR Codes of practice
- Fiduciary responsibility
- CIPFA's Knowledge and Skills Framework
- LGPS regulations
- Defined benefits

7.9.2 All Members understood conflicts of interest in relation to the pension fund. Focus on the wider aspects of managing the pension fund was generally felt to be very good,

7.10 Risk Management

7.10.1 Members are aware and understand the risks that could affect the Fund especially being able to identify the Fund's biggest risks. They are able to use the risk register to record risks which are monitored and managed appropriately. The main risks are generally well understood in areas such as administration, communications, governance and investments and all but one respondent felt well engaged in deciding how the Fund responds to these risks.

7.10.2 Generally, members feel that the Fund takes sufficient risks that either aim to achieve greater reward or to minimise ongoing costs. Sufficient information is provided to members to help the decision making process; although one improvement suggested could be to provide the Committee with information that demonstrates how a decision with regards to one risk could affect another. Risk management requires assessing risks and finding ways to improve benefits or reduce negative effects.

7.11 Future Planning

7.11.1 Future planning involves setting clear objectives and regularly reviewing these objectives to ensure they fit in with the Fund's strategies and policies. Generally, members feel that the Committee has set clear objectives in relation to funding, investment, administration and governance. They receive sufficient information to understand whether or not these objectives are being achieved on a regular basis. One respondent felt that the Committee could set clearer objectives in relation to

Governance. Members generally felt they were given sufficient information to understand whether or not objectives were being achieved, although one respondent felt that more information could be provided in respect of communications, whilst another felt the same with regards to governance.

7.11.2 The quarterly monitoring report is included in the papers provided for Committee meetings. The monitoring report covers an update on funding position, governance, investment performance, engagement and corporate governance, pension administration and reported breaches. Members generally found the report sufficiently or highly useful, although it was felt that the Engagement and Corporate Governance Update could be improved. This is clearly an effective report which demonstrates some of the wider issues that can affect the Fund. Updates are provided with the best available information at the time which can change significantly due to unforeseen circumstance, which is why it is important that committee members, officers and advisers can actively engage with each other to ensure there is an active and adaptable plan for the future of the Fund.

7.12 FURTHER COMMENTS/RECOMMMENDATIONS

7.12.1 Suggestions/Discussion topics of interest

- Comparative evidence from other schemes
- More regular review of the Committee's Terms of Reference

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Background papers

None

REPORT OF THE GROUP DIRECTOR, FINANCE AND CORPORATE RESOURCES		
PENSION FUND ADMINISTRATION ANNUAL REPORT 2016/17 **Pensions Committee** **27 June 2017**	**Classification** **PUBLIC** **Ward(s) affected** **ALL**	**Enclosures:** **None**

1. INTRODUCTION

1.1 This report outlines the work undertaken by the London Borough of Hackney and the performance of the pension fund administrators, in regard to the administration of the LGPS Hackney Pension Scheme for the financial year 2016/17. The contract for pension administration, and pension payroll, is managed externally by the Fund's pension administrators, Equiniti Pensions Solutions, with the contract being overseen by the Financial Services Section based at London Borough of Hackney.

1.2 The contract with Equiniti commenced on 1 April 2009 for an initial period of 5 years, and approval was given on 1 April 2014 to extend for a further 3 years until 31 March 2017. A short term contract extension to 31 December 2017 was agreed with the Council's Legal department and Equiniti in order to allow sufficient time for an orderly transition to a new administrator if that had been necessary, and for the Council to complete the transition of the payroll contract to any new provider in July 2017 As agreed at the last Pensions Committee, however, Equiniti have been re-appointed as the pension fund administrators.

2. RECOMMENDATIONS

2.1 The Pensions Committee is recommended to note the report.

3. RELATED DECISIONS

- Pensions Committee (24 January 2017) - Procurement of Third Party Pension Administration Services - Update (Exempt)
- Pensions Committee (6 December 2016) - Procurement of Third Party Pension Administration Services (Exempt)
- Pensions Sub-Committee (17 January 2013) – Pensions Administration Contract, approval of 3 year extension
- Pensions Sub-Committee (9 December 2008) – Procurement of Pension Scheme Administrator and Pension Payroll Provider

4. COMMENTS OF THE GROUP DIRECTOR, FINANCE AND CORPORATE RESOURCES

4.1 The costs of administration as a whole for the Pension Fund are relatively small compared to the overall value for the Fund. The cost in 2016/17 was £539k, compared to £570k in 2015/16.

4.2 It is evident that having efficient administration is crucial to the effective management of the Pension Fund. The cost is made up of the cost of the third party administrators, including the administration of the pension payroll, and the internal costs of administering the Fund. This year the average cost of administering the Fund per member was £23.14, based on the current cost and membership at 31 March 2017, compared to £25.37 at 31 March 2016.

4.2 Good administration is key to ensuring that the Fund is able to meet its pension commitments in a timely manner and will avoid additional charges to the Fund from late payments and fines. The administration of the Pension Fund is closely monitored by officers of the Council to ensure efficient service delivery.

5. COMMENTS OF THE DIRECTOR, LEGAL

5.1 The Local Government Pension Scheme Regulations 2013 set out in detail the administration of the Pension Scheme and how the Scheme rules are to be applied. If these were to be applied incorrectly then this would pose a risk to the Pension Fund.

5.2 The Pensions Committee, acting in their capacity of the Trustees of the Pension Fund, have responsibilities to ensure that the Fund is managed in accordance with the regulations. Receiving regular updates on the performance of the administration function will assist the Committee in ensuring that it fulfils its regulatory obligations under the Local Government Pension Scheme Regulation.

5.3 There are no immediate legal implications arising from this report.

6. SUMMARY

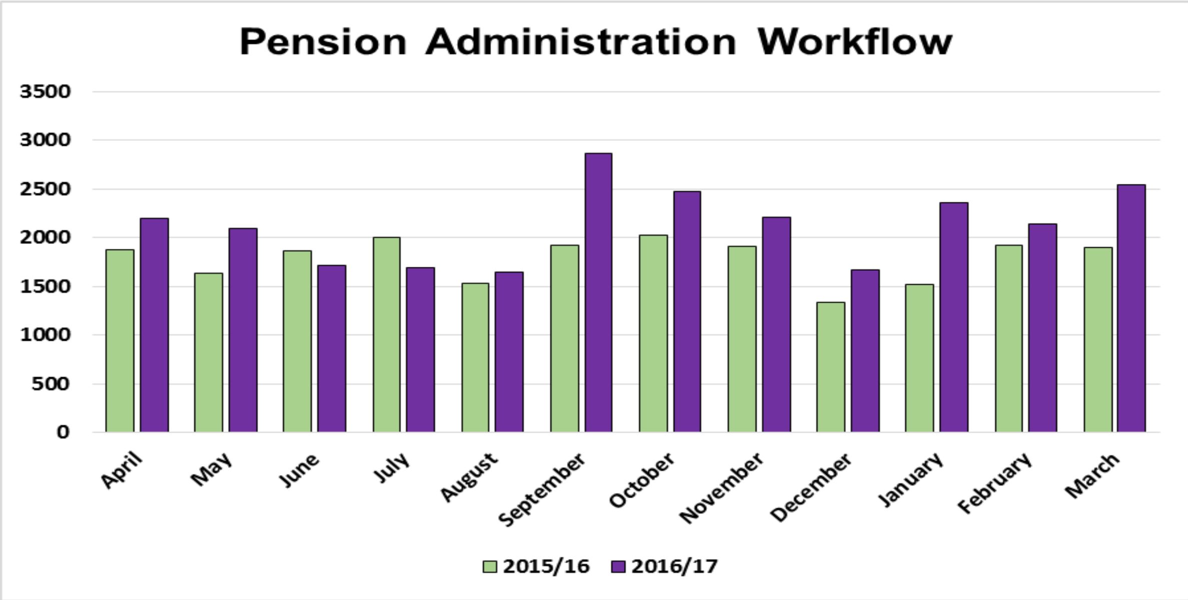
6.1 The pension administrators, Equiniti Pensions Solutions, have a dedicated team of qualified pension professionals who manage the day to day administration of the scheme on behalf of the London Borough of Hackney. The contract is monitored by the Financial Services Section of the London Borough of Hackney on a monthly basis and performance is measured against Service Level Agreements (SLA). Over the year the pension administrators handled 25,598 cases, an increase of 4,168 on the previous year of 21,430.

6.2 Overall performance against the SLA is slightly improved for 2016/17 at 97.1%, compared to 95.1% for 2015/16, which considering the increased workflow and the difficulties faced by the administrators, can be attributed to their hard work and dedication in ensuring that member records are up to date and correct. Equiniti have also successfully issued 6,447 annual benefit statements to active members, and 7,398 benefit statements to deferred members, including Councillors.

7. ADMINISTRATION PERFORMANCE

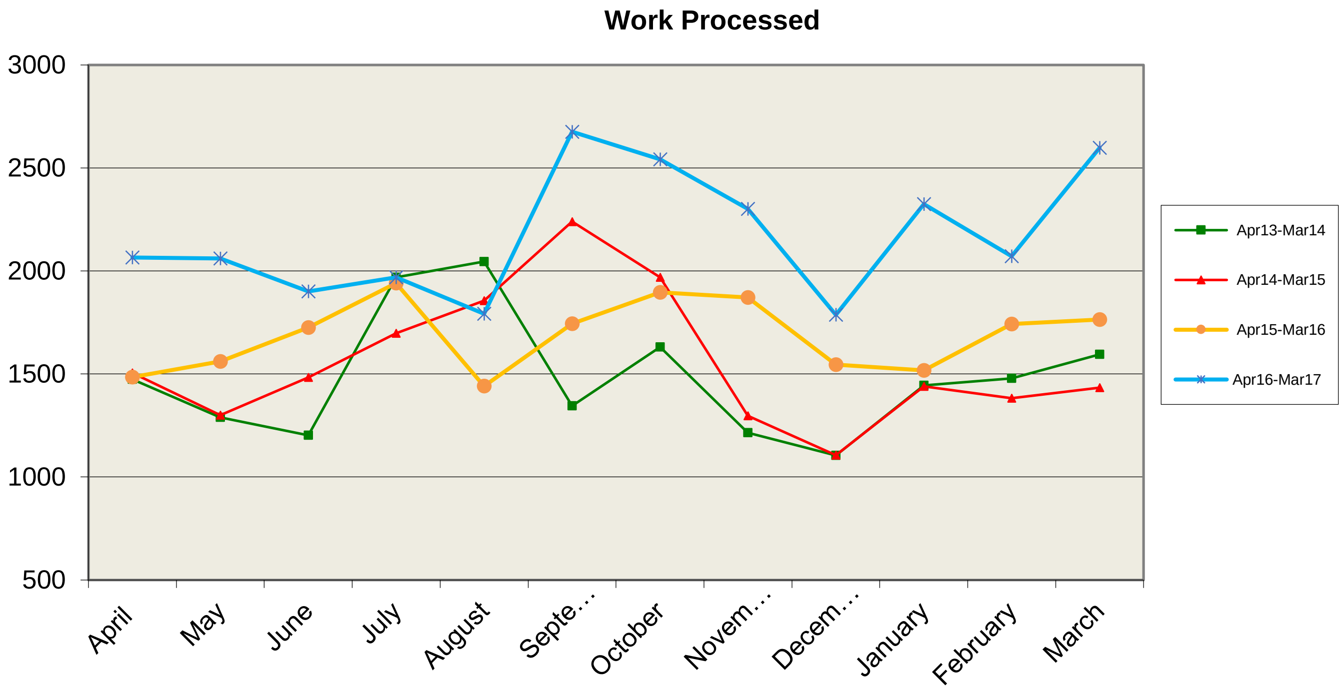
7.1 The performance of the pension fund administrators, Equiniti, is monitored by the Financial Services Section at Hackney Council. Meetings are held monthly to discuss performance against service level agreements, workflows, data cleanse issues and planning of future work projects. Meetings also include discussion of specific administration cases and recommendations for enhancements to the service provision both to Hackney and to members of the scheme.

7.2 Over the last year the total cases received by the administrators has increased significantly from 21,430 cases in 2015/16 to 25,598 in 2016/17. The average number of cases received monthly has increased from 1,785 in the previous year, to 2,133 in 2016/17. The number of cases for 2016/17 in comparison to 2015/16 is shown in the chart below:-



7.3 The increase has been primarily due to the continued lack of a payroll monthly interface from the Council, the largest employer, which means all starters, leavers and change notifications having to be processed manually. The cases peaking in September 2016 was due to the extra data cleanse and verification needed to ensure member records were as accurate as possible before the remainder of the annual benefit statements were issued in December 2016.

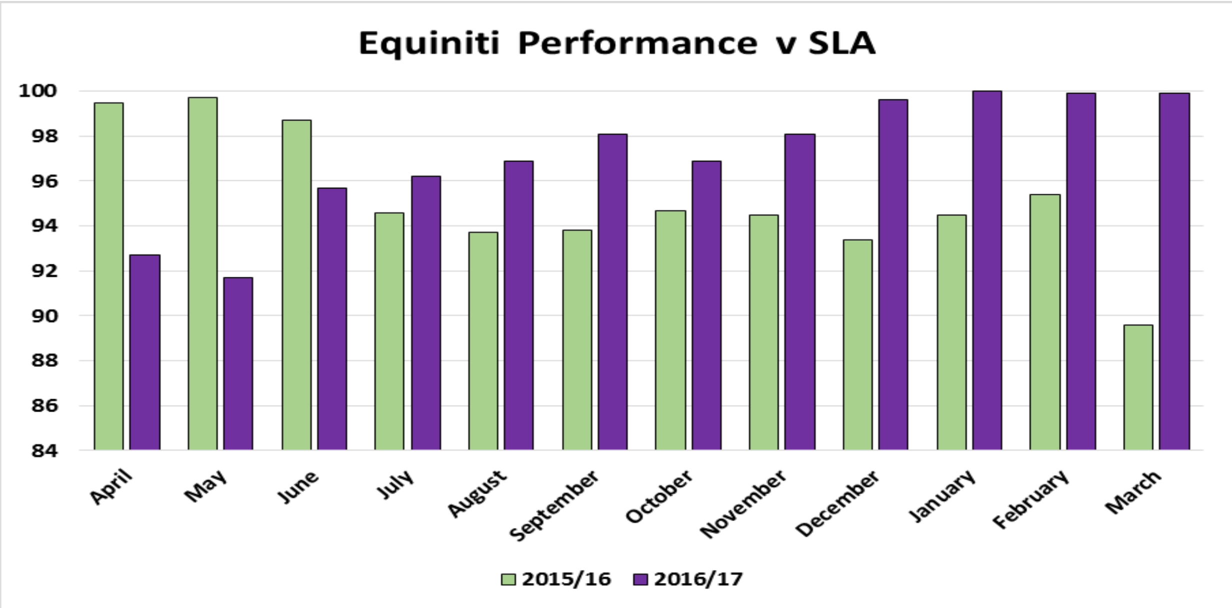
7.4 The number of work items completed on a monthly basis averages 2,139 over the year and a comparison of completed items from 2013/14 (green line) to 2016/2017 (blue line) date is shown in the chart below:



7.4 The lack in quality data received from employers, particularly the Council, and their payroll providers, continues to have a significant impact on workloads, with data cleansing and validation being a priority not only for the annual benefit statements but also the triennial valuation. Considerable problems still remain with the Council's payroll system and as a year-end file was not provided, extrapolated data from monthly returns was used to update member records sufficiently to produce annual benefit statements.

7.5 As the year-end file was not provided, the Fund was not able to comply with its regulatory duty of providing annual benefit statements to all of its members by the end of August 2016. However, all deferred benefit statements were issued in time along with approx 4,000 active statements where data was accurate. Following further data cleansing, the remainder of the active statements, approx 3,200, were issued on 22 December 2016 with the addition of a 'health warning' requesting members check their statement for accuracy. The lack of year-end data from the Council, being the largest employer in the Fund, impacted on issuing the majority of the statements within the regulatory timescale and therefore the Fund breached the scheme regulations. In doing so, the Council was obliged to report itself to tPR, setting out what had happened and the steps it had taken to correct the issue. No further action was taken by tPR.

7.6 Performance under the pension administration contract when compared to the service level agreement (SLA), was 97.1% for 2016/17 as a whole, which is a slight increase on 95.1% in 2015/16. This in its self is an achievement considering the difficulties the administrators had to overcome again this year. The performance v SLA over 2016/17 in comparison to 2015/16 is shown in the chart below:-



7.7 In addition to dealing with the day to day administration cases, Equiniti have also undertaken a number of tasks on behalf of the Fund, some of which are listed below:

- The year end pension payroll process has been completed for both the monthly and annual payrolls including the application of the pension increase (PI), reconciliation of the payrolls, production of P60s and reporting to HMRC
- System year end update of pension increase; Lifetime Allowance and Annual Allowance earnings and contribution histories was completed

- Certificates of Continued Entitlement (life certificates) were issued to the total pensioner population of 6,309. This revealed 7 deaths that had not been previously notified to the administrators and 12 people who require power of attorney as they could no longer manage their own affairs.

- Data submissions:
  - FRS17 data submitted to the Actuary for 16 employers
  - Valuation extract submitted to the Actuary for the triennial valuation
  - Data submission for Club Vita longevity studies
  - 3 cessation valuation calculations for ceased employers
  - 5 bond and contribution valuations submitted to the Actuary
  - Monthly HEAT data capture report to the Actuary

- Overpayment of pensions - identified overpayments to a value of £28,876.05. These were as a result of late death notifications. To date £8,675.98 has been recovered.

7.8 Employers and schools administration performance has been monitored over the year, and assistance and additional training has been provided to help support them with administering the scheme to ensure more accurate data is provided to Equiniti. Additional administration charges have been issued to a number of employers where persistent failure to deliver accurate and timely information, despite support, has arisen. In most instances there was a 1 or 2 day delay in getting the contribution payment or supporting data to Equiniti, and employers have been reminded of the regulatory requirements to ensure payments due to the Fund are made by the 19th of the month.

8. OTHER WORK UNDERTAKEN IN 2016/17

8.1 In 2013, the Council undertook its initial mandatory Auto Enrolment duties, a process that must be repeated every 3 years, meaning the Council's re-staging date was 1 July 2016. As part of the Re-Enrolment Communications Plan, a poster was designed and distributed across the Hackney campus and to all schools. Pension updates by the Group Director, Finance and Corporate Resources were also made available on the Council's intranet and the pension administrators' website.

Following an assessment of all employees at the re-staging date, 799 employees were eligible to be automatically re-enrolled into a relevant qualifying pension scheme and a further 900 employees, although not eligible for automatic re-enrolment, can elect to join a scheme if they wish. A breakdown of the category and type of employees assessed is provided below:

Category of Worker	Hackney (LGPS)	Schools Support Staff (LGPS)	Hackney Teachers (TPS)	Total
Eligible Jobholders (automatically enrolled)	360	281	158	**799**
Non-Eligible Jobholders or Entitled Workers	441	442	17	**900**

(not auto enrolled but can elect to join)				
Total	**801**	**723**	**175**	**1,699**

A total of 1,699 enrolment letters were sent to staff across the Council, support staff and teaching staff in community and voluntary aided schools, together with AE guides for LGPS and TPS pension schemes.

8.2 In anticipation of the annual benefit statements due to be issued in August 2016, Equiniti undertook a reconciliation exercise of member's records to ensure they have a complete postal address. Results of that exercise showed that 1,592 deferred members and 283 active members did not have addresses on record. The Hackney in-house pension team were able to interrogate the Council's payroll system to access up to date addresses for the 283 active members and the details were then passed to Equiniti to update the members' records.

For those 1,592 deferred members, further investigations resulted in 1,119 addresses being traced with the remainder 473 needing to be forensically traced, and work will commence on this in 2017/18.

8.3 In mid-December 2016, the in-house pension team launched their first quarterly Newsletter to employers (and schools) in the Fund. The newsletter covered the actuarial valuation, the proposed exit cap, details of up-coming poster campaigns, TUPE and relevant news updates on LGPS regulation changes. A further newsletter was published in March 2017 with the next one due in June 2017. Feedback on the newsletter has been positive and it is well received.

8.4 As previously reported, the Chief Executive announced a Voluntary Redundancy (VR) Scheme that launched on 1 October 2015, and all staff (apart from essential services) were eligible to apply. After completing their statutory notice period the majority of employees who accepted the VR terms, left the organisation by 31 March 2016 and a further 77 left from April 2016 to the end of March 2017.

8.5 The annual Employer Forum was held on 22 February 2017, and was attended by 8 of the Fund employers. The Forums agenda was varied and covered subjects from an outlook on the economy; employer roles and responsibilities; the triannual valuation results and individual employer rates; pension 'hot topics'; London CIV; and a presentation from the Prudential on AVCs.

8.6 In January 2017 the Fund issued a tender for the procurement of a new third party administrator, via the National LGPS Framework. Closing date for bids was 10 March 2017, with moderation and site visits taking place during mid/late March. Pensions Committee met in April 2017 and agreed the officer recommendation to award the contract to Equiniti for a further 5 years with p[otential for 3 year extension beyond that.

8.7 At the end of Q3 2016/17, the Funds Benefits & Governance Consultants, AON Hewitt were again asked to carry out a review the quality of data being supplied to the Pension Fund from its employers. During Q4, Equiniti and officers at the Council have been co-operating fully with AON in regard to data gathering and providing relevant evidence for the report. The results of the report and the findings will be reported to Pensions Committee in June 2017.

8.8 In the last year, the in-house Pensions team based at the Council, have presented at weekly induction sessions for 417 new employees, ensuring they are provided with information on the benefits of the Pension Scheme. Feedback from these sessions continues to be extremely positive with 98% of attendees ranking them informative and engaging and 94% leave the sessions having a better understanding of the scheme and its benefits.

9. THE PENSIONS REGULATOR (tPR)

9.1 Following the Pensions Regulator assuming responsibility for setting standards of governance and administration in public service pension schemes, a new Public Service Code of Practice was introduced to provide practical guidance and standards of conduct and practice, to help maintain and improve the governance and administration of pension schemes. The Code is directed at Scheme Managers (Funds) and the local Pension Boards. The role of each local Pension Board is to help ensure their scheme complies with governance and administration requirements as defined by the Code.

9.2 The Code requires Schemes to report breaches of the law to the Regulator where they have reasonable cause to believe that:

- a legal duty which is relevant to the administration of the scheme has not been, or is not being, complied with
- the failure to comply is likely to be of material significance to the Regulator in the exercise of any of its functions

9.3 Therefore as detailed in paragraph 7.5 of this report, the March 2016 annual benefit statements could not be issued to members within the regulatory timescales due to poor quality and the non-receipt of data from employers in the Fund. This resulted in the Council having to report itself to the tPR for non-compliance on 2 occasions:

- August 2016 - failing to issue all active and deferred benefit statements by 31 August. However, all statements for deferred members were issued by the deadline, along with approximately 4,000 statements for active members. The remaining 3,200 statements would be issued by 31 October.
  - tPR did not impose a fine providing statements issued by agreed extended deadline.

- October 2016 - failing to issue all active and deferred benefit statements by 31 October, after extended deadline had been agreed with the Regulator. Committed to issuing the outstanding statements by 31 December 2016.
  - tPR did not impose a fine providing statements issued by agreed deadline.

9.4 As reported, the remaining annual benefit statements for year end March 2016 were issued on 22 December 2016.

Ian Williams
Group Director, Finance & Corporate Resources

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Hackney

REPORT OF THE GROUP DIRECTOR OF FINANCE & CORPORATE RESOURCES		
PENSION FUND BUSINESS PLAN 2017-2020 **Pensions Committee** **27th June 2017**	**Classification** **PUBLIC** **Ward(s) affected** **ALL**	**Enclosures** **1**

1. INTRODUCTION

1.1 This report introduces the Pension Fund Business Plan for the period covering 2017-20 and includes a draft plan of work for the Pensions Committee and communications plan for the current financial year 2017-18

2. RECOMMENDATION

2.1 The Pensions Committee is recommended to:

- **Approve the Business Plan for the Pension Fund for 2017-20**
- **Approve the draft work plan for the Pensions Committee for the Financial Year 2017-18**

3. RELATED DECISIONS

- Pensions Committee 27th June 2016 – Business Plan 2016-19
- Pensions Committee 17th January 2013 – Pension Fund Objectives and Measurement.

4. COMMENTS OF THE GROUP DIRECTOR OF FINANCE & CORPORATE RESOURCES

4.1 The Pensions Committee acts in the role of quasi trustees for the Pension Fund and as such is therefore responsible for the management of £1.39 billion worth of assets and for ensuring the effective and efficient running of the Pension Fund.

4.2 Having a 3 year business plan helps to ensure that the Fund is at the forefront of best practice amongst LGPS Administering Authorities and ensures that the Committee is able to plan and understand the financial decisions that it will be faced with over the coming years. The decisions taken by the Committee impact directly on the financial standing of the Fund and can affect its ability to meet its liabilities. Ensuring prudent financial management help to improve the overall financial position of the Fund, potentially impacting on the contribution rates payable by participating employers.

4.3 The schedule of work as set out in the draft programme should help to ensure that Members are conversant with the key factors that are likely to affect the Pension Fund and to be able to take informed decisions in the management of the Fund over the coming 12 months.

5. COMMENTS OF THE DIRECTOR, LEGAL SERVICES

5.1 The Council's Constitution gives the Pensions Committee responsibility for various specified functions relating to management of the Council's Pension fund. In carrying out those functions the Committee must have regard to the various legislative obligations imposed on the Council as the Fund's Administering Authority, particularly by the suite of Local Government Pension Scheme Regulations. Those obligations include producing specific documents and complying with statutory deadlines. It is sensible against this background, and consistent with good administration, to set out a 3 year business plan and programme the work of the Committee to ensure that the regulatory requirements of the Fund are met in a timely fashion.

5.2 There are no immediate legal implications arising from this report.

6. BACKGROUND/TEXT OF THE REPORT

6.1 The London Borough of Hackney is the Administering Authority for the Pension Fund; delegated powers under the Council Constitution have been given to the Pension Committee to oversee its management. This includes monitoring of investments, making decisions on strategic asset allocation, appointing advisors, overseeing pension administration, setting budgets and receiving the annual report and accounts for the Pension Fund.

6.2 The business plan covers all the known key strategic matters for the financial years 2017-2020, the majority of which will be covered by the Committee in some detail. Given the Fund's recent Investment Strategy Review, the coming year looks to be a busy one on the investment side, with plans including a review of the Fund's passive equity investments and the introduction of multi asset credit, along with ongoing work on the transition of liquid assets across to the London Collective Investment Vehicle. Responsible Investment is also likely to be an area of the focus for the Committee, as it looks to deepen the Fund's approach to shareholder engagement and review its compliance with the Stewardship Code. With the third party administration procurement now complete, the Fund is also making plans for improvements to employer engagement and reporting, to assist with data improvements ahead of the 2019 valuation. As usual the Committee will also be asked to consider a range of policy documents, many of which require updating on an annual or biennial basis.

6.3 Also included within the business plan is a draft communications plan for the current financial year 2017-18 which the Committee are asked to agree. This sets out the main areas to be targeted under the communications plan and annual reporting on actions undertaken during the year is included within the Pension Fund Report and Accounts under the Communications Policy

6.4 Clarity over the longer term strategic items within the business plan becomes more difficult further into the future, but the current business plan sets out the key known variables at this stage. It is recognised that this continues to be a time of considerable change for the LGPS and for the associated Pension Funds and that developments over the coming months could considerably alter the business plan over the medium term.

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Group Director of Finance & Corporate Resources

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Appendices
Appendix 1- Pension Fund Business Plan 2017-20
Appendix -Draft Communications Programme 2017-18

Background papers
None

pensions@hackney

LONDON BOROUGH OF HACKNEY

PENSION FUND

BUSINESS PLAN

2017-2020

Hackney

INTRODUCTION

The London Borough of Hackney is the Administering Authority of the London Borough of Hackney Local Government Pension Scheme (LGPS). Management of the Pension Fund is delegated to the Pensions Committee acting in the role of 'trustees' of the Pension Fund. The day to day running of the Fund has been delegated to the Group Director, Finance and Corporate Resources, the Director, Financial Management and the Financial Services section of the Council. The Financial Services section has responsibility for all aspects of the day to day running of the Fund including administration, investments and accounting.

The purpose of this document is to set out a business plan for the Pension Fund for the period 2017-2020 and to outline the Fund's goals and objectives over the longer term. The business plan details our priorities and areas of key focus in relation to the London Borough of Hackney Pension Fund for 2017/18, 2018/19 and 2019/20. The business plan is formally reviewed and agreed every year. However, throughout the year it is monitored and the Pensions Committee may be asked to agree to changes to it.

The purpose of the business plan is to:

- explain the background and objectives of the London Borough of Hackney for the management of the Hackney Pension Fund
- document the priorities and improvements to be implemented by the pension service during the next three years to help achieve those objectives
- enable progress and performance to be monitored in relation to those priorities
- provide staff, partners and customers with a clear vision for the next three years.

In addition, this business plan includes a budget for expected payments to and from the Hackney Pension Fund during 2017/18, 2018/19 and 2019/20 including the resources required to manage the Fund.

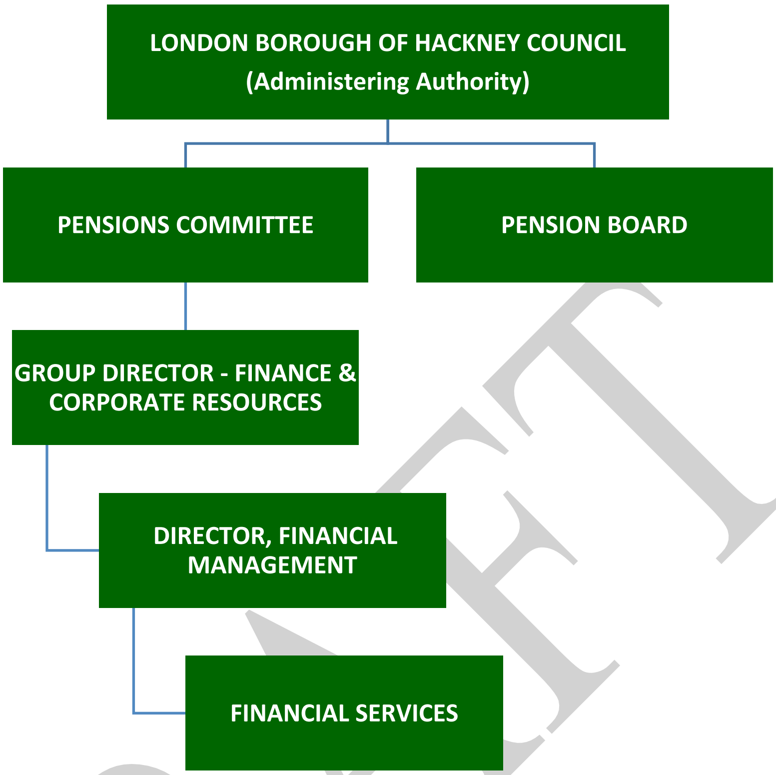
GOVERNANCE & MANAGEMENT OF THE FUND

The key decision making and management of the Fund has been delegated by the London Borough of Hackney (the Council) to a formal Pension Fund Committee (called the Pensions Committee), supported by officers of the Council and advisers to the Pension Fund. Ian Williams, the Group Director, Finance and Corporate Resources is the Section 151 Officer and therefore has a statutory responsibility for the proper financial affairs of the Council including Pension Fund matters. In addition, a local pension board has been in place since 2015 to assist in:

- securing compliance of Fund matters including any requirements imposed in relation to the LGPS by the Pensions Regulator and

- ensuring the efficient and effective governance and administration of the Fund.

This structure is illustrated below.



OBJECTIVES

The primary objectives of the Fund have been agreed by the Pensions Committee and are sub-divided into specific areas of governance, funding, investments, administration and communications:

Governance Objectives
1. All staff and Pension Committee Members charged with the financial administration and decision-making with regard to the Fund are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them.
2. The Fund is aware that good governance means an organisation is open in its dealings and readily provides information to interested parties
3. To understand and ensure compliance with all relevant legislation
4. To ensure the Fund aims to be at the forefront of best practice for LGPS funds
5. Ensures the Fund manages Conflicts of Interest

Funding Objectives

Funding Objectives
6. To ensure the long-term solvency of the Fund.
7. To help employers recognise and manage pension liabilities as they accrue.
8. To minimise the degree of short-term change in the level of each employer's contributions where the Administering Authority considers it reasonable to do so.
9. To use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations. (Including: To address the different characteristics of disparate employers or groups of employers to the extent that this is practical and cost effective.)

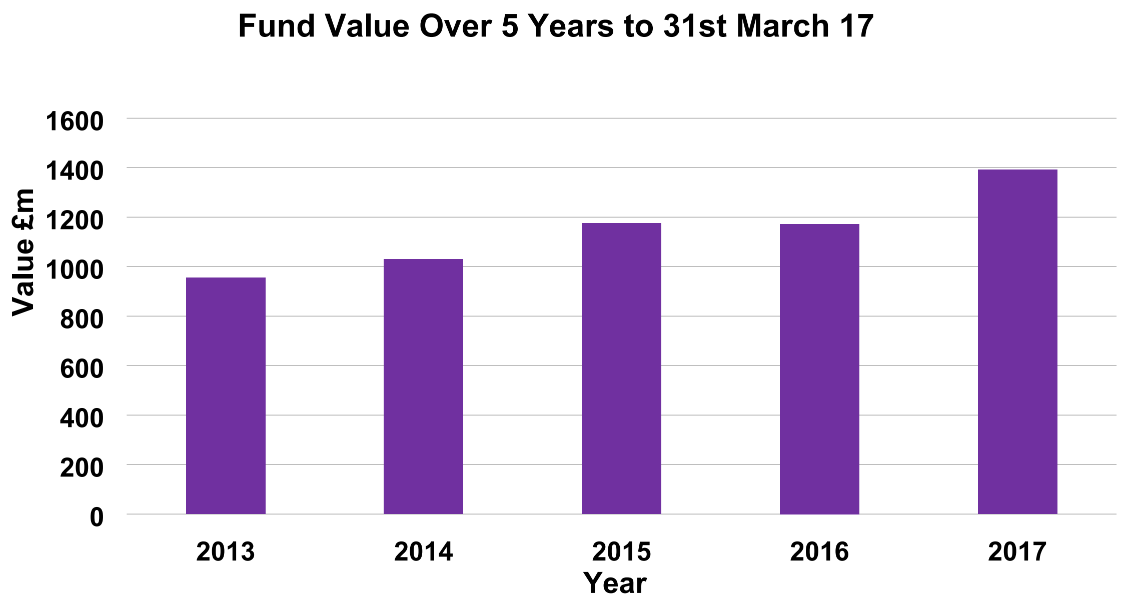
Investment Objectives
10. Optimising the return on investment consistent with a prudent level of risk
11. Ensure that there are sufficient assets to meet the liabilities as they fall due (i.e. focus on cash flow requirements)
12. Ensure the suitability of assets in relation to the needs of the Fund (i.e. delivering the required return).
13. Ensuring that the Fund is properly managed (and where appropriate being prepared to change).
14. Set an appropriate investment strategy for the Fund to allow the Administering Authority to seek to maximise returns and minimise the cost of benefits for an acceptable level of risk. Ensure return seeking assets are in line with funding objectives.

Administration Objective
15. To deliver an efficient, quality and value for money service to its scheme employers and scheme members.

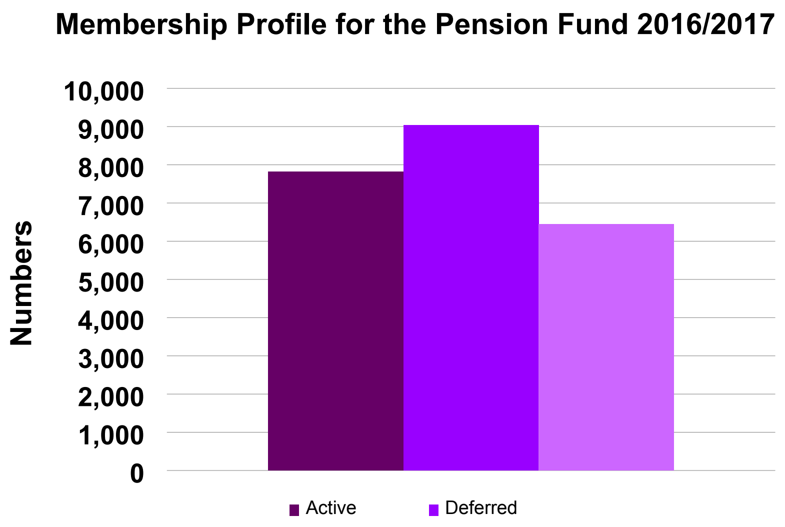
Communications Objective
16. Ensure that all stakeholders are kept informed of developments within the Pension Fund. Ensuring that all parties are aware of both their rights and obligations within the Fund.

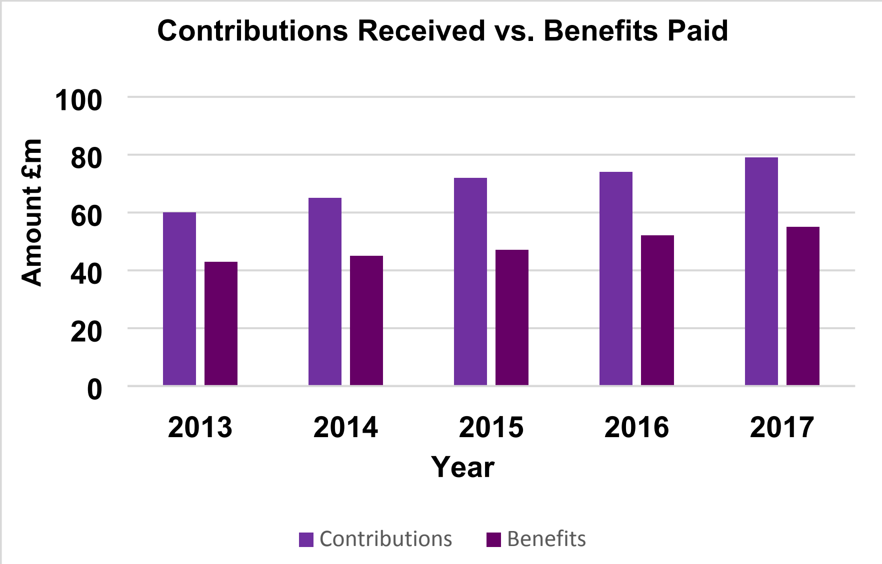
PENSION FUND STATISTICS

The London Borough of Hackney Pension Fund was valued at £1,391m as at the 31st March 2017 with 23,295 members.



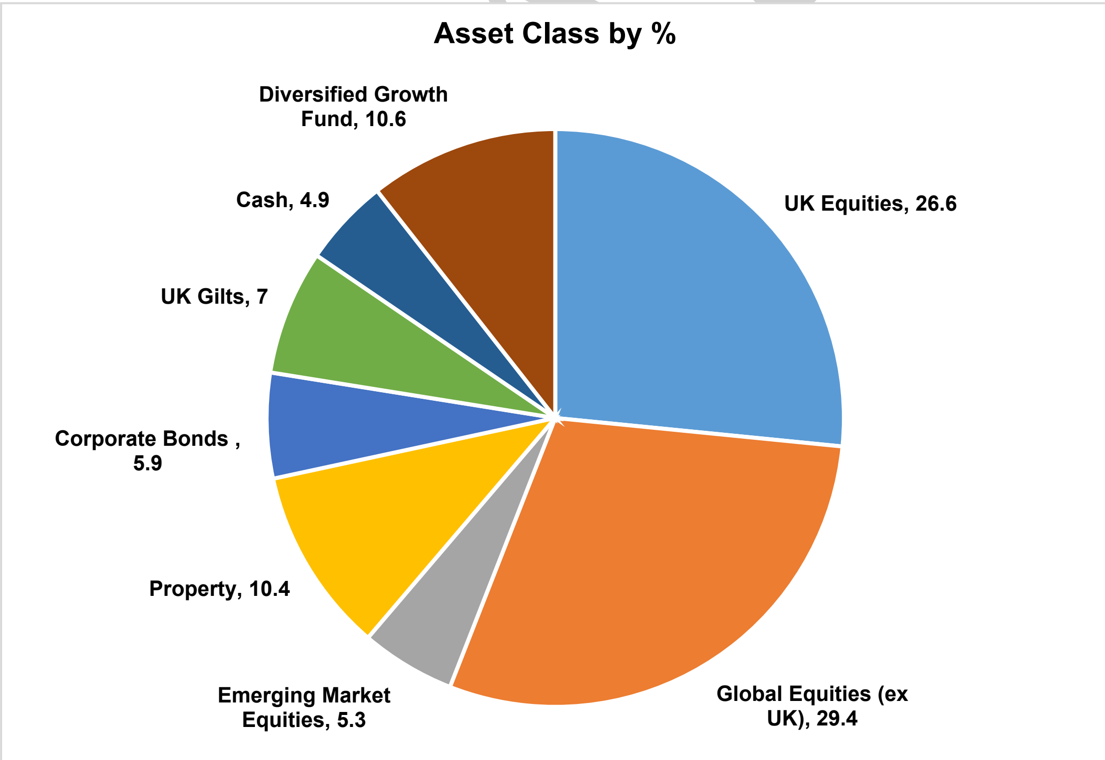
Fund membership was 23,295 made up of 7,823 active, 9031 deferred members and 6,441 pensioners and dependents





The Fund remained cash flow positive during the 2016/17 Financial Year, with both benefits paid and contributions received up on the previous financial year.

The Pension Fund invests in a wide range of asset classes and regularly reviews its asset allocation policy to ensure that it remains appropriate for the Fund.



PENSION FUND BUDGET 2017-18

The budget for the Pension Fund for 2017-2018 includes a draft budget for the following financial years as set out below and was approved by the Pensions Committee at its meeting on 29th March 2017.

Description	2017-18 Budget £'000	2018-19 Budget £'000	2019-20 Budget £'000	Comments
Member Income				
Employers' Contribution	59,387	57,849	56,142	Future forecasts based on 2016/17 forecast with an assumption that employer contributions will reduce in line with the Council's proposed reduced rates. Active membership numbers are assumed to reduce by 1% pa, with an assumed 1% pa pay rise. High variance driven by continued increase in active membership.
Employees' Contribution	12,293	12,416	12,540	
Transfers In	3,560	3,560	3,560	16-17 figure used to forecast - the level of transfers in is outside the Fund's control
Member Income Total	**75,239**	**73,824**	**72,242**	
Member Expenditure				
Pensions	-42,904	-44,637	-46,440	Future forecasts based on 2016/17 forecast. A Pensions Increase rate of 1% has been applied for 2017/18, with 2% applied for each of the following years. A year on year increase in the number of pensioners of 2% has been applied across the 3 year period
Lump Sum Commutations and Death Grants	-13,736	-14,291	-14,868	
Refund of Contributions	-178	-182	-182	Adjusted for CPI as per above with a 1% uplift for 2017/18, followed by 2% pa thereafter
Transfers Out	-6,633	-6,633	-6,633	2016/17 forecast used for following 3 years. Transfers out are challenging to estimate as they are outside the Fund's control.
Member Expenditure Total	**-63,451**	**-65,743**	**68,123**	
Net Member Surplus	**11,788**	**8,081**	**4,118**	
Management Expenses				
Finance Recharge and Pension Admin	-802	-842	-884	Forecast based on 2016/17 forecast, with a 1% uplift for 2017/18, followed by 2% pa thereafter
Oversight and Governance Costs	-369	-377	-384	Forecast based on 2016/17 forecast, with a 1% uplift for 2017/18, followed by 2% pa thereafter
Pension Audit Fee and Miscellaneous Costs	-37	-38	-39	
Net Administration Expenditure	**-1,208**	**-1,257**	**-1,307**	
Surplus from Operations	**10,580**	**6,825**	**2,811**	
Investment Income/Expenditure				
Investment Income	13,105	13,105	13,105	Investment income expected to remain constant across the period.
Investment Expenses and Management Fees	-3,714	-3,751	-3,789	Change in inv management fees is difficult to predict - it is hoped that further downward pressure can be achieved through pooling, but as most mandates make an AUM charge, fees will increase with assets under management. Additionally, pooling may drive an increase in the complexity of strategies used, leading to an increase in fees.
Net Investment Income/Expenditure	**9,391**	**9,353**	**9,316**	
Cash Flow before Investment Performance	**19,970**	**16,178**	**12,127**	

BUSINESS PLAN 2017-2020

In order to meet the objectives of the Pension Fund, the Pensions Committee has reviewed and agreed a business plan for the period 2017-2020. This has to be put into the context of a period of significant uncertainty for the Fund, which reflects not just ongoing volatility in investment markets, but also measures for structural reform which is currently under consultation but could have a fundamental impact on the overall management of the Fund. Set out in the table below is the 3 year business plan for the Pension Fund:

	2017/18	2018/19	2019/20	Relevant Committee	Objective Reference(s)
Governance Objectives					
Pension Fund Accounts	April - September	April - September	April - September	September	1, 2, 3, 7, 13, 15, 16
Employer Forum	Nov-Jan	Nov-Jan	Nov-Jan	N/A	3, 4, 7, 8, 9, 15,16
Review Risk Register	Nov-Jan	Nov-Jan	Nov-Jan	January	1, 2, 5, 6, 7, 8, 9, 10, 11, 12, 13,
TPR Code of Practice	July- Sept	July- Sept	July- Sept	September	1, 2, 3, 4, 5
Governance Policy Review	April - June	April - June	April - June	June	1, 2, 3, 4, 5
Self-Assessment & Review of Advisers	April - June	April - June	April - June	June	1, 2, 3, 4, 5
Member's Training Programme to include Pensions Board	Quarterly	Quarterly	Quarterly	All	1, 2, 4, 15
Induction training for any new PC members at start municipal year	As required	As required	As required	N/A	1, 2, 4, 15
Training Policy Review	July - September	July - September	July - September	September	1,3,4
Conflicts of Interest Policy Review	January - March			March	5
Procedure for Reporting Breaches Review		April - June		June	3
Pensions Board –Annual Reporting	July - September	July - September	July - September	September	1, 2, 3, 4, 6, 7, 8, 9,10, 11, 12, 13, 14, 15, 16
Review Performance, funding, budget	Quarterly	Quarterly	Quarterly	All	1, 2, 3, 4, 6, 7, 8, 9,10, 11, 12, 13, 14, 15, 16
AVC Review				Due Summer 2022	1, 2, 3, 4, 5
Actuarial Services tender		June - September		September	1, 2, 3, 4, 5
Benefits and Governance Consultancy tender		June - September		September	1, 2, 3, 4, 5
Investment Consultancy tender	January - March			March	1, 2, 3, 4, 5

	2017/18	2018/19	2019/20	Relevant Committee	Objective Reference(s)
Custody Services tender				Due Oct 2021	1, 2, 3, 4, 5
Third Party Administration Tender				Due Jan 2023	1, 2, 3, 4, 5, 15, 16
Funding Objectives					
Actuarial Valuation 2019			April - March	As required/March	5, 6, 7, 8, 9, 15, 16
Funding Strategy Statement			November - March	January/March	5, 6, 7, 8, 9, 15, 16
Longevity Monitoring – Club Vita	April - June	April - June	April - June	June	4, 5, 6, 7, 8, 9, 15, 16
Investment Objectives					
Review Investment Strategy Statement (incl Climate Change policy statement)	As required	As required	As required	As required	1, 3, 10, 11, 12, 13, 14, 15, 16
Strategic Asset Allocation - Regular Review	Ongoing	Ongoing	Ongoing	As required	1, 4, 6, 8, 9, 10, 11, 12, 13, 14,
Strategic Asset/Liability Review			October - January	January	5, 10, 11, 12, 13, 14, 15, 16
Pension Fund Treasury Management Strategy	November - January	November - January	November - January	January	1, 9, 10, 11, 12, 13, 14, 15
Individual Manager Review	Quarterly	Quarterly			1, 2, 4,10,11, 12, 13, 14, 15
Asset/Liability Monitoring	Ongoing	Ongoing			5, 10, 11, 12, 13, 14, 15, 16
Collaborative working – London CIV & DCLG asset pooling development	Ongoing	Ongoing	Ongoing	As required	1, 2, 4,10,11, 12, 13, 14, 15
Investment in Infrastructure analysis	November - January			January	1, 2, 4,10,11, 12, 13, 14, 15
Consider implications of the second Markets in Financial instrument Directive (MIFID II)	March - December			As required	1, 3, 10, 11, 12,13,14,15
Implementation of climate change resolutions	Ongoing	Ongoing	Ongoing	As required	1,3,10,11,12,13, 14,16
Pension Administration					
Restaged auto-Enrolment			April - July	September	1, 2, 3, 15, 16
Pension Administration Strategy	January - March	January - March	January - March	March	1, 2, 3, 7, 9, 15, 16
Annual Pension Administration Performance Review	Apr - June	Apr - June	Apr - June	June	1, 2, 3, 7, 9, 15, 16

	2017/18	2018/19	2019/20	Relevant Committee	Objective Reference(s)
Scheme/GMP Reconciliation	Ongoing	Ongoing		As required	1, 2, 3, 15, 16
Employer data improvements	Ongoing	Ongoing	Ongoing	As required	1, 2, 3, 7, 9, 15, 16
Agree any further administration improvements with third party provider	June - December				1, 2, 3, 7, 9, 15, 16
Administering Authority Discretions Review		January - March			1, 2, 3, 4, 5, 9, 10, 15, 16
Admission Bodies Policy		September			1, 2, 3, 4, 5, 9, 10, 15, 16
Employing Authority Discretions Review		January - March			1, 2, 3, 4, 5, 9, 10, 15, 16
Communications					
Annual Benefit Statements	April - August	April - August	April - August	N/A	3, 15,16
Communications Policy Review	November - January	November - January	November - January	January	1, 2, 3, 15, 16

Appendix 2

Draft Communications Plan 2017-2018

Objective of the Communications Strategy

The aim of the communication strategy is to make sure that all stakeholders are kept informed of developments within the Pension Fund. Effective communications will help to maintain the efficient running of the Scheme and ensure all parties are aware of their rights and responsibilities within the Fund.

An outline communications plan for 2017-2018 is set out below:

Stakeholders	**Scheme Member**	**Prospective Scheme Members**	**Employers**	**Press and FOI Requests**	**Central Government & the Pensions Regulator**
Type of Communication					
Annual Benefit Statements	July-August				
Annual Newsletter - Accounts	August - September		August - September		
Quarterly Newsletters	Quarterly				
Individual Member Self-Service	Available – Reminder in newsletter				
Website	Updates posted as required	Updates posted as required	Updates posted as required		
Posters/Scheme Guides	June - March	June - March	June - March		
Induction Sessions	Weekly	Weekly	As required		
Pre-Retirement Seminars	As required				
Employer Forum			November - January		
Employer training workshops			As required		
Pensions Admin Strategy			January - March		
Report & Accounts	Annual Newsletter		November		October
Funding strategy Statement			September - January		
Ad-Hoc Queries	Within set timescales	Within set timescales	Within set timescales	Within set timescales	Within set timescales
Pension Board	April - March	April - March	April - March		As Required
GMP Letters - Reconciliation	January - March		November - January	As Required	As required

Hackney

REPORT OF THE GROUP DIRECTOR, FINANCE AND CORPORATE RESOURCES		
EMPLOYER DATA AUDIT **Pensions Committee** **27th June 2017**	**Classification** **PUBLIC** **Ward(s) affected** **ALL**	**Enclosures** **EXEMPT - One**

1. INTRODUCTION

1.1 This report provides the Committee with the results of the updated employer data audit undertaken on behalf of the Fund by its benefits advisers, AON.

2. RECOMMENDATIONS

2.1 The Pensions Committee is recommended to note the report.

3. RELATED DECISIONS

- Pensions Committee 24th January 2017 – Pension Fund Risk Register
- Pensions 13th January 2016 – Pensions Administration Audits

4. COMMENTS OF THE GROUP DIRECTOR, FINANCE AND CORPORATE RESOURCES

4.1 Recent years have seen a significant increase in the complexity of administering the LGPS. The quality of data held by the Fund has deteriorated over the same period; the Fund wishes to regularly review employer data to ensure that long running issues are addressed and any new problems are dealt with early. The Fund's benefits advisers, AON, have therefore reviewed part of their original audit from 2015, passing their methodology on to officers of the Fund. Whilst the costs of such audits are not inconsequential, the financial and reputational risks if significant errors are not addressed far exceed any cost of audit.

4.2 Incorrect data held in the administration system could result in incorrect pension payments to members, whilst the supply of the same poor quality data to the Fund's actuary could result in over or understatement of the Fund's liabilities. This could lead to potentially significant increases in employers' contribution rates in the longer term. Additionally, there are a range of potential short term costs that could arise from holding incorrect data, including fines from the Pensions Regulator. The focus on holding accurate date has intensified over recent years and it is important for the Fund to review the quality of the data it holds and how it is being processed.

5. COMMENTS OF THE DIRECTOR, LEGAL

5.1 The Local Government Pension Scheme Regulations (2013) make clear that 'An administering authority is responsible for managing and administering the Scheme in relation to any person for which it is the appropriate administering authority under these Regulations' (Regulation 53(2)). In addition Regulation 69 sets out the payments that employers are required to make to the Fund and the information that is required to accompany such payment (Regulation 69 (3)), whilst Regulations 22-29 describe the information that must be held by the Fund on behalf of each member.

5.2 The contents of this report and the exempt appendix help to demonstrate that the Council as the Administering Authority is fulfilling its responsibilities to manage the administration of the Pension Fund by undertaking an audit of the data supplied by employers. It is consistent with the responsibilities of this Committee to review the outcome of this audit and consider its findings.

5.3 There are no immediate legal implications arising from this report.

6. BACKGROUND/TEXT OF THE REPORT

6.1 Over the past 3 years, the Pension Fund has experienced a marked decline in the quality of data it holds. This can be attributed in part to the introduction of the 2014 scheme; the new scheme has increased the complexity of data collection whilst also increasing its importance. Additionally, the introduction of contractual and auto-enrolment has resulted in increasing numbers of enrolments and opt outs – both of which increase in the workload on employers and the Fund's administrators.

6.2 In 2015, the Fund's benefits consultants, AON, were asked to carry out an audit of the implementation of the 2014 scheme by Equiniti, the Fund's third party administrators, and a review of the data being supplied to the Fund by employers. The audit of the administration service highlighted a number of positive aspects along with some areas for improvement, whilst the review of employer data quality indicated that although there were some employers supplying data of good quality, there remained a number who struggled to meet deadlines and quality standards for the period under review.

6.3 Following the previous audit, the Fund has implemented new processes and worked with employers to improve the data supplied. Changes made include improvements to the review process when data is received, permitting timely and more in depth investigation of potential errors. The Fund is also continuing to work with Equiniti to improve the administration service; Equiniti's recent re-appointment as the Fund's administrator has provided a good opportunity to review this area.

6.4 Whilst some improvements have been made to the quality of data received, this area does remain a concern for the Fund. As such, AON were asked to revisit this element of the original review and share their methodology with officers of the Fund to allow the exercise to be repeated in house in the future. AON's updated review is contained within Appendix 1 to this report; this Appendix is exempt as it contains information with regards to various payroll providers that may be commercially sensitive.

6.5 In summary, the report highlights similar issues to those set out in the 2015 review although it does note that the average overall score has risen slightly, with the most notable increase being to the accuracy of employer contribution amounts. However, overall, data accuracy remains one of the poorest scoring criteria. The report therefore indicates a slight overall increase in the quality of data submitted, albeit with significant room for further improvement.

6.6 Key issues highlighted included:

- A handful of employers are failing to provide an annual return
- Most are providing a monthly return, although approximately 1/3rd do not provide this in a consistently timely manner. The same applies to payment of contributions. Charges are now levied where employers fail to provide either information or payment in a timely fashion.
- Many employers still score poorly on accuracy, with difficulties in reconciling contributions paid to pensionable pay. Annual returns are generally worse affected than the monthly reporting.
- A small number of providers are responsible for the provision of data for a large majority of the membership. Significant issues have previously been reported in connection with these providers, and this remains a significant risk.

6.7 Officers have not yet had the opportunity to discuss these results with individual payroll providers and employers; however, such an exercise is planned over the coming weeks. A number of the issues addressed in the report are being reviewed in line with the Council's payroll implementation project where they relate to the provision of data by the Council itself.

Ian Williams
Group Director, Finance and Corporate Resources

Report Originating Officers: Rachel Cowburn ☎020-8356 2630
Financial considerations: Michael Honeysett ☎020-8356 3332
Legal comments: Stephen Rix ☎020-8356 6122

Exempt Appendices

Appendix 1 - Employer Data Audit

That it is likely, in view of the nature of the business to be transacted, that were members of the public to be present, there would be disclosure of exempt information as defined in Schedule 12A to the Local Government Act 1972 as amended.

Specifically, publicity in respect of these items would be likely to lead to the disclosure of information relating to the financial or business affairs of a particular person (including the authority holding that information) and in all the circumstances of the case the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

If members of the public were present during consideration of this report, exempt information would be disclosed in under Paragraph 3 of Schedule 12A to the Local Government Act 1972 (as amended): "information relating to the financial or business affairs of any particular person (including the authority holding the information)". In

considering whether to exclude the public during the consideration of the exempt information in order that it is not disclosed, the Committee should have regard to whether the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

It is for the Committee to determine whether it is likely that exempt information would be disclosed and whether it is necessary to make a resolution to exclude the public from the meeting. The public does not have to be excluded in cases where exempt information would be disclosed. Any resolution to exclude the public must identify whether it applies to the whole or only part of the meeting and must state the description of the exempt information giving rise to exclusion of the public.

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

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Hackney

REPORT OF THE GROUP DIRECTOR, FINANCE AND CORPORATE RESOURCES		
PENSION FUND GOVERNANCE POLICY & COMPLIANCE STATEMENT **Pensions Committee** **27th June 2017**	**Classification** **PUBLIC** **Ward(s) affected** **ALL**	**Enclosures** **One**

1. INTRODUCTION

1.1 This report proposes that the Pensions Committee agrees the attached draft version of the Pension Fund Governance Policy and Compliance Statement to take forward in consultation with the Fund's stakeholders. The Policy and Compliance Statement is created in accordance with the Local Government Pension Scheme Regulations. It sets out the governance procedures for the Fund and indicates where it is compliant with best practice as laid down in statutory guidance issued by the Secretary of State.

2. RECOMMENDATIONS

2.1 The Pensions Committee is recommended to:

- **Approve the draft Pension Fund Governance Policy and Compliance Statement, and agree that officers may now proceed with the consultation with the Fund's employers and Hackney Council union officials**
- **Approve the Scheme of Delegation which is included as appendix B of the attached draft Statement**

3. RELATED DECISIONS

3.1 Pensions Committee 31st March 2015 – Approval of Pension Fund Governance and Compliance Statement

3.2 Pensions Committee 14th January 2015 – Review of Draft Pension Fund Governance Compliance Statement

4. COMMENTS OF THE GROUP DIRECTOR, FINANCE & CORPORATE RESOURCES

4.1 There are no direct financial implications arising as a consequence of the revised Policy and Statement. The costs of compliance with the necessary regulations with regards to governance is minimal in comparison to the value of the fund, and the risks arising through failure to do so.

5. COMMENTS OF THE DIRECTOR, LEGAL

5.1 Regulation 55 of the Local Government Pension Scheme Regulations 2013 requires Hackney Council, as the administering authority for the Hackney Pension Fund, to prepare a written statement setting out details of the authority's delegation of functions under the LGPS Regulations. The statement sets out the governance procedures for the Fund and indicates where it is compliant with best practice as laid down in statutory guidance issued by the Secretary of State. This paper presents an update to the existing statement as part of the review programme set out in the Pension Fund Business Plan.

5.2 It is a matter for the Pensions Committee to agree all Fund policies and strategies as well as recommending changes to the Terms of Reference. It is therefore appropriate for the Committee to formally approve this Governance Policy and Statement of Compliance. However, prior to any such approval there is a requirement to consult with appropriate stakeholders.

5.3 There are no immediate legal implications arising from this report.

6. BACKGROUND/TEXT OF THE REPORT

6.1 Since 1st April 2006, administering authorities have been required to publish and maintain a pension fund governance statement setting out the governance arrangements for their Fund including details of membership, how often they meet and the decision making process. This requirement has been maintained in the LGPS Regulations 2013, with Regulation 55 requiring funds to prepare and maintain a governance compliance statement

6.2 Regulation 55 requires that:

(1) An administering authority must prepare a written statement setting out-

(a) whether the authority delegates its functions, or part of its functions under these Regulations to a committee, a sub-committee or an officer of the authority;

(b) if the authority does so-

(i) the terms, structure and operational procedures of the delegation,

(ii) the frequency of any committee or sub-committee meetings,

(iii) whether such a committee or sub-committee includes representatives of Scheme employers or members, and if so, whether those representatives have voting rights;

(c) the extent to which a delegation, or the absence of a delegation, complies with guidance given by the Secretary of State and, to the extent that it does not so comply, the reasons for not complying; and

(d) details of the terms, structure and operational procedures relating to the local pension board established under regulation 106 (local pension boards: establishment).

(2) An administering authority must keep a statement prepared under paragraph (1) under review, and make such revisions as are appropriate, following a material change to any of the matters mentioned in that paragraph.

(3) Before preparing or revising a statement under this regulation, an administering authority must consult such persons as it considers appropriate.

(4) An administering authority must publish its statement under this regulation, and any revised statement.

6.3 This paper therefore presents an update to the Governance Policy and Compliance Statement, under the programme of regular policy review set out in the Fund's business plan. It is recommended that the Committee approve the policy and statement for consultation with key stakeholders, including employers and other interested parties. It is intended that the final version be brought to the September Pensions Committee for final approval.

6.4 The key amendments that have been made are:

- Updating the Policy and Statement to reflect new regulations (including the LGPS (Management and Investment of Funds) Regulations 2016)
- Updating officer delegations to reflect staff changes within the Pension Fund
- Updating delegations to reflect changes to roles as a result of asset pooling

6.5 Appendix A of the document includes the Fund's Statement of Compliance against best practice as laid down in statutory guidance issued by the Secretary of State. It is pleasing to note that the Fund continues to be fully compliant in all areas

Ian Williams
Group Director, Finance and Corporate Resources

Report Originating Officers: Rachel Cowburn ☎020-8356 2630

Financial considerations: Michael Honeysett ☎020-8356 3332

Legal comments: Stephen Rix ☎020-8356 6122

Appendices
Appendix 1 – Governance Policy and Compliance Statement

Background Papers
None

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London Borough of Hackney

Pension Fund

Governance Policy and Compliance Statement

Hackney

DRAFT

Governance Policy and Compliance Statement– Administering Authority

The London Borough of Hackney Council is the Administering Authority of the London Borough of Hackney Pension Fund and administers the Local Government Pension Scheme on behalf of participating employers.

Regulation 55 of the Local Government Pension Scheme Regulations 2013 requires Local Government Pension Scheme (LGPS) Administering Authorities to publish a Governance Compliance Statement setting out information relating to how the Administering Authority delegates its functions under those regulations and whether it complies with guidance given by the Secretary of State for Communities and Local Government. It also requires the Authority to keep the statement under review, to make revisions as appropriate and, where such revisions are made, to publish a revised statement.

Aims and Objectives

Hackney Council recognises the significance of its role as Administering Authority to the London Borough of Hackney Pension Fund on behalf of its stakeholders, which include:

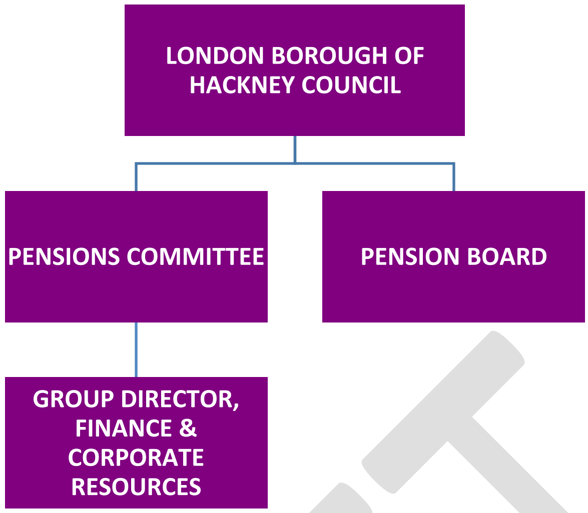
- around 22,000 current and former members of the Fund, and their dependants
- over 20 employers within the Hackney Council area or with close links to Hackney Council
- local taxpayers within the London Borough of Hackney.

In relation to the governance of the Fund, our objectives are to ensure that:

- all staff, Pensions Committee and Pension Board Members charged with financial administration, decision-making or oversight with regards to the Fund are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them
- the Fund is aware that good governance means an organisation is open in its dealings and readily provides information to interested parties
- all relevant legislation is understood and complied with
- the Fund aims to be at the forefront of best practice for LGPS funds
- the Fund manages Conflicts of Interest appropriately

Structure

The Constitution of the Council sets out how the Council operates, how decisions are made, the procedures which are followed to ensure that those decisions are efficient and transparent and that those who made the decisions are accountable to local people. The Constitution sets out the framework under which the Pension Fund is to be administered. This framework is depicted in the diagram below.



Terms of Reference for the Pensions Committee

The Constitution allows for the appointment of a Pensions Committee which has responsibility for the discharge of all non-executive functions assigned to it. The following are the terms of reference for the Pensions Committee:

1. To act as Trustees of the Council's Pension Fund, consider pension matters and meet the obligations and duties of the Council under the Superannuation Act 1972, the Public Service Pensions Act 2013, and the various pension legislation.
2. To make arrangements for the appointment of and to appoint suitably qualified pension fund administrators, actuaries, advisers, investment managers and custodians and periodically to review those arrangements.
3. To formulate and publish a Statement of Investment Principles.
4. To set the overall strategic objectives for the Pension Fund, having taken appropriate expert advice, and to develop a medium term plan to deliver the objectives.
5. To determine the strategic asset allocation policy, the mandates to be given to the investment managers and the performance measures to be set for them.
6. To make arrangements for the triennial actuarial valuation, to monitor liabilities and to undertake any asset/liability and other relevant studies as required.
7. To monitor the performance and effectiveness of the investment managers and their compliance with the Statement of Investment Principles.
8. To set an annual budget for the operation of the Pension Fund and to monitor income and expenditure against budget.
9. To receive and approve an Annual Report on the activities of the Fund prior to publication.
10. To make arrangements to keep members of the Pension Fund informed of performance and developments relating to the Pension Fund on an annual basis.
11. To keep the terms of reference under review.
12. To determine all matters relating to admission body issues.
13. To focus on strategic and investment related matters at two Pensions Committee meetings.
14. To review the Pension Fund's policy and strategy documents on a regular basis and review performance against the Fund's objectives within the business plan
15. To maintain an overview of pensions training for Members.

In addition the Pensions Committee will also co-opt a non-voting employer representative and a non-voting scheme member representative.

Membership of the Pensions Committee

The Council decides the composition and makes appointments to the Pensions Committee. Currently the membership of the Pensions Committee is a minimum of 5 elected Members from Hackney Council on a politically proportionate basis. The Pensions Committee will elect a Chair and Vice Chair. All Hackney Council elected Members have voting rights on the Committee; two voting members of the Committee are required to deem the meeting quorate.

In addition the membership includes two co-opted non-voting members representing employer and scheme member interests. Although the co-opted representatives do not have voting rights they are treated as equal members of the Committee and have access to all Committee advisers, officers, meetings and training as if they were Council Members and have the opportunity to contribute to the decision making process. Voting rights are restricted to elected Members as they are deemed to be fulfilling the role of Trustees of the Pension Fund with all the legal responsibilities that this entails. It was therefore not felt to be appropriate to apply the same legal definition to the lay members of the Committee; hence their role as non-voting members.

Members of the Pensions Committee, including co-opted members, are required to declare any interests that they have in relation to the Pension Fund or items on the agenda at the commencement of the meeting.

The Fund is aware that good governance means an organisation is open in its dealings and readily provides information to interested parties; meetings are open to members of the public who are welcome to attend. However, there may be occasions when members of the public are excluded from meetings; this will be the case when it is likely in view of the nature of the business to be transacted or the nature of the proceedings that confidential information would be disclosed.

Meetings

The Pensions Committee shall meet at least four times a year in the ordinary course of business and additional meetings may be arranged as required to facilitate its work. Work for the year will be agreed with the Committee and will include dedicated training sessions for Committee members.

Agendas for meetings will be agreed with the Chair and will be circulated with supporting papers to all members of the Committee, Officers of the Council as appropriate and the Fund's Investment Advisor and Benefits Consultant.

The Council will give at least five clear working days' notice of any meeting by posting details of the meeting at the Hackney Town Hall and on the Council's website. The Council will make copies of the agenda and reports open to the public available for inspection at least five clear working days before the meeting. If an item is added to the agenda later, the revised agenda will be open to inspection from the time the item was added to the agenda. The reason for lateness will be specified in the report.

There may on occasions be items which may be exempt from the agenda, reports and minutes of the meetings when it is likely in view of the nature of the business to be transacted or the nature of the proceedings that confidential information would be disclosed. Items which are most likely to be excluded are issues where to disclose information would contravene an individual's privacy or where there are financial interests which may be compromised as a result of disclosure for example discussions surrounding contracts.

The Council will make available copies of the minutes of the meeting and records of decisions taken for six years after a meeting. Minutes of meetings and records of decisions are available for inspection on the Council's website www.hackney.gov.uk.

Other Delegations of Powers

The Pensions Committee act as quasi trustees and oversee the management of the Pension Fund. As quasi trustees the Committee have a clear fiduciary duty in the performance of their functions; they must ensure that the Fund is managed in accordance with the regulations and to do so prudently and impartially and to ensure the best possible outcomes for the Pension Fund, its participating employers, local taxpayers and Scheme members. Whilst trustees can delegate some of their powers, they cannot delegate their responsibilities as trustees. Appendix C outlines the areas that the Pensions Committee has currently delegated though these may be added to from time to time.

Under the Council's Constitution delegated powers have been given to the Group Director, Finance & Corporate Resources in relation to all other pension fund matters, in addition to his role as Chief Financial Officer (often called S151 Officer). As Chief Financial Officer he is responsible for the preparation of the Pension Fund Annual Report & Accounts and ensuring the proper financial administration of the Fund. As appropriate the Group Director, Finance & Corporate Resources will delegate aspects of the role to other officers of the Council including the Director, Financial Management, the Head of Pensions Administration and the Head of Pension Fund Investment and to professional advisors within the scope of the LGPS Regulations.

Pension Board

With effect from 1 April 2015, each Administering Authority is required to establish a local Pension Board to assist them with

- securing compliance with the LGPS Regulations and any other legislation relating to the governance and administration of the Scheme, and requirements imposed in relation to the LGPS by the Pensions Regulator
- ensuring the effective and efficient governance and administration of the Pension Fund

Such Pension Boards are not local authority committees; as such the Constitution of Hackney Council does not apply to the Pension Board unless it is expressly referred to in the Board's terms of reference. The Hackney Pension Board established by Hackney Council and the full terms of reference of the Board can be found within the Council's Constitution. The key points are summarised below.

Role of the Pension Board

The Council has charged the Pension Board with providing oversight of the matters outlined above. The Pension Board, however, is not a decision making body in relation to the management of the Pension Fund. The Pension Fund's management powers and responsibilities which have been delegated by the Council to the Pensions Committee or otherwise remain solely the powers and responsibilities of the Council and Committee, including but not limited to the setting and delivery of the Fund's strategies, the allocation of the Fund's assets and the appointment of contractors and advisors as required.

Membership of the Pension Board

The Pension Board consists of either 4 or 5 members as follows:

- Two Employer Representatives, one of which must be from Hackney Council
- Two Scheme Member Representatives, one of which must be a member of the London Borough of Hackney Pension Fund
- One Independent Member (non-voting) to act as chair of the Pension Board, which is an optional position that may be utilised if it is considered that the other members of the Board do not have the requisite knowledge and skills to undertake this position at the time of appointment.

The members of the Board are appointed by an Appointments Panel which consists of:

- the Lead Member for Finance
- the Group Director, Corporate Finance and Resources
- the Director, Financial Management
- the Director, Legal

Pension Board members, (excluding any Independent Member), have individual voting rights but it is expected the Pension Board will as far as possible reach a consensus.

A meeting of the Pension Board is only quorate when two of the four Employer and Scheme Member Representatives are present. If the Board has an Independent Member they must also be present.

Members of the Pension Board are required to declare any interests that they have in relation to the Pension Fund or items on the agenda at the commencement of the meeting.

Meetings

The Pension Board meets at least twice a year in the ordinary course of business and additional meetings may be arranged as required to facilitate its work.

The Pension Board will be treated in the same way as a Committee of Hackney Council and, as such, members of the public may attend and papers will be made public in the same was as described above for the Pension Committee.

Policy Documents

In addition to the foregoing, there are a number of other documents which are relevant to the Governance and management of the Pension Fund. Brief details of these are listed below and the full copies of all documents can either be found on the Pension Fund Website http://hackney.xpmemberservices.com, by emailing the Financial Services Department pensions@hackney.gov.uk or by writing to the address given at the end of this document.

Funding Strategy Statement

The Funding Strategy Statement forms part of the framework for the funding and management of the Pension Fund. It sets out how the Fund will approach its liabilities and contains a schedule of the minimum contribution rates that are required of individual employers within the Fund. The Funding Strategy Statement (FSS) is drawn up by the Administering Authority in collaboration with the Fund's actuary and after consultation with the Fund's employers. The FSS forms part of a broader framework which covers the Pension Fund and applies to all employers participating in the Fund. The FSS represents a summary of the Fund's approach to funding the liabilities of the Pension Fund

Investment Strategy Statement

The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2016 require pension fund administering authorities to formulate an investment strategy which must be in accordance with guidance issued by the Secretary of State

The Investment Strategy Statement required by the regulations must include:-

- a) A requirement to invest money in a wide variety of investments;
- b) The authority's assessment of the suitability of particular investments and types of investments;
- c) The authority's approach to risk, including the ways in which risks are to be measured and managed;
- d) The authority's approach to pooling investments, including the use of collective investment vehicles and shared services;
- e) The authority's policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and
- f) The authority's policy on the exercise of rights (including voting rights) attaching to investments.

The Investment Strategy Statement must also set out the maximum percentage of the total value of all investments of fund money that it will invest in particular investments or classes of investment.

Governance Compliance Statement

This sets out the Pension Fund's compliance with the Secretary of State's Statutory Guidance on Governance in the LGPS. This is attached as Appendix A and shows where the Fund is compliant or not compliant with best practice and the reasons why it may not be compliant.

Training Policy

Hackney Council has a Training Policy which has been put in place to assist the Fund in achieving its governance objectives and all Pensions Committee members, Pension Board members and senior officers are expected to continually demonstrate their own personal commitment to training and to ensuring that the governance objectives are met.

To assist in achieving these objectives, the London Borough of Hackney Pension Fund aims to comply with:

- the CIPFA Knowledge and Skills Frameworks and
- the knowledge and skills elements of the Public Service Pensions Act 2013 and the Pensions Regulator's (TPR) Code of Practice for Public Service Schemes

as well as any other LGPS specific guidance relating to the knowledge and skills of Pensions Committee members, Pension Board members or pension fund officers which may be issued from time to time.

Members of the Pensions Committee, Pension Board and officers involved in the management of the Fund will receive training to ensure that they meet the aims of the Training Policy with training schedules drawn up and reviewed on at least an annual basis.

Annual Report and Accounts

As part of the financial standing orders it is the duty of the Chief Financial Officer to ensure that record keeping and accounts are maintained by the Pension Fund. The Pension Fund accounts are produced in accordance with CIPFA's Code of Practice on Local Authority Accounting, which transposes various IFRS requirements for the public sector. The financial statements summarise the transactions of the Scheme and deal with the net assets of the Scheme. The statement of accounts is reviewed by the Pensions Committee and the Audit Committee and incorporated in the Statement of Accounts for the Council. Full copies of the Report and Accounts are distributed to employers in the Fund and other interested parties and a copy placed on the website http://hackney.xpmemberservices.com. A briefing note prepared from the annual report and accounts of the pension fund is distributed to scheme members annually.

Communication Policy

This document sets out the communications policy of the administering authority and sets out the strategy for ensuring that all interested parties are kept informed of developments in the Pension Fund. This helps to ensure transparency and an effective communication process for all interested parties. A copy of the policy can be found on the Pensions website http://hackney.xpmemberservices.com

Discretions Policies

Under the Local Government Pension Scheme regulations, the Administering Authority has a level of discretion in relation to a number of areas. The Administering Authority reviews these policies as appropriate and will notify interested parties of any significant changes. Employing Authorities are also required to set out their discretions policies in respect of areas under the Regulations where they have a discretionary power. Copies of both the Administering Authority and the London Borough of Hackney's Employing Authority Discretions can be found on the website http://hackney.xpmemberservices.com

Pension Administration Strategy and Employer Guide

In order to assist with the management and efficient running of the Pension Fund, the Pension Administration Strategy and Employer Guide encompassing administrative procedures and responsibilities for the Pension Fund for both the Administering Authority and Employing Authorities has been distributed to employers within the Fund following consultation and can be found on the website http://hackney.xpmemberservices.com. This represents part of the process for ensuring the ongoing efficient management of the Fund and maintenance of accurate data and forms part of the overall governance procedures for the Fund.

Approval, Review and Consultation

This Governance Policy and Statement was approved at the London Borough of Hackney Pensions Committee meeting on dd/mm/yyyy following consultation with all the participating employers in the Fund and other interested parties. It will be formally reviewed and updated at least every year or sooner if the governance arrangements or other matters included within it merit reconsideration.

Contact Information

Further information on the London Borough of Hackney Pension Fund can be found as shown below:

London Borough of Hackney Pension Fund
Financial Services
4th Floor, Hackney Service Centre
1 Hillman Street
London E8 1DY

Telephone: 020 8356 2745

Email: pensions@hackney.gov.uk (Governance)

hackney.pensions@equiniti.com (Administration)

Website: http://hackney.xpmemberservices.com

Hackney Council Website: www.hackney.gov.uk (Minutes, Agendas, etc)

Appendix A

Governance Best Practice – Compliance Statement

Regulation 55 of the Local Government Pension Scheme Regulations 2013 requires Local Government Pension Scheme (LGPS) Administering Authorities to measure their governance arrangements against the standards set out in the Statutory Guidance issued by the Secretary of State for Communities and Local Government.

The following compliance statement has been approved by the Pensions Committee. This sets out where the Pension Fund is compliant with the guidance and where it is not compliant provides an explanation for non-compliance.

Structure

a. The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council. *Fully compliant – Council Constitution delegates responsibility for the Pension Fund to the Pension Committee in respect of these matters.*

b. That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee. *Fully compliant – Employer and Scheme member representatives are appointed to the Pension Committee.*

c) That where a secondary committee or panel has been established, the structure ensures effective communication across both levels. *Fully Compliant – no secondary committee.*

d) That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel. *Fully Compliant – no secondary committee.*

	Not Compliant*			**Fully Compliant**	
a)					✓
b)					✓
c)					✓
d)					✓

* Please use this space to explain the reason for non-compliance: N/A

Please use this space if you wish to add anything to explain or expand on the ratings given above:

Decision taken by Committee not to hold a secondary committee and that employer and scheme member representatives may participate at main Committee.

Representation

a) That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:-

i) employing authorities (including non-scheme employers, e.g., admitted bodies);

ii) scheme members (including deferred and pensioner scheme members);

iii) where appropriate, independent professional observers; and

iv) expert advisers (on an ad-hoc basis).

Fully Compliant – (i) Employing authorities are represented by an employer representative with responsibility for representing the interests of all employers participating in the Fund. (ii) Scheme members are represented by an individual with responsibility for representing the interest of all Scheme members. (iii) At this stage the Pensions Committee has determined that there is no requirement for an independent professional observer. (iv) Expert advisers – investment consultant participates at all meetings of the Committee and other expert advisors are invited to attend as and when required.

b) That where lay members sit on a main or secondary committee, they are treated equally in terms of access to advisers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights. *Fully Compliant – All members are sent Committee papers ahead of meetings, are invited to training and are able to fully contribute to the decision making process.*

	Not Compliant*				**Fully Compliant**
a)					✓
b)					✓

* Please use this space to explain the reason for non-compliance : N/A

Please use this space if you wish to add anything to explain or expand on the ratings given above:

(i) & (ii) Co-opted members of the Pensions Committee have been charged with representing the interests of the groups that they have been co-opted onto the Committee for.

Selection and role of lay members

a) That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee. *Fully Compliant – see Governance Policy*

b) That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda. *Fully Compliant – Members of the Committee declare interests at the start of each meeting.*

	Not Compliant*				Fully Compliant
a)					✓
b)					✓

* Please use this space to explain the reason for non-compliance: N/A

Please use this space if you wish to add anything to explain or expand on the ratings given above: N/A

Voting

a) The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees. *Fully Compliant – See Governance Statement*

	Not Compliant*				Fully Compliant
a)					✓

* Please use this space to explain the reason for non-compliance: N/A

Please use this space if you wish to add anything to explain or expand on the ratings given above: Whilst the co-opted employer and scheme member representatives do not have voting rights, they are encouraged to fully participate in the meetings and decision making process.

Training/Facility time/Expenses

a) That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process. *Fully Compliant.*

b) That where such a policy exists, it applies equally to all members of committees, advisory panels or any other form of secondary forum. *Fully Compliant.*

c) That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken. *Fully Compliant.*

	Not Compliant*				Fully Compliant
a)					✓
b)					✓
c)					✓

* Please use this space to explain the reason for non-compliance : N/A

Please use this space if you wish to add anything to explain or expand on the ratings given above: Please see the Fund's Training Policy.

Meetings (frequency/quorum)

a) That an administering authority's main committee or committees meet at least quarterly. *Fully Compliant.*

b) That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits. *Fully Compliant – only main Committee.*

c) That an administering authority that does not include lay members in their formal governance arrangements must provide a forum outside of those arrangements by which the interests of key stakeholders can be represented. *Fully compliant – Employer and scheme member interests are represented at the main Pensions Committee.*

	Not Compliant*				Fully Compliant
a)					✓
b)					✓
c)					✓

* Please use this space to explain the reason for non-compliance: N/A

Please use this space if you wish to add anything to explain or expand on the ratings given above:

Access

a) That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee. *Fully Compliant – Committee papers are despatched 5 clear working days prior to a Committee meeting.*

	Not Compliant*				Fully Compliant
a)					✓

* Please use this space to explain the reason for non-compliance: N/A

Please use this space if you wish to add anything to explain or expand on the ratings given above: N/A

Scope

a) That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements. *Fully Compliant – The Committee reviews all aspects of Pension Fund management.*

	Not Compliant*				Fully Compliant
a)					✓

* Please use this space to explain the reason for non-compliance: N/A

Please use this space if you wish to add anything to explain or expand on the ratings given above : N/A

Publicity

a) That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements. *Fully Compliant – Governance Policy and Compliance Statement published in full in the Pension Fund Annual Report & Accounts and on the Pensions website http://hackney.xpmemberservices.com*

	Not Compliant*				Fully Compliant
a)					✓

* Please use this space to explain the reason for non-compliance: N/A

Please use this space if you wish to add anything to explain or expand on the ratings given above:

Appendix B

Delegation of Functions to Officers by Pensions Committee – June 2017

Key:
PC – Pensions Committee
GDFCR – Group Director, Finance & Corporate Resources
DFM –Director, Financial Management
HPA – Head of Pensions Administration
HPFI – Head of Pension Fund Investment
IC – Investment Consultant
FA – Fund Actuary
Advisers – Investment, actuarial and/or benefits consultants as appropriate

Function delegated to PC	Further Delegation to Officer(s)	Delegated Officer(s)	Communication and Monitoring of Use of Delegation
To formulate & publish a Statement of Investment Principals and to monitor performance and effectiveness of investment managers	Implementation of strategic allocation including use of both rebalancing and conditional ranges	HPFI (having regard to ongoing advice of the GDFCR, DFM and advisers and in consultation with the Chair of PC)	High level monitoring at PC with more detailed monitoring by HPFI and GDFCR
To set the overall strategic objectives for the Pension Fund, having taken appropriate expert advice and develop a medium term plan to deliver the objectives	Implementation of the agreed Flightpath triggers	DFM, HPFI and GDFCR (having regard to ongoing advice of the FA and IC)	High level monitoring at PC with more detailed monitoring by HPFI and GDFCR
To determine the strategic asset allocation policy, the investment strategies to be selected and the performance measures to be set for them.	To consider investment strategies and to recommend these for consideration by PC	DFM, HPFI and GDFCR (having regards to ongoing advice of advisers)	High level monitoring at PC with more detailed monitoring by advisers

Function delegated to PC	Further Delegation to Officer(s)	Delegated Officer(s)	Communication and Monitoring of Use of Delegation
Selection, appointment and dismissal of the Fund's suppliers, including actuary, benefits consultants, investment consultants, global custodian and pension funds administrator.	Ongoing monitoring of suppliers	HPFI/HPA and GDFCR (having regard to ongoing advice of advisers) and subject to ratification by PC	High level monitoring at PC with more detailed monitoring by advisers
	Selection, appointment and termination of suppliers following approval by PC	DFM, HPFI/HPA and GDFCR (having regard to ongoing advice of advisers) and subject to ratification by PC	Notified to PC via ratification process.
To determine all matters relating to admission body issues.	Agreeing the terms and payment of bulk transfers into and out of the Fund where there is a bulk transfer of staff from the Fund. Making decisions relating to employers joining and leaving the Fund and compliance with the Regulations and policies. This includes which employers are entitled to join the Fund, any requirements relating to their entry, ongoing monitoring and the basis for leaving the Fund where the employer.	DFM, HPFI/HPA and GDFCR after taking appropriate advice from the FA.	Ongoing reporting to PC for noting
To review the Pension Fund's policy and strategy documents on a regular cycle and review performance against the Fund's objectives within the business plan	Changes to Administering Authority discretionary policies necessitated by changes to regulations - authority to amend the policies to reflect the requirements of such new regulations, subject to those decisions having no significant financial implications.	GDFCR and the Director, Legal	Copy of policy to be circulated to PC members once approved.

Function delegated to PC	Further Delegation to Officer(s)	Delegated Officer(s)	Communication and Monitoring of Use of Delegation
Agreeing the Administering Authority responses to consultations on LGPS matters and other matters where they may impact on the Fund or its stakeholders.	Agreeing the Administering Authority responses where the consultation timescale does not provide sufficient time for a draft response to be approved by PC.	HPFI/HPA, DFM and GDFCR, subject to agreement with Chairman and Deputy Chairman (or either, if only one available in timescale)	PC advised of consultation via e-mail (if not already raised previously at PC) to provide opportunity for other views to be fed in. Copy of consultation response provided at following PC for noting.
To maintain an overview of pensions training for Members - overall responsibility for the Fund's Knowledge and Skills Policy for all Pension Fund Committee members and for all officers of the Fund, including determining the Fund's knowledge and skills framework, identifying training requirements, developing training plans and monitoring compliance with the policy.	Implementation of the requirements of the CIPFA Code of Practice[1]	GDFCR and DFM	Regular reports provided to PC and included in Annual Report and Accounts.
The Committee may delegate a limited range of its functions to one or more officers of the Authority. The Pension Fund Committee will be responsible for outlining expectations in relation to reporting progress of delegated functions back to the Pension Fund Committee.	Other urgent matters as they arise	HPFI/HPA, DFM and GDFCR, subject to agreement with Chairman and Deputy Chairman (or either, if only one is available in timescale)	PC advised of need for delegation via e-mail as soon as the delegation is necessary. Result of delegation to be reported for noting to following PC.
	Other non-urgent matters as they arise	Decided on a case by case basis	As agreed at PC and subject to monitoring agreed at that time.

[1] CIPFA Code of Practice recommends each administering authority delegates responsibility for implementation to a senior officer.

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

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