Hackney

REPORT OF THE CORPORATE DIRECTOR OF FINANCE AND RESOURCES		
REVIEW OF PENSIONS COMMITTEE PAPERS – JULY 2015 to JANUARY 2016 **Pensions Board - 26th January 2016**	**Classification** **PUBLIC** **Ward(s) affected** **ALL**	**Enclosures** **Three** **AGENDA ITEM NO.** **5**

1. INTRODUCTION

1.1 The purpose of this report is for the Pensions Board to consider the work undertaken by Pensions Committee at its meetings in the period from September 2015 to January 2016 and to note items that are relevant to the work of the Pensions Board.

2. RECOMMENDATIONS

2.1 **The Pensions Board is recommended to note the report**

3. RELATED DECISIONS

- Pensions Committees (21st September 2015, 18th November 2015 and 13th January 2016)

4. COMMENTS OF THE CORPORATE DIRECTOR OF FINANCE & RESOURCES

4.1 The Pensions Board's role is to assist the Administering Authority in ensuring compliance with the regulations. Consideration of the Pensions Committee agenda's and being able to understand the remit of the Committee and its work is therefore key to the understanding of the Pension Board.

4.2 There are no immediate financial implications arising from this report.

5. COMMENTS OF THE COPORATE DIRECTOR OF LEGAL, HR AND REGULATORY SERVICES

5.1 The Pensions Board has been established in accordance with the Public Service Pensions Act 2013 and in accordance with the Local Government Pensions Scheme (Amendment) (Governance) Regulations 2014. In order to demonstrate the Board is meeting its broad terms of reference it will need to consider the ongoing work of the Pensions Committee to ensure that the powers and responsibilities delegated to it by the Administering Authority are being met. There reviewing the work of the Pensions Committee on a regular basis will form part of the ongoing work of the Pensions Board.

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

6. BACKGROUND/TEXT OF THE REPORT

6.1 Whilst not a decision making body for the Pension Fund, the Board does have a broad remit to review the decision-making process of the Pensions Committee and in particular, matters relating to scheme administration and governance. Members will have received copies of the Pensions Committee meetings held on the 21st September 2015, 18th November 2015 and 13th January 2016. A link to the Committee papers is provided here: http://mginternet.hackney.gov.uk/ieListMeetings.aspx?CId=499&Year=0

6.2 Over the period September 2015 to January 2016, Pensions Committee have considered 23 reports covering a wide range of issues including investments, pensions administration, accounts, government consultations and actuarial matters. Members of the Board have been provided with copies of the agenda and associated reports for the Pensions Committee meetings.

6.3 Where Pensions Committee work has specific relevance to the Pensions Board and where the subject matter is such that it would be helpful to expand further for the Board to fulfil the role, these have become dedicated papers for the Board agenda. In other areas, it is worth highlighting either reports or elements of Committee reports that are of particular relevance to the Board.

6.4 The quarterly monitoring report provides both the Pensions Committee and the Board with an update on the key facts pertaining to the Pension Fund with updates provided on funding, investment performance, budget monitoring, corporate governance and engagement, pensions administration and reporting of breaches either to the Committee or where appropriate to the Pensions Regulator. Key to the role of the Board is ensuring that the Fund is being administered in accordance with the regulations and the quarterly report helps demonstrate that the Committee is taking all aspects of their role in managing the Pension Fund in to account and not just investment related issues. Of particular relevance to this Board is the quarterly reporting on administration performance and also the reporting of breaches sections. Board Members will probably have noted that on this occasion the reporting of breaches has included a reference to the fact that the Pension Fund has now reported itself to the Pensions Regulator for failing to meet its statutory duty to provide all active members of the Fund with an annual benefit statement by 31st August 2015. Whilst the majority of annual benefit statements were issued slightly after the statutory deadline, unfortunately this has not been uncommon amongst LGPS for the year ended 31st March 2015. There have been significant issues with trying to ensure that the data relating to scheme member pay is accurate across most funds in the LGPS leading to delays for the majority of funds in issuing statements. The Fund had considered whether it was appropriate to report a breach earlier, but as the majority of statements for active scheme members (5,095) were issued by the end of September and the Local Government Association were advising the Pensions Regulator of the issues, it was not felt necessary to make a formal breach report at that time. Subsequently the administrators have continue to work with employers to try to resolve queries with the outstanding 1,400 annual benefit statements, the majority of which have now been progressed to a point where they will be issued by the end of January and there are only 100 where outstanding queries remain. These are continuing to be investigated by both the third party administrators and also the pensions section based at the Council. However, given the ongoing delays to issuing the outstanding benefit statements, the Fund has now reported a formal breach to the Pensions Regulator (TPR). A copy of TPR's response to the LGA is attached for information regarding the general problems caused by the introduction of the new LGPS 2014 Scheme.

6.5 At the Pensions Committee in September, the Committee were provided with a broad ranging Pensions Update paper which covered in brief a number of key pension issues which were likely to impact on the Fund over the coming months: Pooling of investments; Scheme Advisory Board work on separation of pension funds; public sector exit payments regulations; HM Treasury consultations on the tax treatment of pensions; changes to state pensions and national insurance contributions; and requirements for undertaking reconciliation of guaranteed minimum pensions. Whilst recognising that all of these issues could impact the management of the pension fund, with reference to the work of the Pensions Board, probably one of the key items from this report are the forthcoming changes to state pensions which affect current employees contributing to the pension scheme and the relevant key points have been drawn out from that report and are attached as an appendix to this report alongside the communications which have been sent to scheme members. The other main issue from the report of particular interest to the Board is that of the GMP reconciliation and this is the subject of another report to be presented to the Board on this meeting's agenda.

6.6 Also at the Pensions Committee meeting in September, the Committee were presented with an updated Pensions Admissions Policy which covers the admission of new employers into the Pension Fund. This will typically arise when groups of employees transfer to new employers either as a result of an outsourcing and will typically be to private sector companies or when existing authority schools convert to academy status. The background to the regulations and the Fund's approach to admitting new bodies and how these will be managed within the Fund are set out in full within the Policy. A link to the policy document can be found here: http://mginternet.hackney.gov.uk/documents/s45020/10.%20A1%20CDM-16396281-v1-Policy%20on%20Admissions%20Bulk%20Transfers%20Sept%202015.pdf

6.7 From the November 2015 meeting, the areas of particular note for the Pensions Board relate to the forthcoming actuarial valuation where training was provided along with some of the preliminary work which the Fund is undertaking leading up to the valuation to be carried out as at 31st March 2016.

6.8 Key items from the meeting on the 13th January were the Pension Fund Risk Register, the updated TPR Code of Compliance (to be covered under another report to the Board), Pensions Administration Audits (the subject of a further paper to the Board) and the Communications Policy. As two of the papers will be covered in further depth by follow up reports to the Board, it is not proposed to cover those here. In respect of the Pensions Risk Register, it is important that the Board understands that these are the high level risks which the Fund faces and includes matters which directly impact on the work of the Board in terms of assisting the Administering Authority in ensuring compliance with the regulations. It is therefore worth covering again briefly in this report the high level risks that the Fund faces and Board Members are recommended to review the full risk register http://mginternet.hackney.gov.uk/documents/s46930/7%201%20PF%20Risk%20RegisterJanuary%202016.pdf :

1. Increasing longevity – People living longer and therefore drawing pension benefits for longer than was anticipated at the time the Scheme was set up. This is impacting on the costs of managing the Scheme and whilst this is clearly a risk the Fund is unable to control, by monitoring the longevity profile of the Fund, it is able to anticipate and plan for future cost increases. Increasing longevity is one of the factors which is being addressed to a certain extent in the 2014 Scheme by a linking the Scheme retirement age to rise in line with the State Pension Age. However, this risk remains high as this will only cover scheme members who have not yet reached retirement age and does not affect those whose pensions are already in payment, although it is recognised that over time this risk may gradually decrease as steps are put in place at a national level to offset some of this risk.
2. Asset/Liability Mismatch – Assets could fail to keep pace with a growth in the liabilities of the Pension Fund resulting in additional costs for employers participating in the Fund. Whilst the period since the last valuation in 2013 has seen strong asset growth, the liabilities have grown at an even faster pace. At the time of writing the funding position is not that different to the 2013 valuation, but the monetary gap between assets and liabilities has widened. This was discussed at the November Strategy meeting of the Pensions Committee and as can be seen from the latest quarterly monitoring, the increase in liabilities over assets is £98m or an estimated deficit of £1,591m as the Fund enters the 2016 valuation.
3. Investment Performance – Poor performance from either the Fund's investment managers or from the asset classes the Fund invests could result in investment returns below expectations. Performance monitoring should assist in providing warning signals to take action where necessary to terminate a manager or exit an asset class. A number of the Fund's managers continue to have relatively weak performance in 2015 with a number underperforming their benchmarks and global markets remained volatile.
4. Poor membership data – It had been hoped that this risk might have seen a reduction from the high risk category as employers and administrators bedded down the 2014 Scheme, however, problems of receiving accurate and timely membership data from employers continues to pose the Fund with issues. Whilst the Fund was able to issue a high proportion of Annual Benefit Statements (ABS's), there remain over 1,000 still to be issued. The

Committee will note that also included on the Agenda are Audit reports undertaken by the Fund's benefits Advisers, AON which indicate that there are still issues with obtaining information from some employers. Accurate membership information is not only vital for individual members to be assured that they are receiving their correct benefits, and this has intensified with the new CARE (career average revalued earnings) Scheme, but it is also essential for the correct calculation of the liabilities by the Fund actuary at the valuation. In addition the Fund, like all others in the public sector faces additional scrutiny over the quality of the data by the Pensions Regulator (TPR) and is at risk of fines for poor quality and being required to take special measures.

5. Regulatory – This risk continues be rated highly as there seems to be little slowdown in the pace of regulatory change either within pensions or more specifically for the LGPS, witness the Pooling Guidance and Investment Regulations Consultation which are the subject of other Agenda items. Regulatory change is just one aspect of this risk with the other being ensuring compliance with existing regulations and as noted in one of the other high risks, poor membership data, this can also start to impact on day to day operations and put the Fund at risk of fines from TPR.
6. Failure to manage costs – Consideration has been given as to whether this risk should be reduced, given that there is a clear government agenda to ensure that Pension Funds are able to manage costs and to deliver savings in particular from pooling of investments. Whilst the work underway at the London CIV has demonstrated that there is significant potential to reduce investment costs, it remains early stages and with all LGPS funds facing major changes and the need to transition investment there remain risks as this process gets underway as with any transition. In addition it is clear that the 2014 CARE Scheme has led to additional costs in the short term given the additional complexities of administering the Scheme and having to effectively administer 3 schemes concurrently (1/80th final salary, 1/60th final salary and 1/49th CARE). Further the governance burden has continued to increase, whilst recognising that this will lead to improvements, there are costs with the additional requirements of TPR and Pensions Board. In addition, the requirement to undertake GMP reconciliations could cause costs to increase in the short term due to both the cost of administering the reconciliation exercise and potential to amend pension amounts.
7. Pension Funding Risk – This remains a risk for the Fund over the medium/longer term given the need to close the funding gap. Whilst the funding position improved at the 2013 valuation and the latest funding update would indicate a deterioration as we move towards the 2016 valuation, although clearly a lot could change between now and the end of March. The recent preliminary work undertaken by the Fund Actuary and Investment Consultant would indicate however, that at this time the Fund remains in a reasonable position to achieve its long term goal of closing the funding gap and reaching a fully funded position within the timescales set out in its Funding Strategy Statement.
8. Investment Pooling – This has been introduced as a new high risk for the 2015 Register, whilst merger and concerns about enforced passive investment were highlighted under regulatory risk previously, Investment Pooling is now being forced on LGPS funds and given some of the risks around this, it was felt worthy of being identified as its own separate risk. As

noted earlier, funds in London have already made considerable progress towards working collaboratively in pooling investments, but this has always been seen very much as being on a voluntary basis and that those who wanted to participate could do so and up to any level they wanted to. The Pooling Criteria issued by government makes it clear that voluntary participation is not an option. Whilst London has made progress, there remains a long way to go, to get the appropriate range of managers appointed to the CIV and for funds to then transition assets across and as noted earlier this could lead to a short term increase in costs. In addition it is not clear whether over longer term this will deliver the scale of fee savings (although these have not been formally identified) which the government is looking to see delivered and whether scale will bring the benefits to all funds as is hoped.

6.9 This report seeks to draw out the key issues for the Board to review and consider from the work of the Pensions Committee over the last 3 meetings that have taken place since the last meeting of the Pensions Board. Whilst some of the items are picked up in more detail for the Pensions Board, it is important for them to have a broad understanding of all aspect of the work undertaken by Committee in order to help them in their role as assisting the Administering Authority in ensuring compliance.

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Background papers: None