Hackney

REPORT OF THE GROUP DIRECTOR, FINANCE & CORPORATE RESOURCES		
Pension Fund – Quarterly Update (Including Update On Low Carbon Workplace Fund) **Pensions Committee** **29th March 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 23rd March 2016 – Approval of Pension Fund Budget 2016/17
- Pensions Sub-Committee 17th March 2014 – Approval of 2013 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 have 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 Fund is due to finalise the 2016 valuation at the 29th March Committee meeting. 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.

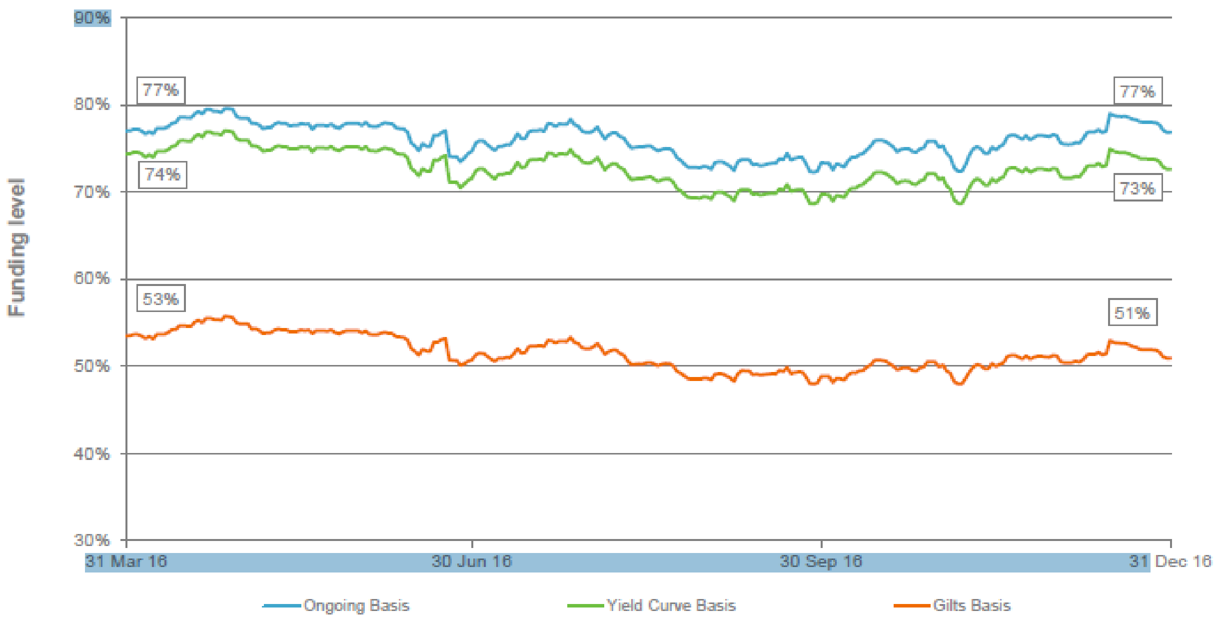
5.5 There are no immediate legal implications arising from this report.

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 December 2016, the funding level was 77% 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 30th December 2016 (7%) showing a slight decrease in the funding position at the start of the period, followed by recovery towards the end.

Progression of Funding Level from 31st March 2016 to 30th December 2016



6.3 The funding level of 77% at 30th December 2016 is based on the position of the Fund having assets of £1,345m and liabilities of £1,750m, i.e. for every £1 of liabilities the Fund has the equivalent of 77p of assets. It should be noted that the monetary deficit remains high, and has increased from £350m in March 2016 to £405m in December 2016, an increase of £55m. 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. Togther with Aon, the Fund is now conducting a review of the initial audit to assess where improvements have been made and where further progress is required.

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, but testing is planned for 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 a monthly 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 Q2 2016/17

The following table sets out the Fund's asset allocation as at 30 December 2016 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	312,349,000	24.3	25.0	-0.7
Lazard	Global Equities	205,330,198	16.0	15.5	+0.5
Wellington	Global Value	211,446,307	16.5	15.5	+1.0
RBC	Global Emerging Markets Equities	65,429,459	5.1	4.5	+0.6
Total Equities		**794,554,964**	**61.9**	**60.5**	**+1.4**
BMO	Fixed Income	224,626,000	17.5	17.0	+0.5
Columbia Threadneedle	Property	106,789,134	8.3	10.0	-0.2
Columbia Threadneedle	Low Carbon Property	19,484,670	1.5		
Invesco	Multi-Asset	55,628,140	4.3	5.0	-0.7
GMO	Multi-Asset	82,269,585	6.4	7.5	-1.1
Total Fund		**1,263,867,823**	**100.0**	**100.0**	-

8.2 Performance summary

The following table sets out the performance of the Scheme's investment mandates as at 31st December 2016 against their respective benchmarks. Details of the performance benchmarks for each mandate are set out in Appendix 1.

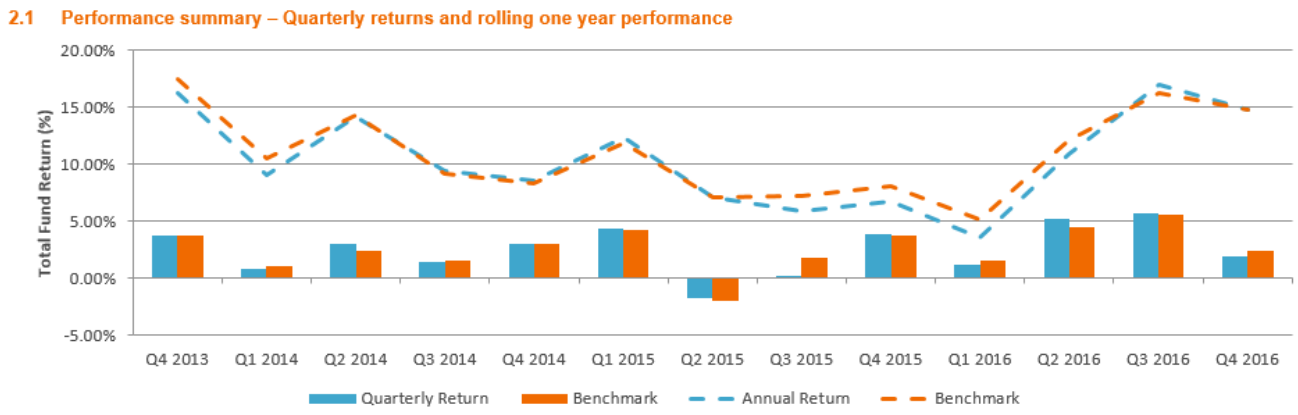
The table also shows the total Scheme performance against benchmark as calculated by Hymans Robertson. The performance and benchmark numbers have been provided by the Scheme's investment managers.

		Wellington Global Eq	Lazard Global Eq	UBS UK Eq	RBC EM Eq	Columbia Threadneedle Property	BMO Fixed income	GMO Multi asset	Invesco Multi asset	Total Scheme
Q3 16 (%)	Fund	7.5	0.4	3.9	-1.1	2.8	-2.4	-1.2	1.1	1.9
	Benchmark	5.4	5.4	3.9	0.7	2.3	-3.0	0.1	0.1	2.4
	Relative	2.0	-4.7	0.0	-1.8	0.5	0.6	1.3	1.0	-0.5
12 month (%)	Fund	27.6	15.8	16.8	28.9	2.9	15.3	2.2	5.1	15.9
	Benchmark	20.7	20.7	16.8	32.6	2.8	14.6	1.4	0.5	14.9
	Relative	5.7	-4.6	0.0	3.0	0.1	0.6	0.8	4.6	0.8
3 years (% p.a.)	Fund	12.8	8.4	6.0	n/a	11.2	9.8	-0.4	n/a	8.5
	Benchmark	10.4	10.4	6.1		10.7	9.8	0.9		8.3
	Relative	2.2	-1.8	-0.1		0.5	0.0	1.3		0.6
Since Inception (% p.a.)	Fund	10.0	8.1	8.6	34.1	6.7	7.1	2.2	5.5	
	Benchmark	9.4	9.4	8.5	38.7	5.7	6.7	1.0	0.5	
	Relative	0.5	-1.2	0.1	-3.3	1.0	0.3	1.2	5.0	
Since inception dates		April 2010	April 2010	August 2003	December 2015	March 2004	September 2003	September 2012	December 2015	

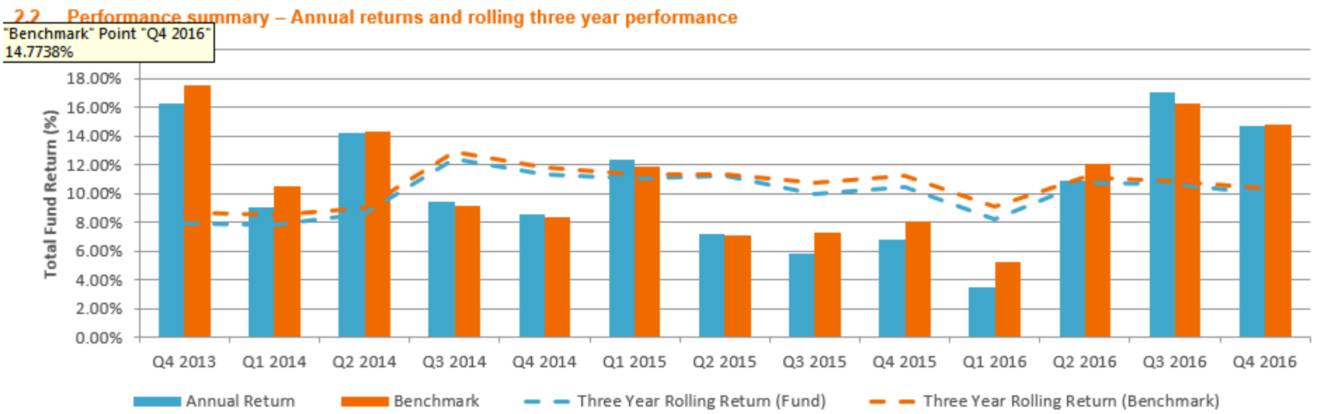
Note: Long term returns Calculated by rolling up historic quarterly returns and includes contribution of all current and historical mandates over the period.

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 Dec	Weight % 31 Dec	Target %	Fund Return %	Benchmark Return %	Asset Allocation	Stock Selection
UBS	UK Equities	FTSE All Share	312,349	24.7%	25.0%	3.9	3.9	-0.01	0.00
Lazard	Global Equities	MSCI AC World (50% hedged)	205,330	16.2%	15.5%	0.4	5.4	0.03	-0.78
Wellington	Global Equities	MSCI AC World (50% hedged)	211,446	16.7%	15.5%	7.5	5.4	0.01	0.32
RBC	Global Emerging Market Equities	MSCI Emerging Markets	65,429	5.2%	4.5%	-1.1	0.7	-0.01	-0.10
Total Equities			**794,555**	**62.9%**	**60.5%**	**3.5**	**4.4**	**0.01**	**-0.56**
BMO	Bonds	Bonds Composite [1]	224,626	17.8%	17.0%	-2.4	-3.0	-0.08	0.13
Threadneedle	Property	HSBC APUT All Balanced	106,789	8.4%	10.0%	2.8	2.3	0.00	0.04
Invesco	Targeted Return	£LIBOR 3M	55,628	4.4%	5.0%	1.1	0.1	0.01	0.05
GMO	Absolute Return	OECD CPI G7 (GBP)	82,270	6.5%	7.5%	-1.2	0.1	0.02	-0.09
Total Scheme			**1,263,868**	**100**	**100**	**1.9**	**2.4**	**-0.03**	**-0.43**

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.

<u>Positives</u>

- Outperformance from Wellington, Invesco, BMO and Threadneedle.

<u>Negatives</u>

- Underperformance from Lazard, RBC and GMO.
- Overweight allocation to BMO.

The table below represents the manager performance over the **12 months to 30 December 2016** 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 Dec	Weight % 31 Dec	Target %	Fund Return %	Benchmark Return %	Asset Allocation	Stock Selection
UBS	UK Equities	FTSE All Share	312,349	24.7%	25.0%	16.8	16.8	-0.02	0.00
Lazard	Global Equities	MSCI AC World (50% hedged)	205,330	16.2%	15.5%	15.8	20.7	0.02	-0.64
Wellington	Global Equities	MSCI AC World (50% hedged)	211,446	16.7%	15.5%	27.6	20.7	0.02	0.91
RBC	Global Emerging Market Equities	MSCI Emerging Markets	65,429	5.2%	4.5%	28.9	32.6	0.01	-0.13
Total Equities			**794,555**	**62.9%**	**60.5%**	**18.5**	**19.1**	**0.03**	**0.14**
BMO	Bonds	Bonds Composite [1]	224,626	17.8%	17.0%	15.3	14.6	0.00	0.11
Threadneedle	Property	HSBC APUT All Balanced	106,789	8.4%	10.0%	2.9	2.8	-0.02	0.01
Invesco	Targeted Return	£LIBOR 3M	55,628	4.4%	5.0%	5.1	0.5	0.03	0.22
GMO	Absolute Return	OECD CPI G7 (GBP)	82,270	6.5%	7.5%	2.2	1.4	0.02	0.06
Total Scheme			**1,263,868**	**100**	**100**	**15.6**	**14.9**	**0.05**	**0.53**

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

Positives:

- Outperformance from Wellington, BMO and Invesco

Negatives:

- Underperformance from Lazard and RBC

The table below represents the manager performance over the **3 years to 31st December 2016** 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 Dec	Weight % 31 Dec	Target %	Fund Return %	Benchmark Return %	Asset Allocation	Stock Selection
UBS	UK Equities	FTSE All Share	312,349	24.7%	25.0%	6.0	6.1	0.02	-0.02
eries "Annual Return" Point "Q4 2016" alue: 14.75%		MSCI AC World (50% hedged)	205,330	16.2%	15.5%	8.4	10.4	0.02	-0.34
Wellington	Global Equities	MSCI AC World (50% hedged)	211,446	16.7%	15.5%	12.8	10.4	0.03	0.41
RBC [2]	Global Emerging Market Equities	MSCI Emerging Markets	65,429	5.2%	4.5%	n/a	n/a	0.01	-0.04
Total Equities			**794,555**	**62.9%**	**60.5%**	**8.9**	**8.7**	**0.08**	**-0.08**
BMO	Bonds	Bonds Composite [1]	224,626	17.8%	17.0%	9.8	9.8	0.04	0.00
Threadneedle	Property	HSBC APUT All Balanced	106,789	8.4%	10.0%	11.2	10.7	-0.04	0.07
Invesco [2]	Targeted Return	£LIBOR 3M	55,628	4.4%	5.0%	n/a	n/a	0.03	0.07
GMO	Absolute Return	OECD CPI G7 (GBP)	82,270	6.5%	7.5%	-0.4	0.9	0.09	-0.09
Total Scheme			**1,263,868**	**100**	**100**	**8.5**	**8.3**	**0.19**	**0.11**

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.

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, Threadneedle and Invesco.
- Overweight to Wellington and BMO and underweight to GMO for the majority of the 3 year period to 31 December 2016.

Negatives

- Underperformance from Lazard, RBC and GMO.
- Underweight to Threadneedle for the majority of the 3 year period to 31 December 2016.

9. BUDGET MONITORING

9.1 A full budget report is included as part of this Committee agenda. The report looks at forecast outturn against budget for 2016/17, and sets a 3 year rolling budget for 2017/18, 2018/19 and 2019/20

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 Work on meeting the resolutions began in Q4 2015/16, with a review of the options for switching some of the existing property mandate into a low carbon property fund. By December 2016, £10m had been moved from the Fund's existing Threadneedle TPEN Property mandate into the Threadneedle Low Carbon Workplace Fund, with a further £10m cash investment made in October 2016. The Fund's £25m commitment is now fully invested, with £10m being switched from TPEN and £15m invested from cash. The decision to fund from cash rather than TPEN was an operational one, made because the Fund was underweight property as a whole and was holding relatively high cash balances.

10.4 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). A final draft of the ISS is due for approval at the 29th March Committee; if approved, work can begin on looking at options for implementation for other resolutions.

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 28 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. Councillors Toby Simon and Doug McMurdo met with Shell's remuneration chairman, Gerard Kleisterlee to discuss the Company's executive remuneration arrangements in advance of the AGM vote. They questioned how the performance indicators used by Shell such as 'production available for sale' and 'project delivery' aligned with low carbon, low demand scenarios. LAPFF had similarly asked Anglo American at their AGM whether the required low-carbon transition is reflected in the strategic performance element of its executive remuneration arrangements.

10.7 The Fund holds a number of other companies referenced through its FTSE All share index tracker, most notably BP and Sports Direct. LAPFF met with representatives of BP during the quarter to discuss the company's responses on the strategic resilience resolution on climate change passed at the 2016 AGM respectively.
The meeting explored a greater use of scenario planning, having introduced the 'faster transition' scenario which will be built on, other scenarios included consideration of the mobility revolution eg, the role of electric vehicles and autonomous driving. Given that the company's remuneration report was voted down in 2016, there was interest in proposals for 2017. Of particular note was a number of positive changes to make incentives far more aligned with the required low carbon transition, including the proposed removal of production volume based targets in the form of reserve replacement incentives.

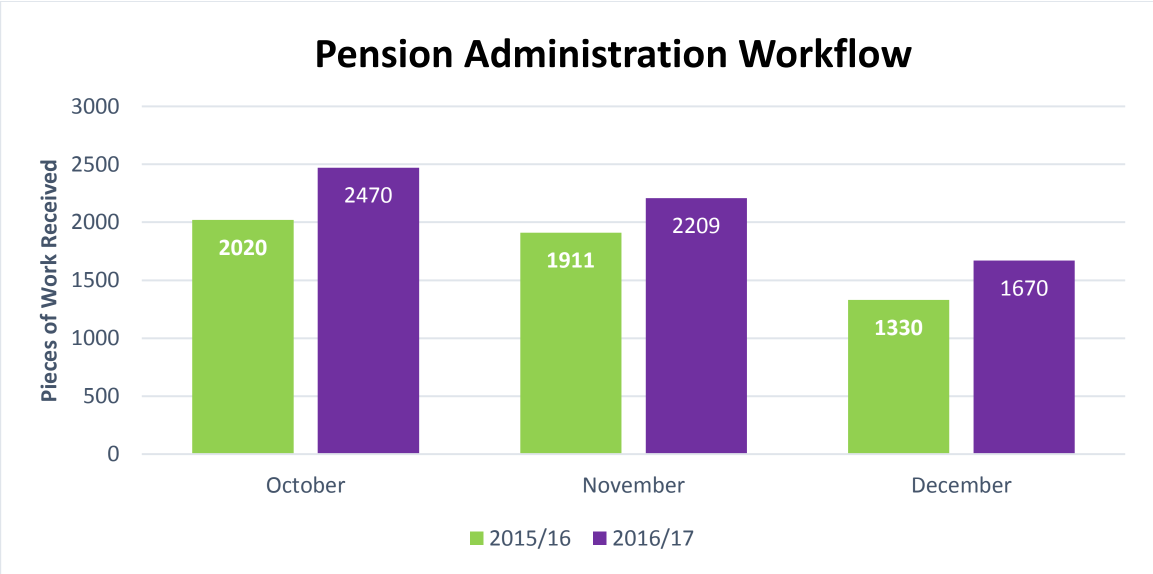
10.8 Senior Independent Director Simon Bentley, agreed at the Sports Direct AGM in September to a meeting with L APFF. This meeting has yet to happen despite best efforts from L APFF. The Forum had recommended to members to vote against the re-election of Sports Direct Chairman, Keith Hellawell, at the 5 January 2017 EGM to address these continuing concerns about the Company's governance and business practices including claims of poor workplace practices at the Shirebrook warehouse in Derbyshire. The vote was called because of a lack of support for Mr Hellawell from independent shareholders at the 2016 Sports Direct AGM. Regardless of the outcome, a change in corporate governance and company ethic is clearly in order.

11 PENSION ADMINISTRATION

11.1 Pension Administration Management Performance

The case load for the administrators during Q3 2016/17 has slightly increased in comparison to the same period in 2015/16. A total of 6,349 new cases were received during the current quarter, compared to 5,261 during Q3 in 2015/16.

A comparison of the workflow for the administrators between Q3 2015/16 and the reporting quarter is set out below:-

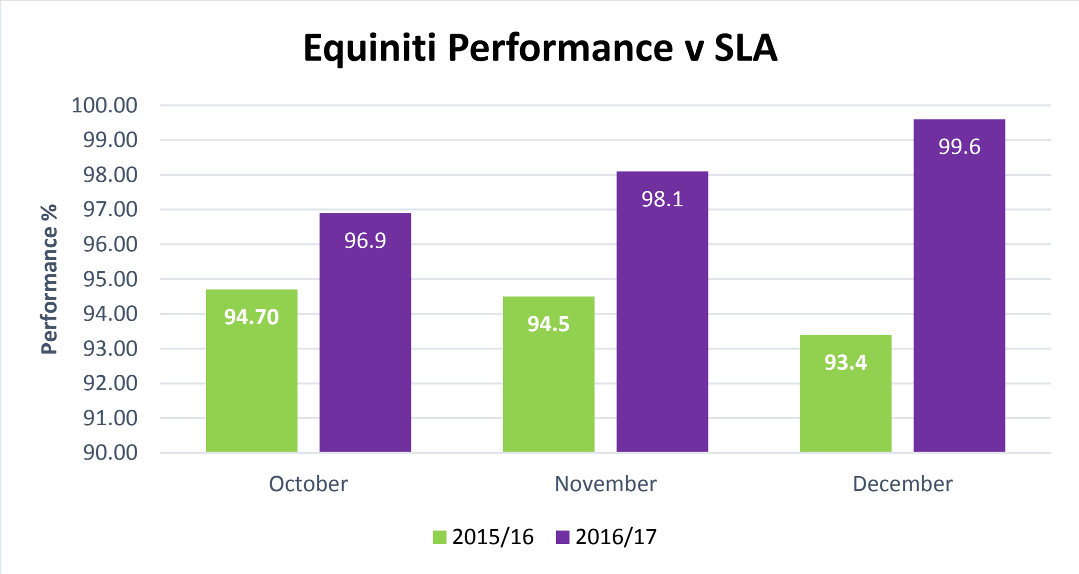


The average number of pieces of work received per month during Q3 2016/17 was 2,116 compared to an average of 1,753 received during the same period in 2015/16.

Much of the increased workload, during October and November, was due to the administrators having to continually resolve data issues that arose from the year end reports submitted by some of the employers in the Fund. The fact that the Council, the Funds largest employer, did not submitted a year end file to the administrators within the regulatory timeframe, exacerbated the problems.

As reported to Committee in September 2016, the Fund was duty bound to report itself to the Pensions Regulator (tPR) in regard to the non-compliance of Regulation 89(2) (which states that benefit statements must be issued no later than five months after the end of the scheme year), and as such a revised deadline of December 2016 was agreed with tPR. The Hackney in-house pension team continued to provide support to Equiniti during this difficult period, and the remaining 3,200 active annual benefit statements were issued by the revised deadline, but with the addition of a 'health warning' requesting members check their statement and report any inaccuracies to their employer.

The performance of the pension administrators is monitored by the Financial Services Section at Hackney on a monthly basis. Performance against the service level agreement (SLA) was an average of 98% for Q3 2016/17 compared to 96% for the same period in the previous year.
The administrator's performance against the SLA for Q3 2015/16 and Q3 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

Clean and accurate data is required not only for the annual benefit statements this year, but also for the Fund valuation. As data quality is a major issue, it impacted on the Funds ability to issue all of its annual benefit statements to active members within the regulatory timeframe, i.e. 31 August 2016, with only 4,000 being sent. Extra data cleanse work continued and the remaining 3,200 active statements were issued by 31 December 2016.

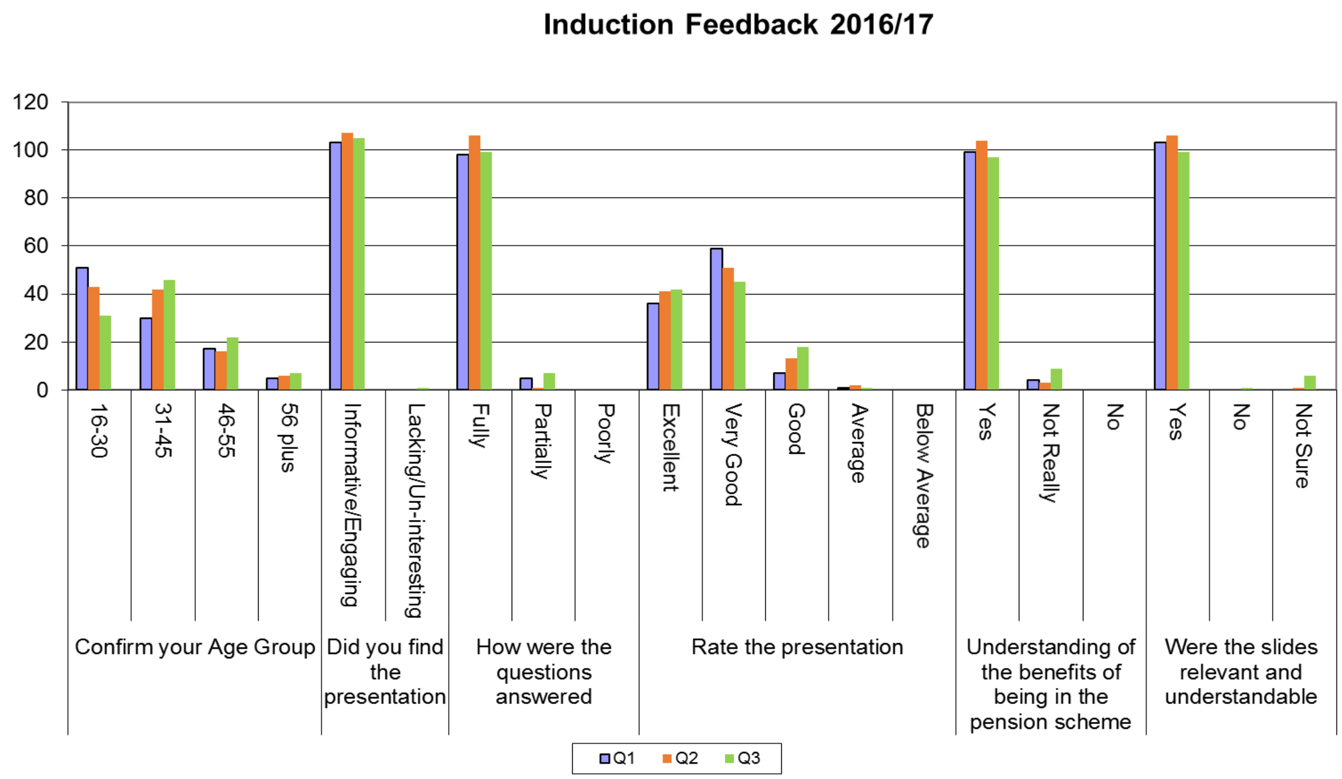
11.2 New Starters and Opt Outs

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 Q3 2016/17 have normalised, and records indicate a total of 92 employees opted out during this quarter.

	Total Membership at End of Quarter	Total Opt Outs For Quarter
Q3 2015/16	7,608	98
Q3 2016/17	7,549	92

11.3 Scheme Administration

The in-house pension team facilitated at weekly induction sessions for 110 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, 88% have 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 Q3 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
Q3 2015/16	0	1	1	2	0
Q3 2016/17	2	0	0	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
Q3 2015/16	1	1	0	0	0
Q3 2016/17	2	2	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 Corporate Director of Finance & Resources taking external specialist technical advice from the Fund's benefits consultants.

There was 1 IDRP case in the 3rd quarter of 2016/17;

Stage 1

The member appealed against the award of Tier 3 ill health benefits, requesting the employer to award Tier 2. The appeal was not up-held by the appointed person at Stage 1 of the appeal process.

11.6 Other work undertaken in Q2 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 continue to leave the organisation on a monthly basis as part of this Scheme and during Q3 2016/17 there were 8 members of staff who left, with several more scheduled to leave up to the end of March 2017.

Newsletter launch

In mid-December, 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.


1st Edition December 2016

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Employers' Newsletter

In this edition

- *Actuarial Valuation*
- *Employers' Forum*
- *Exit Payment Cap*
- *The Role of the Pensions Regulator*
- *Poster Campaign*
- *Feedback*
- *Contacts*

Welcome to the first edition of our quarterly newsletter, which provides you with an update on the Local Government Pension Scheme (LGPS) and other topical matters.

Checklist

- ❑ Have you received our 50/50 posters? If not order some today!
- ❑ Have you looked at PAS on our website?
- ❑ Pass on our contact details to employees with queries
- ❑ Contact us if you would like to host a member event

Actuarial Valuation 2016

Work is currently being undertaken on the 2016 Valuation. This is where the Fund undertakes a full actuarial valuation of its liabilities every three years for the purpose of setting the employer contribution rate which will become effective for the three years commencing 1st April 2017.

Due to the information provided on the year end files for March 2016, some of the data was insufficient for the Valuation to be completed within the agreed deadlines. Unfortunately, as a result of the poor data quality it was decided that the payroll reports needed to be rerun and resubmitted to the actuaries.

The Employer Forum will explore the valuation in full.

Year End Data 2016/17

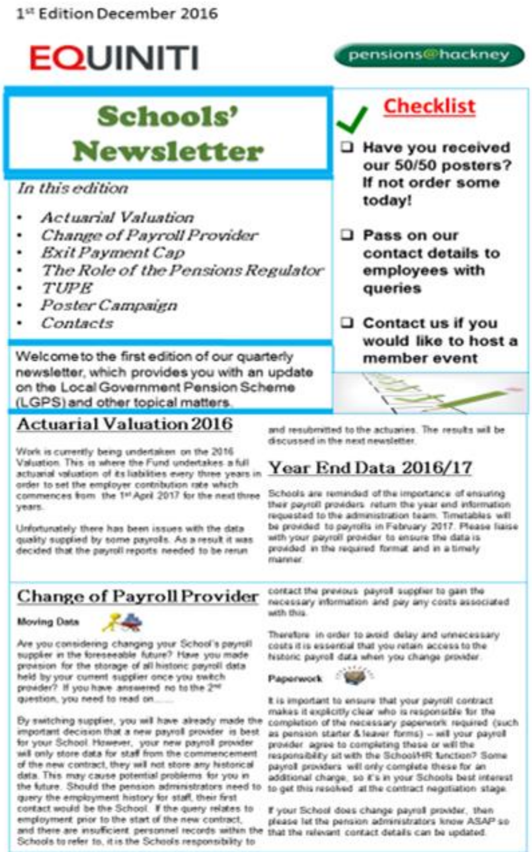
Employers are reminded of the importance of returning the year end information required to the administration team. You will receive a letter from the Administrators detailing their requirements for the information needed and a time table of events in February 2017 for the year end file ending in March 2017.

Coming soon- Employer Forum.

The next Employer Forum will be held in January/February 2017

The Forum will be a great opportunity for key contacts to meet the pensions team and to hear about the latest pension issues

Look out for your email invite


1st Edition December 2016

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Schools' Newsletter

In this edition

- *Actuarial Valuation*
- *Change of Payroll Provider*
- *Exit Payment Cap*
- *The Role of the Pensions Regulator*
- *TUPE*
- *Poster Campaign*
- *Contacts*

Welcome to the first edition of our quarterly newsletter, which provides you with an update on the Local Government Pension Scheme (LGPS) and other topical matters.

Checklist

- ❑ Have you received our 50/50 posters? If not order some today!
- ❑ Pass on our contact details to employees with queries
- ❑ Contact us if you would like to host a member event

Actuarial Valuation 2016

Work is currently being undertaken on the 2016 Valuation. This is where the Fund undertakes a full actuarial valuation of its liabilities every three years in order to set the employer contribution rate which commences from the 1st April 2017 for the next three years.

Unfortunately there has been issues with the data quality supplied by some payrolls. As a result it was decided that the payroll reports needed to be rerun and resubmitted to the actuaries. The results will be discussed in the next newsletter.

Year End Data 2016/17

Schools are reminded of the importance of ensuring their payroll providers return the year end information requested to the administration team. Timetables will be provided to payrolls in February 2017. Please liaise with your payroll provider to ensure the data is provided in the required format and in a timely manner.

Change of Payroll Provider

Moving Data

Are you considering changing your School's payroll supplier in the foreseeable future? Have you made provision for the storage of all historic payroll data held by your current supplier once you switch provider? If you have answered no to the 2nd question, you need to read on……

By switching supplier, you will have already made the important decision that a new payroll provider is best for your School. However, your new payroll provider will only store data for staff from the commencement of the new contract, they will not store any historical data. This may cause potential problems for you in the future. Should the pension administrators need to query the employment history for staff, their first contact would be the School. If the query relates to employment prior to the start of the new contract, and there are insufficient personnel records within the Schools to refer to, it is the Schools responsibility to contact the previous payroll supplier to gain the necessary information and pay any costs associated with this.

Therefore in order to avoid delay and unnecessary costs it is essential that you retain access to the historic payroll data when you change provider.

Paperwork

It is important to ensure that your payroll contract makes it explicitly clear who is responsible for the completion of the necessary paperwork required (such as pension starter & leaver forms) – will your payroll provider agree to completing these or will the responsibility sit with the School/HR function? Some payroll providers will only complete these for an additional charge, so it's in your Schools best interest to get this resolved at the contract negotiation stage.

If your School does change payroll provider, then please let the pension administrators know ASAP so that the relevant contact details can be updated.

The next Newsletter is due to be sent before the end of March 2017.

12 REPORTING BREACHES

12.1 Reported Breaches Q3 2016/17

Date	Oct 2016
Category	Annual Benefit Statements
Employer/Organisation	Equiniti/Hackney Council
Description of breach	Failure to issue all active and deferred benefit statements by 31st October, after extended deadline agreed.
Cause of breach	Failure on the part of Hackney Council to submit a year end return
Possible effects of breach	Members not aware of the value of their benefits. Poor data as a result of failure to submit a return could have wider implication e.g. for the valuation
Reaction of Relevant parties	Equiniti have committed to issuing the o/s statements by 31st December 2016. Poor reporting from the Council's payroll provider is a long term issue, currently being addressed through implementation of a new payroll system
Reported/not reported	Reported to TPR October 2016

Outcome of report	No fine issued, provided statements issued by target date

12.1 Unreported Breaches Q3 2016/17

Qua	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)
Q3	Oct-16	Annual Benefit Statements	Equiniti/ Hackney Council	Failed to issue annual benefit statements to all active and deferred members by 31st October 2016. Statements were issued to all deferred members, and 4008 of 7286 active members.Equiniti have committed to	R	Submitted a breach report to The Pensions Regulator
Q3	Oct-16	Contributions	Fit for Sport	Payment for Oct received 25/11/16	G	Not reported
Q3	Oct-16	Contributions	Manor House Development Trust	HK221 received 21/11/2016 and payment 25/11/2016	G	Not reported
Q3	Oct-16	Contributions	Northwold Academy	HK221 received 24/11/2016	G	Not reported
Q3	Oct-16	Contributions	St Matthias	HK221 received 24/11/2016	G	Not reported
Q3	Oct-16	Contributions	Holy Trinity	HK221 received 24/11/2016	G	Not reported
Q3	Oct-16	Contributions	Urswick	HK221 received 24/11/2016	G	Not reported
Q3	Oct-16	Contributions	St John the Baptist	HK221 received 24/11/2016	G	Not reported
Q3	Nov-16	Contributions	Capita for Schools	Payment for Nov received 23/01/17	A	Not reported
Q3	Nov-16	Contributions	Fit for Sport	HK221 received 21/12/2016 and payment 23/12/2016	G	Not reported
Q3	Nov-16	Contributions	Manor House Development Trust	Payment for Nov received 03/01/17	A	Not reported
Q3	Nov-16	Contributions	Pride Catering	Payment for Nov received 09/01/17	A	Not reported
Q3	Nov-16	Contributions	Northwold Academy	HK221 received 24/11/2016	G	Not reported
Q3	Dec-16	Contributions	Fit for Sport	Payment for Dec received 24/01/17	G	Not reported
Q3	Dec-16	Contributions	Manor House Development Trust	Payment for Dec received 27/01/17	A	Not reported
Q3	Dec-16	Contributions	Greenwich	HK221 received 25/01/2017	G	Not reported

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