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.

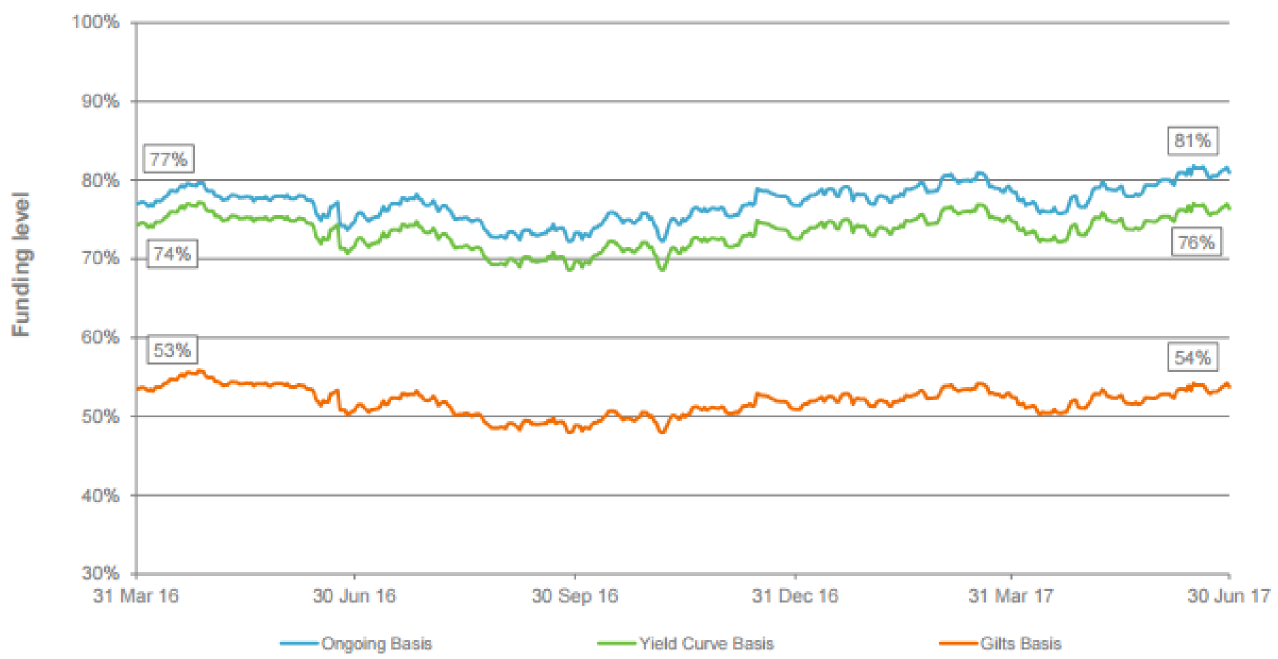
5.5 There are no immediate legal implications arising from this report.

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 June 2017, the funding level was 81% 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 June 2017 (81%) 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 30th June 2017



6.3 The funding level of 81% at 30th June 2017 is based on the position of the Fund having assets of £1,435m and liabilities of £1,770m, i.e. for every £1 of liabilities the Fund has the equivalent of 81p of assets. It should be noted that the monetary deficit remains high, but has reduced from £350m in March 2016 to £337m in June 2017, a decrease of £13m. 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 The introduction of asset pooling for LGPS funds has resulted in a need for constitutional change in administering authorities, to ensure that the new asset pools are properly recognised within the governance structure of funds. An important part of these changes is updating Pensions Committee Terms of Reference, to ensure that the ongoing role of Committee members in asset allocation is recognised and to set out their new role in representing individual funds within the pools.

7.2 This Committee includes a paper setting out for discussion with the Committee the proposed changes to its Terms of Reference. Whilst the proposed changes will need to be approved by Full Council, they have been brought before the Committee for consultation to ensure that the Committee have a full understanding of the changes and are satisfied that it can continue to function effectively as the decision making body for the Pension Fund.

7.3 The proposed changes also include a section updating the appointments procedure for co-opted scheme member and employer representatives on the Committee, to bring the process more into line with that used for the Pension Board representatives. More detail on the full set of changes in included within the dedicated paper.

7.4 Following on from ongoing concerns over the quality of data received from Employers, the Fund has this month been required to submit a report to the Pensions Regulator with regards to its Annual Benefit Statements. Whilst all deferred statements have been sent out on time, 5000 statements for active members are due to be sent around 4th September, leaving approximately 2200 outstanding. The Fund is working with EQ to put together a plan for these statements, and will be submitting a further formal update to the Regulator.

7.5 Once again, this issue has resulted from the failure of the Fund's main employer, the Council, to provide satisfactory year end data. The Fund had planned for this contingency, and was able to use monthly data to produce the majority of active member statements; however, the additional work required to use this data and ongoing issues with the quality of monthly data received has resulted in the delay in sending out statements. Further information on the breach and the Fund's report to the Regulator can be found in the 'Reporting Breaches' section.

8. INVESTMENT UPDATE

8.1 Asset Allocation Q1 2017/18

The following table sets out the Fund's asset allocation as at 30th June 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	329,669,300	24.2	25.0	-0.8
Lazard	Global Equities	222,870,658	16.3	15.5	0.8
Wellington	Global Value	225,299,289	16.5	15.5	1.0
RBC	Global Emerging Markets Equities	73,666,691	5.4	4.5	0.9
Total Equities		**851,505,938**	**62.5**	**60.5**	**2.0**
BMO	Fixed Income	228,424,123	16.8	17.0	-0.2
Columbia Threadneedle	Property	112,517,301	8.3	10.0	0.1
Columbia Threadneedle	Low Carbon Property	24,873,376	1.8		
Invesco	Multi-Asset	57,367,133	4.2	5.0	-0.8
GMO	Multi-Asset	88,602,244	6.5	7.5	-1.0
Total Fund		**1,363,290,116**	**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 30th June 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.

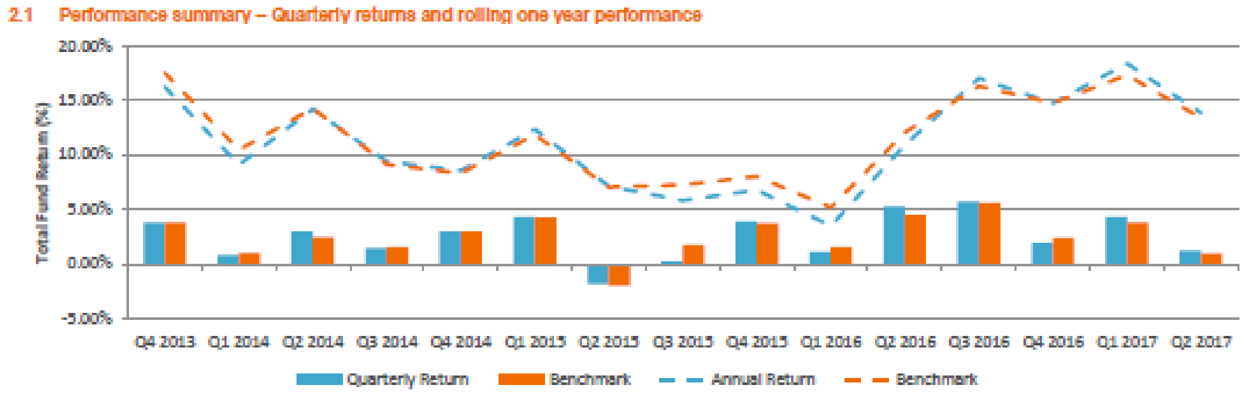
		Wellington Global Eq	Lazard Global Eq	UBS UK Eq	RBC EM Eq	Columbia Threadneedle Property	Columbia Threadneedle LCW	BMO Fixed Income	GMO Multi asset	Invesco Multi asset	Total Scheme
Q2 17 (%)	Fund	1.0	2.2	1.4	2.2	1.5	2.3	-0.4	2.1	1.3	1.3
	Benchmark	1.4	1.4	1.4	2.3	2.3	2.3	-0.9	0.3	0.1	1.0
	Relative	-0.4	0.8	0.0	-0.1	-0.8	0.0	0.5	1.8	1.2	0.3
12 month (%)	Fund	20.9	15.6	18.2	23.0	3.6	2.9	5.3	8.4	6.3	13.5
	Benchmark	21.1	21.1	18.1	27.4	6.0	6.0	3.6	1.3	0.4	13.6
	Relative	-0.2	-4.5	0.1	-3.4	-2.3	-2.9	1.6	7.0	5.9	-0.1
3 years (% p.a.)	Fund	10.3	9.8	7.4		9.7		8.7	0.4		8.4
	Benchmark	11.6	11.6	7.4	n/a	9.5	n/a	8.6	0.7	n/a	8.7
	Relative	-1.1	1.6	0.0		0.2		0.1	-0.3		-0.3
Since Inception (% p.a.)	Fund	9.4	8.8	8.7	34.3	6.7	4.6	7.0	3.3	5.3	
	Benchmark	9.8	9.8	8.6	37.1	5.9	6.0[1]	6.5	1.1	0.5	
	Relative	-0.4	-0.9	0.1	-2.0	0.8	-1.3	0.5	2.2	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.

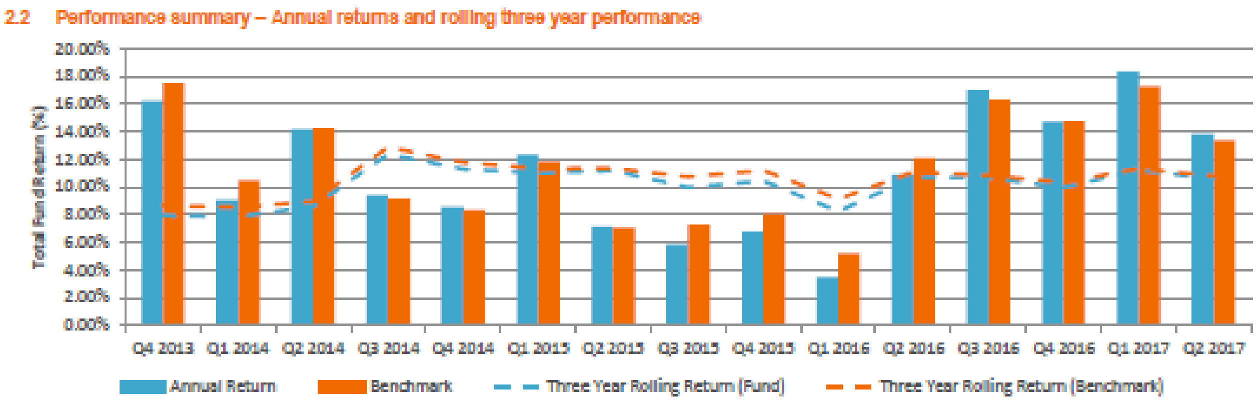
[1] The benchmark only measures performance quarterly, therefore the benchmark return is shown from June 2016.

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 30 Jun	Weight % 30 Jun	Target %	Fund Return %	Benchmark Return %	Asset Allocation	Stock Selection
UBS	UK Equities	FTSE All Share	329,669	24.2%	25.0%	1.4	1.4	0.00	0.00
Lazard	Global Equities	MSCI AC World (50% hedged)	222,871	16.3%	15.5%	2.2	1.4	0.00	0.13
Wellington	Global Equities	MSCI AC World (50% hedged)	225,299	16.5%	15.5%	1.0	1.4	0.00	-0.07
RBC	Global Emerging Market Equities	MSCI Emerging Markets	73,667	5.4%	4.5%	2.2	2.3	0.01	-0.01
Total Equities			**851,506**	**62.6%**	**60.5%**	**1.8**	**1.6**	**0.01**	**0.05**
BMO	Bonds	Bonds Composite [1]	228,424	16.8%	17.0%	-0.4	-0.9	0.00	0.09
Threadneedle	Property	IPD UK Quarterly All Balanced Property Index	112,517	8.3%	8.2%	1.5	2.3	0.00	-0.06
Threadneedle	Low Carbon Property	IPD UK Quarterly All Balanced Property Index	24,873	1.8%	1.8%	2.3	2.3	0.00	0.00
Invesco	Targeted Return	£LIBOR 3M	57,367	4.2%	5.0%	1.3	0.1	0.01	0.05
GMO	Absolute Return	OECD CPI G7 (GBP)	88,602	6.5%	7.5%	2.1	0.3	0.01	0.12
Total Scheme			**1,363,290.118**	**100**	**100**	**1.3**	**1.0**	**0.03**	**0.24**

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 Lazard, Invesco, GMO and BMO.
- Overweight to equities.

Negatives

- Underperformance from Wellington and Threadneedle Property

The table below represents the manager performance over the **12 months to 30th June 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 30 Jun	Weight % 30 Jun	Target %	Fund Return %	Benchmark Return %	Asset Allocation	Stock Selection
UBS	UK Equities	FTSE All Share	329,669	24.2%	25.0%	18.2	18.1	-0.06	0.02
Lazard	Global Equities	MSCI AC World (50% hedged)	222,871	16.3%	15.5%	15.6	21.1	0.05	-0.74
Wellington	Global Equities	MSCI AC World (50% hedged)	225,299	16.5%	15.5%	20.9	21.1	0.01	-0.03
RBC	Global Emerging Market Equities	MSCI Emerging Markets	73,667	5.4%	4.5%	23.0	27.4	0.07	-0.17
Total Equities			**851,506**	**62.5%**	**60.5%**	**18.8**	**20.3**	**0.07**	**-0.82**
BMO	Bonds	Bonds Composite [1]	228,424	16.8%	17.0%	5.3	3.6	-0.11	0.30
Threadneedle	Property	IPD UK Quarterly All Balanced Property Index	112,517	8.3%	8.2%	3.6	6.0	-0.06	-0.20
Threadneedle	Low Carbon Property	IPD UK Quarterly All Balanced Property Index	24,873	1.8%	1.8%	2.9	6.0	0.06	-0.02
Invesco	Targeted Return	£LIBOR 3M	57,367	4.2%	5.0%	6.3	0.4	0.05	0.27
GMO	Absolute Return	OECD CPI G7 (GBP)	88,602	6.5%	7.5%	8.4	1.3	0.07	0.48
Total Scheme			**1,363,290**	**100**	**100**	**13.4**	**13.8**	**0.08**	**-0.10**

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 BMO, Invesco and GMO.
- Overweight to equities for the majority of the 12 month period to 30 June 2017.

Negatives:

- Underperformance from Lazard, RBC and both Threadneedle property funds

The table below represents the manager performance over the **3 years to 30th June 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 for the majority of the 3 year period to March 2017.

9. BUDGET MONITORING

9.1 The Pension Fund budget for 2017/18 was approved by Pensions Committee at its 29th March 2017 meeting. The paper presented set out rolling forecast budgets to 2018-19, which predict an ongoing cash flow positive position for the Fund. The budget is shown in the table below.

9.2 Full reporting against this budget will be provided at the next meeting. The Fund is currently moving to a new company setup within the Council's accounting system which, when set up, will permit more detailed in year reporting.

Description	2016/17 Outturn £'000	2017/18 Budget £'000	2018/19 Budget £'000	Comments
Member Income				
Employers' Contribution	67,162	59,387	57,849	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. Budget to be revised and realigned with

				2016/17 outturn.
Employees' Contribution	12,155	12,293	12,416	See Above
Transfers In	4,719	3,560	3,560	16-17 forecast figure used to forecast - the level of transfers in is outside the Fund's control
Member Income Total	84,036	75,239	73,824	
Member Expenditure				
Pensions	(41,807)	(42,904)	(44,637)	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	(13,547)	(13,736)	(14,291)	Uses assumptions as above, but challenging to forecast as this is outside the Fund's control.
Refund of Contributions	(201)	-6,633	-6,633	Adjusted for CPI as per above with a 1% uplift for 2017/18, followed by 2% pa thereafter
Transfers Out	(5,632)	(178)	(182)	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	(61,187)	(63,451)	(65,743)	
Net Member Surplus	22,849	11,788	8,081	
Management Expenses				
Administration, Investment Management and Governance & Oversight	(5,869)	(4,922)	(5,008)	Forecast based on 2016/17 forecast, with a 1% uplift for 2017/18, followed by 2% pa thereafter. Budget to be revised and realigned with the final outturn.
Net Administration Expenditure	(5,869)	(4,922)	(5,008)	
Surplus from Operations	16,980	6,866	3,073	
Investment Income/Expenditure				
Investment Income	14,423	13,105	13,105	Investment income expected to remain constant across the period. Budget to be revised in line with 2017 outturn
Net Investment Income/Expenditure	14,423	13,105	13,105	
Cash Flow before Investment Performance	31,403	19,971	16,178	

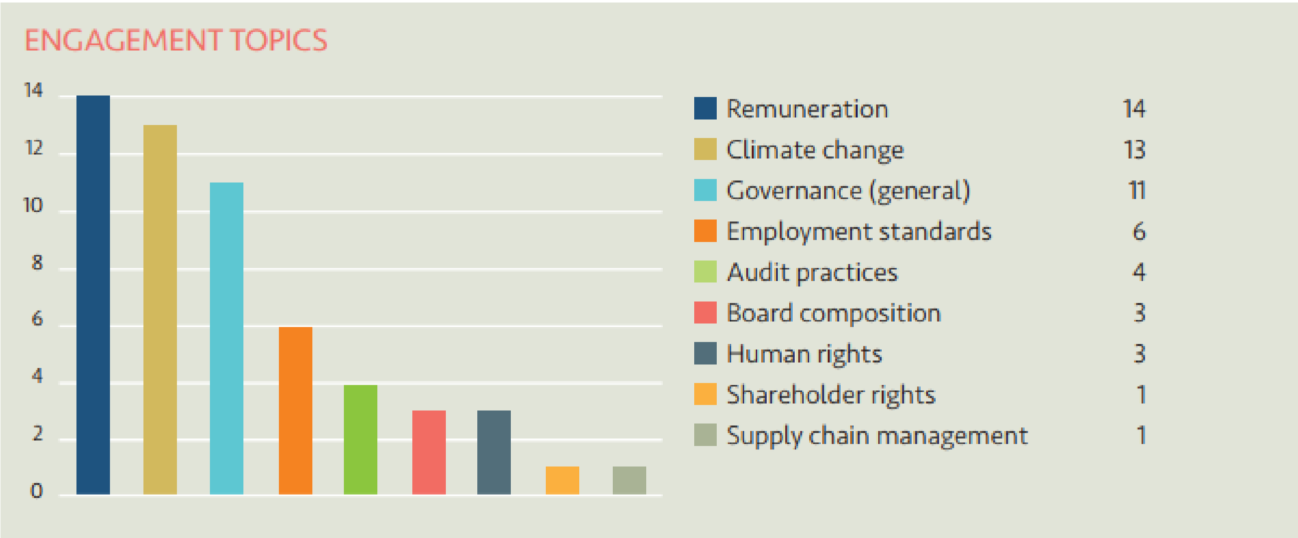
10. ENGAGEMENT AND CORPORATE GOVERNANCE

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 commitments to consider low carbon options for a proportion of the Fund's passive equity investments, and to look at potential options for active global equity. This Committee's agenda includes a paper making recommendations around the Fund's approach to active equity investment.

10.4 The table below shows LAPFF's engagement activities over the quarter, listed by company, area of interest and engagement activity. LAPFF members conducted 56 engagements over the quarter; Key topics of engagement included governance, climate change, employment standards and remuneration.



10.6 During the quarter, LAPFF issued a number of voting alerts recommending members back shareholder resolutions on climate change disclosure at US energy firms: PPL, Chevron and Exxon Mobil.

10.7 The alerts follow the signing of the Paris Agreement under which countries agreed to limit the global average temperature rise to below 2 degrees Celsius. The objective of the resolutions have been that companies undertake analysis and produce publically-available reports on the impact that a 2 degree scenario is likely to have on their business and shareholder value. Some resolutions, such as that to Chevron, have also called on energy firms to report on how they can transition to a low carbon economy.

10.8 The resolutions are in line with LAPFF's policy position to press companies to use scenarios to provide forward-looking analysis, and that companies should be positioning themselves for a low carbon future by disclosing strategic business transition plans. Similar resolutions last year received the backing of a large number of shareholders. And this year, following the first climate change resolution to be passed at a US oil and gas company (Occidental), the resolutions at Exxon and PPL both received the majority backing of shareholders.

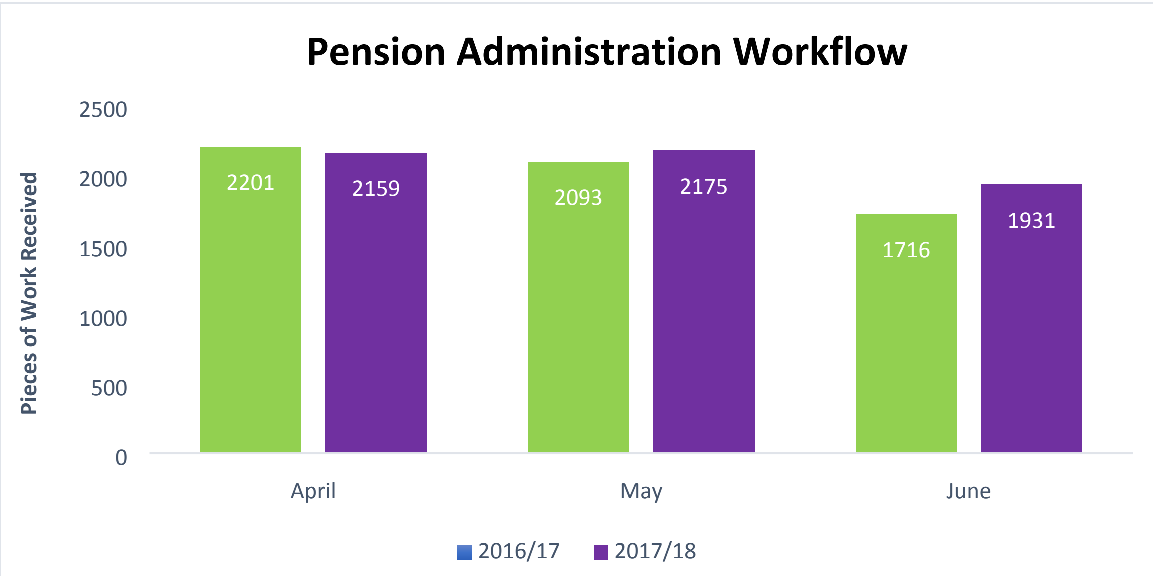
10.8 The Fund holds Exxon through its mandate with Lazard, who voted in line with the Forum's recommendation.

11. PENSION ADMINISTRATION

11.1 Pension Administration Management Performance

The case load for the administrators during Q1 2017/18 has increased slightly in comparison to the same period in 2016/17. A total of 6,265 new cases were received during the current quarter, compared to 6,010 during Q1 in 2016/17

A comparison of the workflow for the administrators between Q1 2016/17 and the reporting quarter is set out below:-

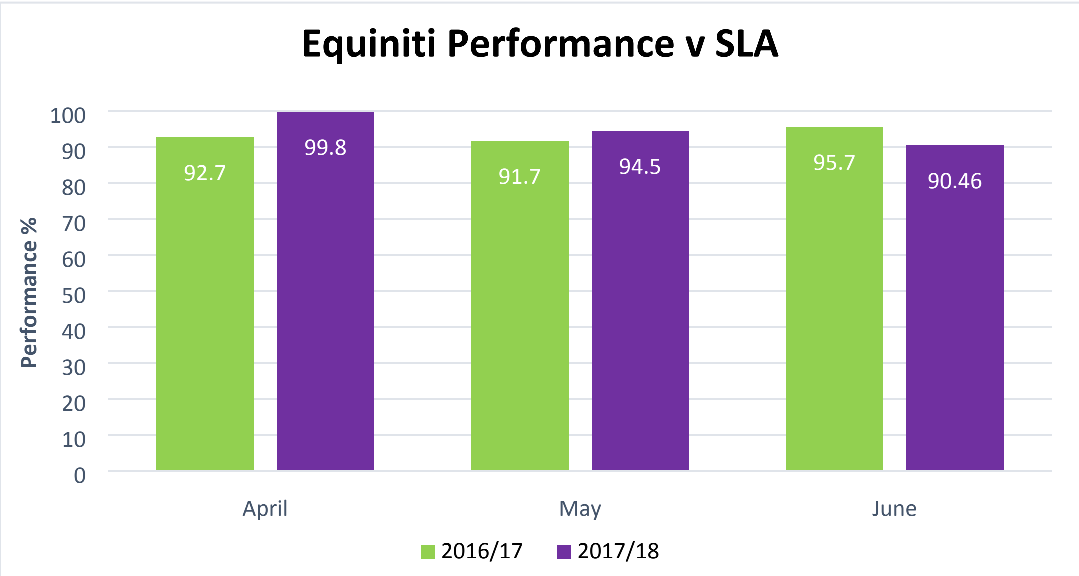


The average number of pieces of work received per month during Q1 2017/18 was 2,088 compared to an average of 2,003 received during the same period in 2016/17.

Much of this workload has been done manually as there is still no suitable working interface from the Council's payroll system that Equiniti can use to update member records automatically. Extra queries have also been raised during the months of April and May with the Fund employers as part of the data verification exercise, in order to ensure more accurate data is available for the annual benefit statements.

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 95% for Q1 2017/18 compared to 93.4% for the same period in the previous year.

The administrator's performance against the SLA for Q1 2016/17 and Q1 of the reporting period 2017/18 is set out below:



It should be noted that the gradual decline in the administrators' performance for the first quarter of 2017/18 is attributed to the increased level of manual work-around that continues to be done to member records. The majority of the additional work is due to the continued lack of an interface from the Council's payroll provider that is fit for purpose and also the complexities of the CARE scheme. The Council is the largest employer in the Fund and has the majority of the work.

The performance is particularly low in the month of June due to the administrators concentrating efforts on the employers annual data returns that must be checked and verified. Any data queries are then raised with the employers, and member records updated accordingly. Extra data cleanse work is being undertaken by the administrators as the data is required for the annual benefit statements this year.

The lack of accurate and timely data continues to cause major issues at Equiniti, however, with the introduction of the new Payroll system which commenced in July 2017, it is hoped that the extra work that has been undertaken to date will decrease due to more accurate data provided from interface reports run by Payroll. As such, no further concerns or issues were raised in regard to the SLA's.

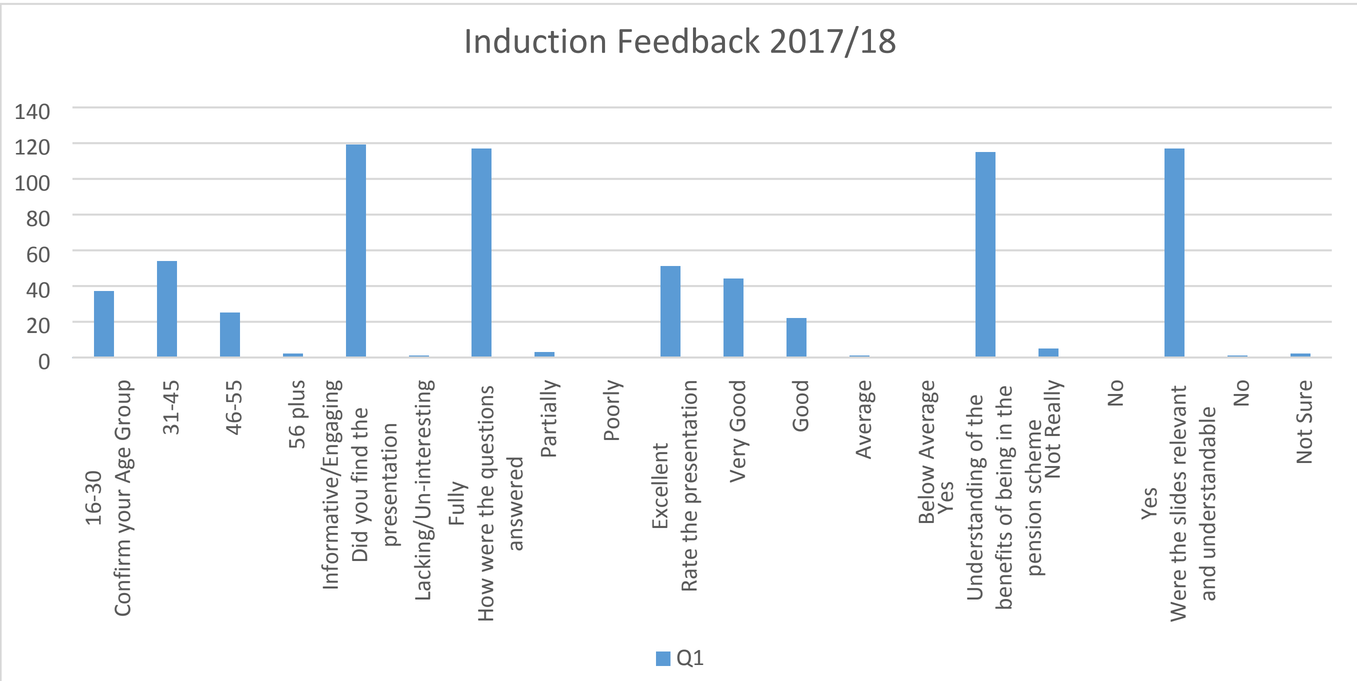
11.2 **New Starters and Opt Outs**

	Total Membership at End of Quarter	Total Opt Outs For Quarter
Q1 2016/17	7,543	135
Q1 2017/18	7,661	101

The opt outs in Q1 2017/18 are significantly lower compared to Q1 2016/17, but the trend remains that, on average, around 100 employees choose to opt out of the scheme each quarter. There were 118 more active members at the end of Q1 2017/18 than there were in the same quarter of 2016/17.

11.3 **Scheme Administration**

The Financial Services in-house pension team facilitated at weekly induction sessions for 120 new employees during the reporting period. These sessions continue to receive very positive feedback with respondents rating the presentations as 'Very Good' or 'Excellent'. And 96% of those who attended the sessions, 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 that have been processed during Q1 of 2017/18, compared to the same period in the previous year.

DEFERRED MEMBER'S ILL HEALTH RETIREMENT CASES					
	CASES RECEIVED	SUCCESSFUL	UNSUCCESSFUL	ONGOING	WITHDRAWN
Q1 2016/17	6	1	1	4	0
Q1 2017/18	3	1	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
Q1 2016/17	0	0	0	0	0
Q1 2017/18	1	0	0	1	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.

The following case was concluded in the 1st quarter 2017/2018:

Stage 1

Active member not awarded ill health retirement benefits by the employer.
Member appealed employer's decision.
Stage 1 review advised employer that due process had been correctly followed and full consideration was applied when reviewing the evidence.
The appeal was not upheld.

11.6 Other work undertaken in Q1 2017/18

Third Party Administration

Following the recent procurement exercise for Third Party Pension Administrators using the National LGPS Framework, the Pensions Committee met on 25 April 2017 and approved the award of the contract to Equiniti, the previous holders of the contract. Service specifications and detailed contract negotiations are currently taking place and will be finalised before the new contract commencement date of 1 January 2018.

Redundancy Exercise for Schools

As well as the usual redundancy estimate requests that are received by the in-house pensions team, Q1 of 2017/18, saw an increase of request coming from a number of Schools within Hackney. A total of 170 redundancy estimates, some with pension release, for support staff (not teachers) have been received, calculated and returned to the requesting Schools. The reduction in grants and support to the education sector is forcing schools to consider this type of cost saving exercise in order to reduce the burden on their budgets.

Additional Voluntary Contributions (AVC)

In May 2017, the pension team working with the Prudential, who are the Councils approved AVC provider offered a number of pension seminars to provide information to staff on the additional savings options available. The seminars were open to everyone who wanted to know more about their pensions and not just those who were approaching retirement. A total of 115 members of staff attended, over 2 days of presentations. The Prudential also met with 20 members of staff on an individual basis, to discuss their options and provide information with regards to contributing to an AVC fund.

Newsletters

The Pensions Team produced their 3rd quarterly Newsletter, which is issued to both Employers and Schools/Academies within the London Borough of Hackney Pension Fund. The newsletter provides an update on subjects relevant to LGPS and other topical matters relating to the pensions world. In this addition, the topics ranged from an update to the Exit Payment Cap and also website links to a guide produced by the Pensions and Lifetime Savings Association (PLSA) and Equiniti regarding the benefits of keeping and maintaining good quality data.

12. REPORTING BREACHES

12.1 The Fund has this month been required to submit a report to the Pensions Regulator with regards to its Annual Benefit Statements. Whilst all deferred statements have been sent out on time, 5000 statements for active members are due to be sent around 4th September, leaving approximately 2200 outstanding. The Fund is working with EQ to put together a plan for these statements, and will be submitting a further formal update to the Regulator. It is expected that the outstanding statements will be sent out by mid-October; however, officers are currently working with Equiniti to put a formal target in place.

12.2 Once again, this issue has resulted from the failure of the Fund's main employer, the Council, to provide satisfactory year end data. The Fund had planned for this contingency, and was able to use monthly data to produce the majority of active member statements; however, the additional work required to use this data and ongoing issues with the quality of monthly data received has resulted in the delay in sending out statements.

12.3 Although the situation has improved compared to previous years, this is the third year running that the Fund has been required to submit a report to the Regulator concerning this issue. This issue has been raised at the highest level of the Council; accurate membership data is of increasing importance since the introduction of the CARE scheme, and it is critical that the problems with the Council's membership data submissions are resolved. Officers of the Fund continue to work as part of the project team implementing the Council's new payroll system, iTrent, and transitioning towards business as usual. Whilst there have been some early difficulties, the template reports being produced are of substantially higher quality than previously.

13. FUTURE TRAINING EVENTS

- 10th October 2017 - LGPS Trustee Training – Fundamentals Day 1 – London
- 15th November 2017 - LGPS Trustee Training – Fundamentals Day 2 – London
- 13th December 2017 - LGPS Trustee Training – Fundamentals Day 3 – London

Comprehensive training suitable for both new and existing Pension Committee and Board Members. Can be booked via the LGA website (https://www.local.gov.uk/events?topic%5B5652%5D=5652&from=&to=&region=All) or via officers.

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