Hackney

REPORT OF THE GROUP DIRECTOR, FINANCE & CORPORATE RESOURCES		
Pension Fund – Quarterly Update **Pensions Committee** **4th December 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 INTERIM 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 September 2017, the funding level was 83% 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 September 2017 (83%) 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 September 2017

6.3 The funding level of 83% at 30th September 2017 is based on the position of the Fund having assets of £1,466m and liabilities of £1,773m, i.e. for every £1 of liabilities the Fund has the equivalent of 83p of assets. It should be noted that the monetary deficit remains high, but has reduced from £350m in March 2016 to £307m in September 2017, a decrease of £43m. 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 Committees' 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 The proposed changes to the Terms of Reference for the Hackney Pensions Committee will need to be approved by Full Council; however, prior to this, all Committee Members will be invited to a consultation session to ensure that they have a full understanding of the changes and are satisfied that the Committee will continue to function effectively as the decision making body for the Pension Fund.

7.3 The proposed changes include a section updating the appointments procedure for co-opted scheme members and employer representatives on the Committee, to bring the process more into line with that used for the Pension Board representatives.

7.4 Following on from ongoing concerns over the quality of data received from Employers, the Fund has engaged in an ongoing dialogue with the Pensions Regulator with regards to its Annual Benefit Statements. Statements to deferred members were submitted by the deadline of 31st August, with 4341 statements for active members sent on 4th September 2017. A further 783 statements were sent w/c 2nd October, whilst the remaining 2,400 statements to actives have not yet been issued. The Fund has worked with Equiniti to draw up a plan for producing these statements, with a new target date of 31st December for statements to be issued.

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.

8. INVESTMENT UPDATE

8.1 Asset Allocation Q2 2017/18

The following table sets out the Fund's asset allocation as at 30th September 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 Equities	336,809,909	24.3	25.0	-0.7
Lazard	Global Equities	228,714,160	16.5	15.5	1.0
Wellington	Global Value	229,893,337	16.6	15.5	1.1
RBC	Global Emerging Market Equities	76,258,008	5.5	4.5	1.0
Total Equities		**871,675,414**	**62.8**	**60.5**	**2.3**
BMO	Fixed Income	228,143,013	16.4	17.0	-0.6
Columbia Threadneedle	Property	115,407,121	8.3	10.0	0.1
Columbia Threadneedle	Low Carbon Property	25,100,247	1.8		
Invesco	Multi Asset	56,748,169	4.1	5.0	-0.9
GMO	Multi Asset	90,110,938	6.5	7.5	-1.0
Total Fund		**1,387,184,902**	**100.0**	**100.0**	**0.0**

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 September 2017 against their respective benchmarks.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.

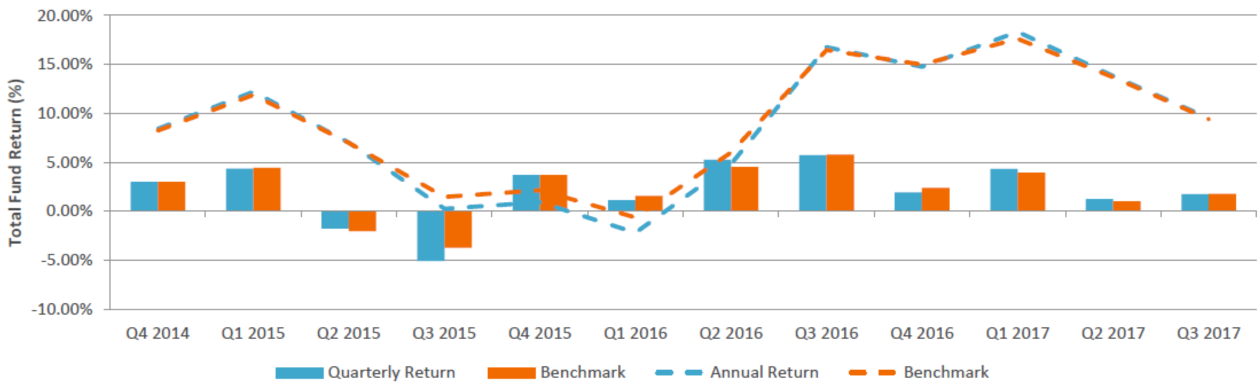
		UBS UK Eq	Lazard Global Eq	Wellington Global Eq	RBC EM Eq	BMO Fixed Income	Columbia Threadneedle Property	Columbia Threadneedle LCW	Invesco Multi Asset	GMO Multi Asset	Total Scheme
Q3 17 (%)	Fund	2.2	2.6	2.1	3.5	-0.1	2.3	1.4	-1.3	1.7	1.7
	Benchmark	2.1	2.7	2.7	4.5	-0.3	2.4	2.4	0.1	0.3	1.8
	Relative	0.0	-0.1	-0.6	-0.9	0.2	-0.1	-1.0	-1.3	1.4	-0.1
12 Month (%)	Fund	12.1	11.8	16.0	15.2	-0.8	8.9	7.4	3.0	6.9	9.5
	Benchmark	11.9	16.1	16.1	18.5	-2.5	9.3	9.3	0.3	1.6	9.4
	Relative	0.1	-3.7	-0.1	-2.7	1.7	-0.4	-1.7	2.7	5.2	0.1
3 Year (% p.a.)	Fund	8.6	10.0	10.3		7.5	8.8			1.8	8.6
	Benchmark	8.5	11.9	11.9	n/a	7.1	8.9	n/a	n/a	0.8	8.9
	Relative	0.0	-1.7	-1.4		0.4	-0.1			1.0	-0.3
Since Inception (% p.a.)	Fund	8.7	8.9	9.3	29.4	6.8			3.2	3.5	
	Benchmark	8.6	9.9	9.9	32.5	6.4	n/a[1]	n/a[1]	0.5	1.1	
	Relative	0.1	-0.9	-0.5	-2.3	0.3			2.7	2.3	
Since Inception Dates		August 2003	April 2010	April 2010	December 2015	September 2003	March 2004	May 2016	December 2015	September 2012	

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

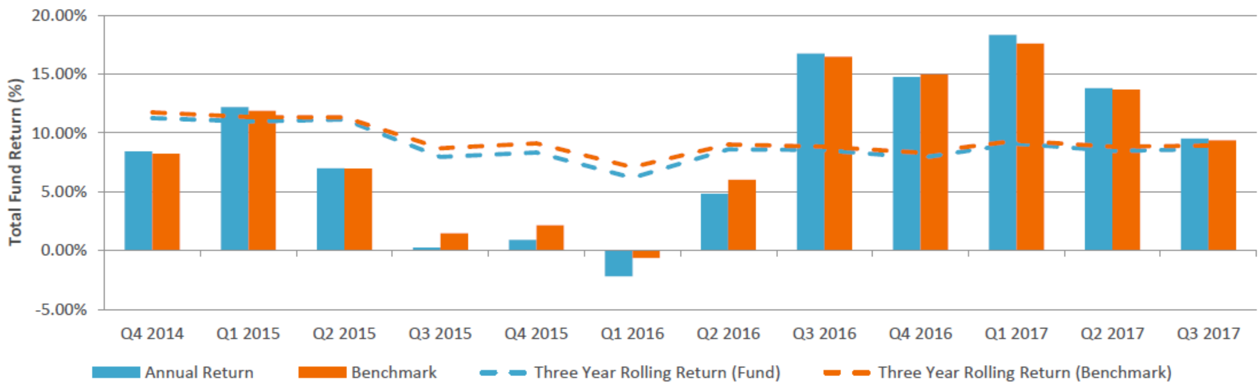
[1] Since Inception returns for Columbia Threadneedle Property mandates are unavailable.

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

2.1 Performance summary – Quarterly returns and rolling one year performance



2.2 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 Sep	Weight % 30 Sep	Target %	Fund Return %	Benchmark Return %	Asset Allocation	Stock Selection
UBS	UK Equities	FTSE All Share	336,810	24.3%	25.0%	2.2	2.1	0.00	0.01
Lazard	Global Equities	MSCI AC World (50% hedged)	228,714	16.5%	15.5%	2.6	2.7	0.01	-0.02
Wellington	Global Equities	MSCI AC World (50% hedged)	229,893	16.6%	15.5%	2.1	2.7	0.01	-0.10
RBC	Global Emerging Market Equities	MSCI Emerging Markets	76,258	5.5%	4.5%	3.5	4.5	0.03	-0.05
Total Equities			**871,675**	**62.8%**	**60.5%**	**1.5**	**1.6**	**0.04**	**-0.16**
BMO	Bonds	Bonds Composite[1]	228,143	16.4%	17.0%	-0.1	-0.3	0.00	0.03
Threadneedle	Property	IPD UK Quarterly All Balanced Property Index	115,407	8.3%	7.5%	2.3	2.4	0.01	-0.01
Threadneedle	Low Carbon Property	IPD UK Quarterly All Balanced Property Index	25,100	1.8%	2.5%	1.4	2.4	-0.01	-0.02
Invesco	Targeted Return	£LIBOR 3M	56,748	4.1%	5.0%	-1.3	0.1	0.01	-0.06
GMO	Absolute Return	OECD CPI G7 (GBP)	90,111	6.5%	7.5%	1.7	0.3	0.01	0.09
Total Scheme			**1,387,185**	**100.0%**	**100.0%**	**1.7**	**1.8**	**0.07**	**-0.12**

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

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

- At the end of September the Fund was overweight to equities.

Positives

- Outperformance from GMO.

Negatives

- Underperformance from Wellington, RBC and Invesco.

The table below represents the manager performance over the **12 months to 30th September 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 Sep	Weight % 30 Sep	Target %	Fund Return %	Benchmark Return %	Asset Allocation	Stock Selection
UBS	UK Equities	FTSE All Share	336,810	24.3%	25.0%	12.1	11.9	-0.04	0.03
Lazard	Global Equities	MSCI AC World (50% hedged)	228,714	16.5%	15.5%	11.8	16.1	0.07	-0.64
Wellington	Global Equities	MSCI AC World (50% hedged)	229,893	16.6%	15.5%	16.9	16.1	0.07	0.11
RBC	Global Emerging Market Equities	MSCI Emerging Markets	76,258	5.5%	4.5%	15.2	18.5	0.08	-0.15
Total Equities			**871,675**	**62.8%**	**60.5%**	**8.2**	**8.9**	**0.17**	**-0.65**
BMO	Bonds	Bonds Composite[1]	228,143	16.4%	17.0%	-0.8	-2.5	-0.06	0.29
Threadneedle	Property	IPD UK Quarterly All Balanced Property Index	115,407	8.3%	7.5%	8.9	9.3	-0.01	-0.03
Threadneedle	Low Carbon Property	IPD UK Quarterly All Balanced Property Index	25,100	1.8%	2.5%	4.5	6.9	0.00	-0.04
Invesco	Targeted Return	£LIBOR 3M	56,748	4.1%	5.0%	3.0	0.3	0.04	0.12
GMO	Absolute Return	OECD CPI G7 (GBP)	90,111	6.5%	7.5%	6.9	1.2	0.05	0.36
Total Scheme			**1,387,185**	**100.0%**	**100.0%**	**9.5**	**9.4**	**0.19**	**0.04**

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

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

Positives

- Outperformance from Wellington, BMO, Invesco and GMO

Negatives

- Underperformance from Lazard and RBC

The table below represents the manager performance over the **3 years to 30th September 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 Sep	Weight % 30 Sep	Target %	Fund Return %	Benchmark Return %	Asset Allocation	Stock Selection
UBS	UK Equities	FTSE All Share	336,810	24.3%	25.0%	8.6	8.5	-0.22	0.00
Lazard	Global Equities	MSCI AC World (50% hedged)	228,714	16.5%	15.5%	10.0	11.9	0.03	-0.87
Wellington	Global Equities	MSCI AC World (50% hedged)	229,893	16.6%	15.5%	11.0	11.9	0.01	-0.45
RBC	Global Emerging Market Equities	MSCI Emerging Markets	76,258	5.5%	4.5%	n/a	n/a	0.16	-0.20
Total Equities			**871,675**	**62.8%**	**60.5%**	**6.2**	**6.7**	**-0.01**	**-1.51**
BMO	Bonds	Bonds Composite[1]	228,143	16.4%	17.0%	7.5	7.1	0.04	0.22
Threadneedle	Property	IPD UK Quarterly All Balanced Property Index	115,407	8.3%	7.5%	8.8	8.9	-0.05	0.00
Threadneedle	Low Carbon Property	IPD UK Quarterly All Balanced Property Index	25,100	1.8%	2.5%	n/a	n/a	0.00	-0.04
Invesco	Targeted Return	£LIBOR 3M	56,748	4.1%	5.0%	n/a	n/a	0.05	0.27
GMO	Absolute Return	OECD CPI G7 (GBP)	90,111	6.5%	7.5%	1.8	0.5	0.18	0.24
Total Scheme			**1,387,185**	**100.0%**	**100.0%**	**8.6**	**8.9**	**0.21**	**-0.82**

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 Invesco, BMO and GMO.

Negatives

- Underperformance from Lazard, RBC and Wellington.

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.

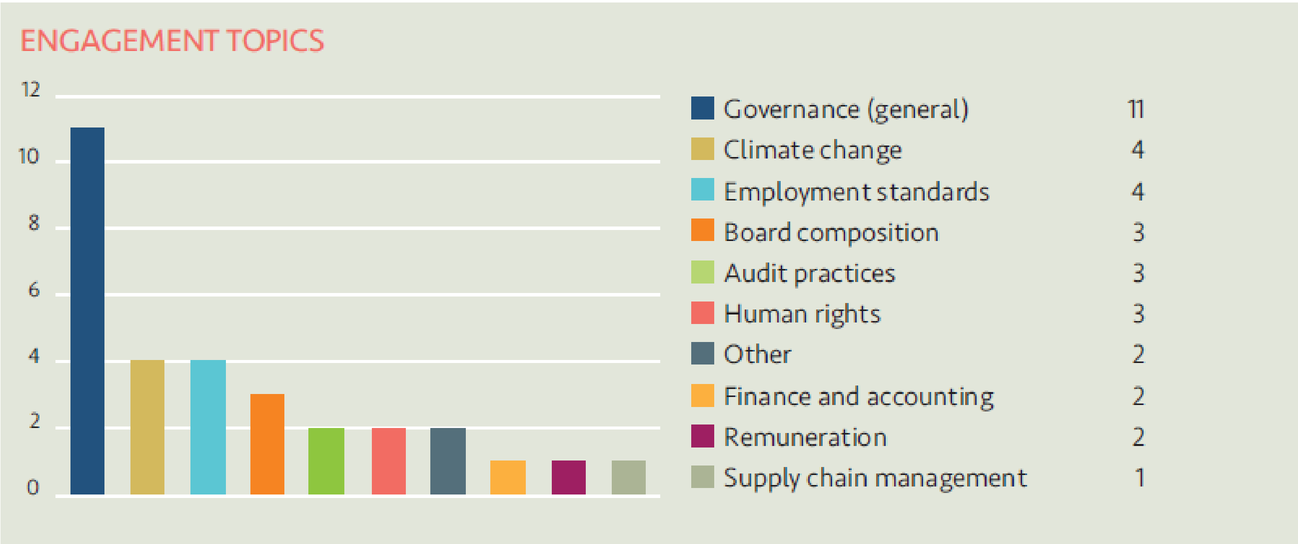
Description	2016/17 Outturn £'000	2017/18 Budget £'000	2018/19 Budget £'000	Comments
Member Income				
Employers' Contribution	67,162	59,387	57,849	Future forecasts based on 2016/17 forecast with an assumption that employer contributions will reduce in line with the Council's proposed reduced rates. 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 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.



10.3 The Fund has direct holdings in 2 of the companies concerned; British American Tobacco and SSE. The Forum met with Richard Burrows, the Chair of British American Tobacco to understand the role public health plays in influencing the company's business strategy and business model. The meeting followed a previous meeting in 2013 on similar concerns and followed up with discussions about the necessary steps taken to address public health issues and comply with anti-smoking regulations, including the introduction of new next generation products.

10.4 LAPFF raised cybersecurity at the SSE AGM, asking the Chairman, Richard Gillingswater, for greater detail on cybersecurity protections and how they will protect both SSE and its customers from an attack on the network and systems failures. He further asked about the results and the following recommendations of the company's internal audit on cybersecurity risks. SSE has now separately classified cybersecurity as a risk in its risk register and is managing the risk with a high priority level. A great deal of investment had taken place over the past three to four years, after the company had acknowledged its need to tighten up.

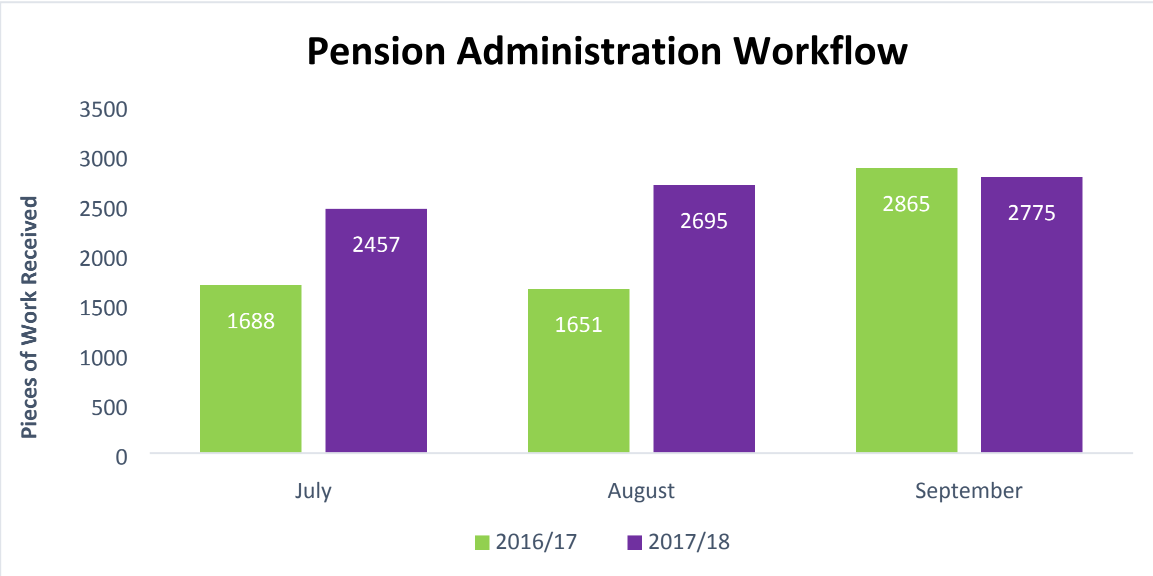
10.5 The Fund has continued to make progress on plans for implementation of its investment strategy, with plans now well underway for the implementation of a low carbon passive equity strategy. Further details are set out in the Active and passive equity transition paper. The implementation of a passive low carbon mandate will help move the Fund considerably closer to its target of reducing its exposure to fossil fuels by 50%.

11. PENSION ADMINISTRATION

11.1 Pension Administration Management Performance

The case load for the administrators during Q2 2017/18 has increased slightly in comparison to the same period in 2016/17. A total of 7,927 new cases were received during the current quarter, compared to 6,204 during Q2 in 2016/17

A comparison of the workflow for the administrators between Q2 2016/17 and the reporting quarter is set out below:-

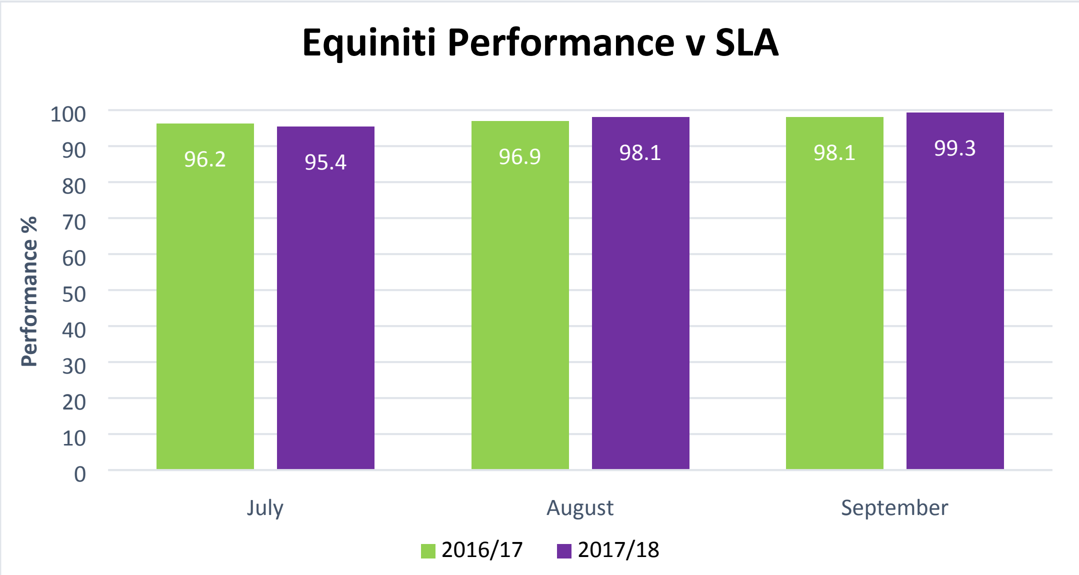


The average number of pieces of work received per month during Q2 2017/18 was 2,642 compared to an average of 2,068 received during the same period in 2016/17.

Much of this workload has been done manually as the new iTrent interface from the Council's payroll system still cannot be used to update member records automatically as a result of problems with the pension start dates migrated to iTrent from the previous system. Extra queries have also been raised during the quarter as a result of ongoing data verification for 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 97.6% for Q2 2017/18 compared to 97.0% for the same period in the previous year.

The administrator's performance against the SLA for Q2 2016/17 and Q2 of the reporting period 2017/18 is set out below:



Whilst the administrator's performance did gradually increase over Q2 of 2017/18, it should be noted that volumes of manual processing are still significantly above the norm. 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 lack of accurate and timely data continues to cause major issues at Equiniti. It is hoped that the introduction of the Council's new payroll system will decrease the level of manual processing required; however, delays to the development of reports and problems with some of the data transferred to the new provider have meant that the impact of the new system cannot yet be assessed. No further concerns or issues were raised in regard to the SLA's.

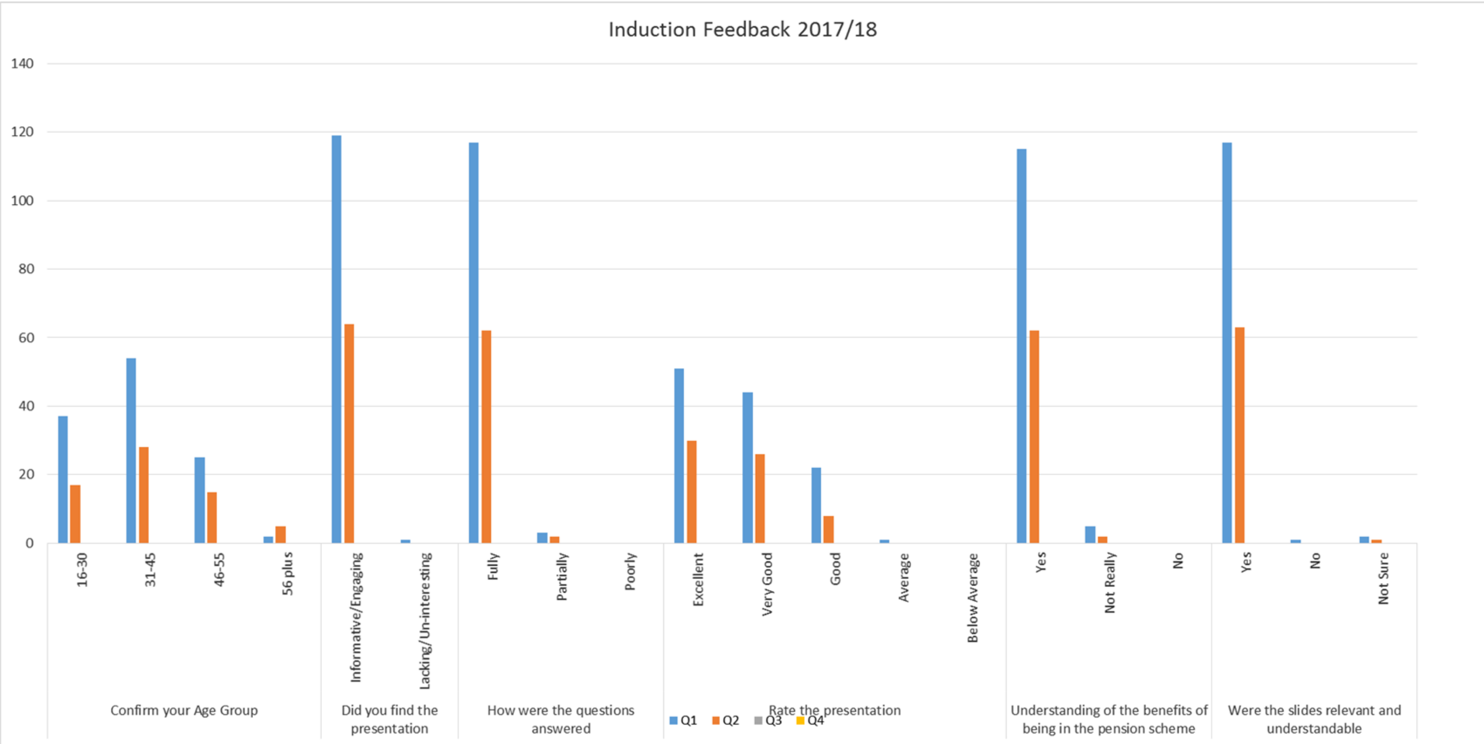
11.2 New Starters and Opt Outs

	Total Membership at End of Quarter	Total Opt Outs For Quarter
Q2 2016/17	7,521	308
Q2 2017/18	7,568	61

The opt outs in Q2 2017/18 are significantly lower compared to Q2 2016/17, and represent a significant decrease relative to the current average of around 100 opt outs per quarter. There were 47 more active members at the end of Q2 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 64 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 97% 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 Q2 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
Q2 2016/17	8	5	0	2	1
Q2 2017/18	1	0	0	1	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
Q2 2016/17	0	0	0	0	0
Q2 2017/18	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 Group Director, Finance & Corporate Resources taking external specialist technical advice from the Fund's benefits consultants.

No cases were concluded in Q2 2017/2018:

11.6 **Other work undertaken in Q2 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 still taking place and it is hoped they will be finalised before the new contract commencement date of 1 January 2018. However, contract details are slightly delayed and it may be prudent to agree a continuation on the existing contract for at least 2 months and issue a letter of intent to Equiniti regarding the new contract. Legal advice will be sought before proceeding.

Redundancy Exercises for Departmental Budget Purposes

In Q2 of 2017-18, the in-house pensions' team have received a total of 179 redundancy estimate requests from various Directorates across the Council, some of these are for members over the age of 55 who will have pension released. The last day of service for these estimate requests vary from 29 January to 31 March 2018. Requests for estimates will no doubt increase over the coming months as Directorates finalise their budgets and staff restructures.

Additional Voluntary Contributions (AVC)

As mentioned earlier in the report, the migration of the Council's payroll to iTrent has caused many issues in regard to pensions and reporting. Not only does it impact on Equiniti, but also for LGSP & TPS members with AVC contracts with the Prudential. Although contributions are being paid across the Prudential, the payroll system has not been able to provide the statutory reporting since June 2017. This is required by the Prudential to identify individuals, their contributions and the contribution period to which it relates. This lack of information prevents the Prudential from investing the member contributions into the appropriate investment schemes, thus impacting on the members' expectations of investment growth and the disinvestment sums for those who are retiring are reduced due to missing investment income. We are working with the Prudential and payroll to resolve this issue as soon as possible, as we are in breach of regulations and could be subject to fines and compensation claims from members.

Newsletters

The Pensions Team produced their quarterly Newsletter in September 2017, which was issued to both Employers and Schools/Academies within the London Borough of Hackney Pension Fund. The newsletter covered updates on subjects relevant to LGPS and other topical matters relating to the pensions world. In this addition, the topics covered were an update on the Data Protection regulations with the introduction of GDPR in May 2018, the use of Assumed Pensionable Pay (APP), the increase in State Pension ages, levies for the late payment of member contributions to the Fund, the role of the tPR and a reminder of the benefits of the 50/50 section of the scheme.

12. REPORTING BREACHES

12.1 Fund has engaged in an ongoing dialogue with the Pensions Regulator with regards to its Annual Benefit Statements. Statements to deferred members were submitted by the deadline of 31st August, with 4,341 statements for active members sent on 4th September 2017. A further 783 statements were sent w/c 2nd October, whilst the remaining 2,400 statements to actives are being issued in batches. The Fund has worked with Equiniti to draw up a plan for producing these statements, with a new target date of 31st December for statements to be issued.

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 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 the template reports being produced appear to be of substantially higher quality than previously, problems with the pension scheme start dates migrated to the new systems have prevented the new iTrent interface from being used. It is hoped that this will be resolved by the end of 2017.

13. FUTURE TRAINING EVENTS

- 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.

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