

REPORT OF THE GROUP DIRECTOR, FINANCE & CORPORATE RESOURCES

Pension Fund – Quarterly Update	Classification PUBLIC	Enclosures None
	Ward(s) affected ALL	
Pensions Committee 21st March 2018		

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 December 2017, the funding level was 83.2% compared to 77% as at the end of March 2016.
- 6.2 The chart below highlights the funding position as at 31st March 2016 (77%) compared to 31st December 2017 showing a slight decrease in the funding position at the start of the period, followed by recovery, then an increase towards the end.

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



- 6.3 The funding level of 83.2% at 31st December 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 As reported in Q2, the Fund continues to engage with the Pensions Regulator in regard to the outstanding Annual Benefit Statements from 2016/17 year-end. At the time of reporting, 1,700 data queries (the bulk of which relate to LB Hackney employees), remain unanswered from last year and the in-house pension team are working on these as a priority to identify any active members. The administrators will then use the monthly data to produce any active member statements as soon as possible. Those queries that remain, are likely to be confirmed/unconfirmed leavers and once leaver information has been received, a deferred statement will be issued after the remaining actives have been processed.
- 7.5 This is the 3rd year the Fund has been required to submit a report to the Regulator concerning this issue. This issues 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 with the Council's new payroll system, iTrent, and Equiniti to produce a working interface that can be tested and implemented before the new administration contract starts on 1 April 2018.

8. INVESTMENT UPDATE

8.1 Asset Allocation Q3 2017/18

Table 8.1 sets out the Fund's asset allocation as at 31st December 2017 against the target allocation. The valuations have been provided by the Scheme's investment managers.

8.2 Performance summary

Table 8.2 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.

Table 8.2

		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
Q4 17 (%)	Fund Benchmark Relative	4.9 5.0 0.0	4.5 5.0 -0.5	4.3 5.0 -0.7	6.0 6.6 -0.6	2.4 2.4 0.0	3.4 3.1 0.3	1.1 3.1 -1.9	-0.1 0.1 -0.2	2.1 0.1 2.0	3.8 3.8 0.0
12 Month (%)	Fund Benchmark Relative	12.6 13.1 -0.4	16.4 15.7 0.6	16.0 15.7 0.3	23.5 25.4 -1.5	4.0 3.0 1.0	9.6 10.2 -0.5	5.6 10.2 -4.1	1.8 0.4 1.4	10.4 1.6 8.8	11.5 10.8 0.7
3 Year (% p.a.)	Fund Benchmark Relative	10.0 10.1 -0.1	10.2 12.4 -1.9	10.3 12.4 -1.9	n/a	6.3 5.7 0.5	8.4 8.4 0.0	n/a	n/a	2.6 0.8 1.8	8.9 9.2 -0.2
Since Inception (% p.a.)	Fund Benchmark Relative	8.9 8.8 0.1	9.2 10.2 -0.9	9.6 10.2 -0.5	29.0 32.0 -2.3	6.8 6.5 0.3	6.7 5.7 0.9	5.6 10.2 -4.1	2.8 0.5 2.3	3.7 1.2 2.5	
Since Inception Dates		August 2003	April 2010	April 2010	December 2015	September 2003	March 2004	December 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.

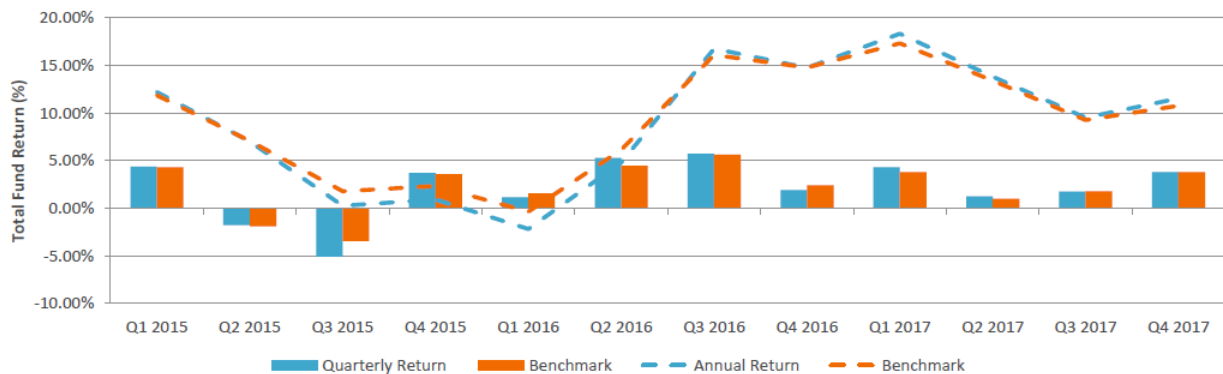
Table 8.1

Manager	Mandate	Asset Allocation £	Asset Allocation %	Target Allocation %	Relative %
UBS	UK Equities	353,384,547	24.5	25.0	-0.5
Lazard	Global Equities	238,917,612	16.6	15.5	1.1
Wellington	Global Value	239,964,330	16.7	15.5	1.2
RBC	Global Emerging Market Equities	80,797,796	5.6	4.5	1.1
Total Equities		913,064,285	63.4	60.5	2.9
BMO	Fixed Income	233,662,621	16.2	17.0	-0.8
Columbia Threadneedle	Property	119,537,799	8.3	10.0	0.1
Columbia Threadneedle	Low Carbon Property	25,245,218	1.8		
Invesco	Multi Asset	56,807,118	3.9	5.0	-1.1
GMO	Multi Asset	91,969,378	6.4	7.5	-1.1
Total Fund		1,440,286,419	100.0	100.0	0.0

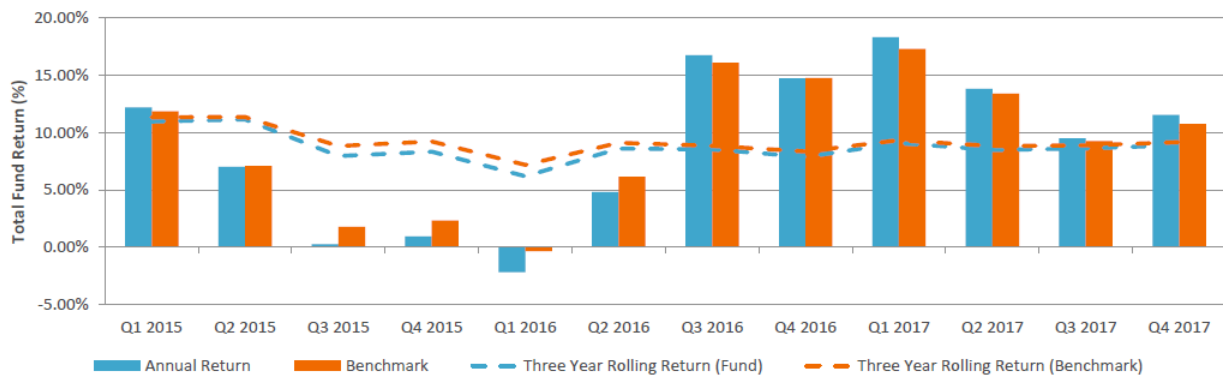
Note: Numbers may not sum due to rounding

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).

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

Positive

- Outperformance from the Threadneedle Property and GMO. Overall the Scheme matched its benchmark.

Negatives

- Underperformance from UBS, Lazard, Wellington, RBC, Low Carbon Property and Invesco.

Manager	Asset Class	Benchmark	Market Value £'000 Q4	Weight % Q4	Target %	Fund Return %	Benchmark Return %	Asset Allocation	Stock Selection
UBS	UK Equities	FTSE All Share	353,385	24.5%	25.0%	4.9	5.0	-0.01	-0.01
Lazard	Global Equities	MSCI AC World (50% hedged)	238,918	16.6%	15.5%	4.5	5.0	0.01	-0.08
Wellington	Global Equities	MSCI AC World (50% hedged)	239,964	16.7%	15.5%	4.3	5.0	0.01	-0.12
RBC	Global Emerging Market Equities	MSCI Emerging Markets	80,798	5.6%	4.5%	6.0	6.6	0.03	-0.03
Total Equities			913,064	63.4%	60.5%	3.0	3.1	0.04	-0.25
BMO	Bonds	Bonds Composite ¹⁾	233,663	16.2%	17.0%	2.4	2.4	0.01	0.00
Threadneedle	Property	IPD UK Quarterly All Balanced Property Index	119,538	8.3%	7.5%	3.4	3.1	-0.01	0.02
Threadneedle	Low Carbon Property	IPD UK Quarterly All Balanced Property Index	25,245	1.8%	2.5%	1.1	3.1	0.00	-0.04
Invesco	Targeted Return Property	£LIBOR 3M	56,807	3.9%	5.0%	-0.1	0.1	0.03	-0.01
GMO	Absolute Return	OECD CPI G7 (GBP)	91,969	6.4%	7.5%	2.1	0.1	0.04	0.13
Total Scheme			1,440,286	100.0%	100.0%	3.8	3.8	0.12	-0.13

1. BMO benchmark is 37.5% FT A Govt All stocks; 37.5% ML £ Non-Gilt All Stocks Index; 25% FT A 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.

The table below represents the manager performance over the **12 months to 31st December 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).

Positives

- Outperformance from Lazard, BMO, Invesco and GMO. Overall the Scheme is ahead of its benchmark

Negatives

- Underperformance from UBS, Wellington, RBC and both Threadneedle Property mandates.

Manager	Asset Class	Benchmark	Market Value £'000 Q4	Weight % Q4	Target %	Fund Return %	Benchmark Return %	Asset Allocation	Stock Selection
UBS	UK Equities	FTSE All Share	353,385	24.5%	25.0%	12.6	13.1	-0.02	0.02
Lazard	Global Equities	MSCI AC World (50% hedged)	238,918	16.6%	15.5%	16.4	15.7	0.03	0.09
Wellington	Global Equities	MSCI AC World (50% hedged)	239,964	16.7%	15.5%	13.3	15.7	0.04	-0.35
RBC	Global Emerging Market Equities	MSCI Emerging Markets	80,798	5.6%	4.5%	23.5	25.4	0.10	-0.09
Total Equities			913,064	63.4%	60.5%	9.1	9.2	0.16	-0.32
BMO	Bonds	Bonds Composite ⁽¹⁾	233,663	16.2%	17.0%	4.0	3.0	0.00	0.17
Threadneedle	Property	IPD UK Quarterly All Balanced Property Index	119,538	8.3%	7.5%	9.6	10.2	0.04	-0.04
Threadneedle	Low Carbon Property	IPD UK Quarterly All Balanced Property Index	25,245	1.8%	2.5%	5.6	10.2	-0.04	-0.07
Invesco	Targeted Return	£LIBOR 3M	56,807	3.9%	5.0%	1.8	0.4	0.08	0.06
GMO	Absolute Return	OECD CPI G7 (GBP)	91,969	6.4%	7.5%	10.4	1.2	0.10	0.57
Total Scheme			1,440,286	100.0%	100.0%	11.5	10.8	0.34	0.38

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

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

The table below represents the manager performance over the **3 years to 31st December 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).

Positives

- Outperformance from BMO and GMO.

Negatives

- Underperformance from Lazard and Wellington. Overall the scheme is slightly behind its benchmark.

Manager	Asset Class	Benchmark	Market Value £'000 Q4	Weight % Q4	Target %	Fund Return %	Benchmark Return %	Asset Allocation	Stock Selection
UBS	UK Equities	FTSE All Share	353,385	24.5%	25.0%	10.0	10.1	-0.05	-0.01
Lazard	Global Equities	MSCI AC World (50% hedged)	238,918	16.6%	15.5%	10.2	12.4	0.04	-1.01
Wellington	Global Equities	MSCI AC World (50% hedged)	239,964	16.7%	15.5%	11.2	12.4	0.03	-0.57
RBC	Global Emerging Market Equities	MSCI Emerging Markets	80,798	5.6%	4.5%	n/a	n/a	0.14	-0.23
Total Equities			913,064	63.4%	60.5%	6.7	7.2	0.15	-1.82
BMO	Bonds	Bonds Composite ⁽¹⁾	233,663	16.2%	17.0%	6.3	5.7	-0.08	0.28
Threadneedle	Property	IPD UK Quarterly All Balanced Property Index	119,538	8.3%	7.5%	8.4	8.4	0.02	0.04
Threadneedle	Low Carbon Property	IPD UK Quarterly All Balanced Property Index	25,245	1.8%	2.5%	n/a	n/a	-0.04	-0.07
Invesco	Targeted Return Property	ELIBOR 3M	56,807	3.9%	5.0%	n/a	n/a	0.13	0.26
GMO	Absolute Return	OECD CPI G7 (GBP)	91,969	6.4%	7.5%	2.6	0.7	0.19	0.35
Total Scheme			1,440,286	100.0%	100.0%	8.9	9.2	0.37	-0.96

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

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 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. The 2018/19 budget will be available at the June 2018 meeting, and will be fully aligned to the new company setup.

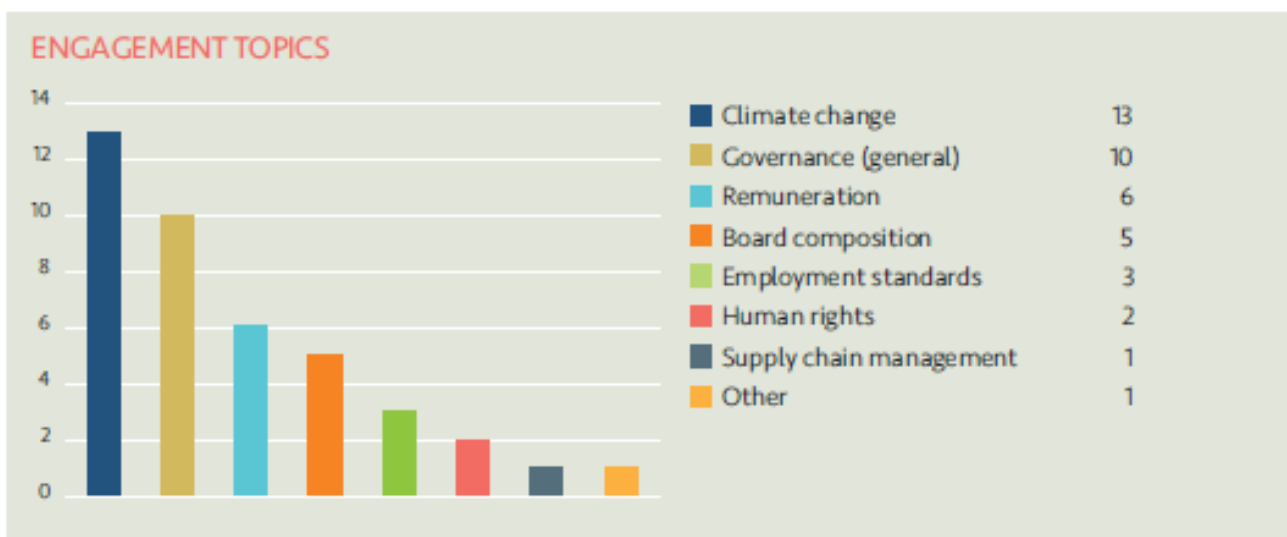
Description	2016/17 Outturn £'000	2017/18 Budget £'000	2018/19 Budget £'000	Comments
Member Income				
Employers' Contribution	67,162	59,387	57,849	Future forecasts based on 2016/17 forecast with an assumption that employer contributions will reduce in line with the Council's proposed reduced rates.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

Governance & Oversight				
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 no direct holdings in the companies listed, although it is indirectly exposed to several via its FTSE Allshare index tracker. Of note is LAPFF's report of its engagement with BP, in which Cllr Toby Simon participated in the regular 'eight

on eight' meeting with BP, where large shareholders and senior company executives explored progress on metrics and targets, both operational and strategic, and within the context of the Taskforce on Climate Related Financial Disclosure and the new remuneration policy.

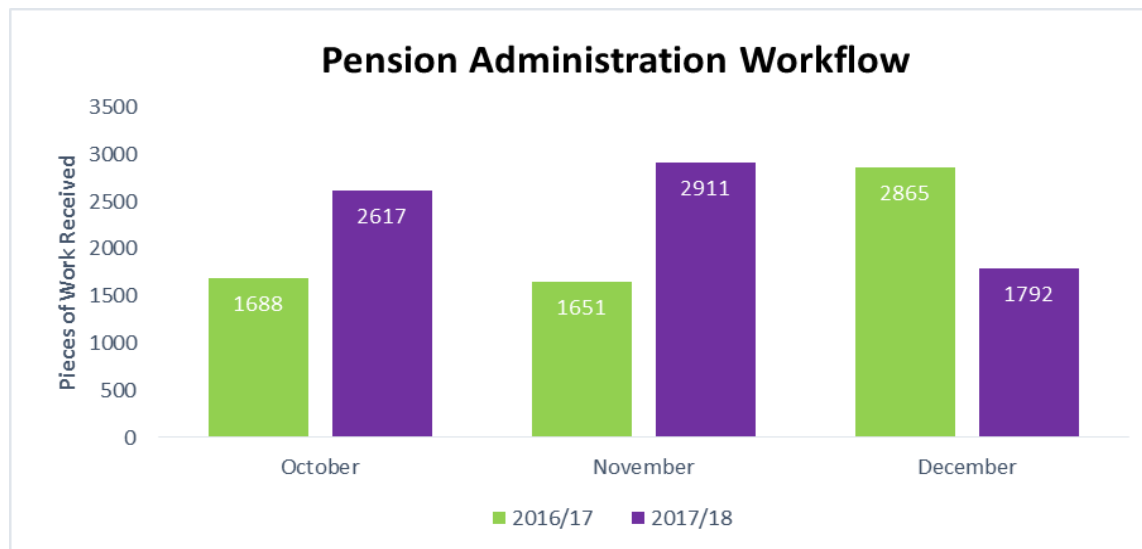
- 10.4 The Fund has continued to make progress on plans for implementation of its investment strategy, with plans now well underway for the implementation of a low carbon passive equity strategy. Further details are set out in the Active and passive equity transition paper. The implementation of a passive 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 Q3 2017/18 has increased significantly in comparison to the same period in 2016/17. A total of 7,320 new cases were received during the current quarter, compared to 6,349 during Q3 in 2016/17

A comparison of the workflow for the administrators between Q3 2016/17 and the reporting quarter is set out below:-



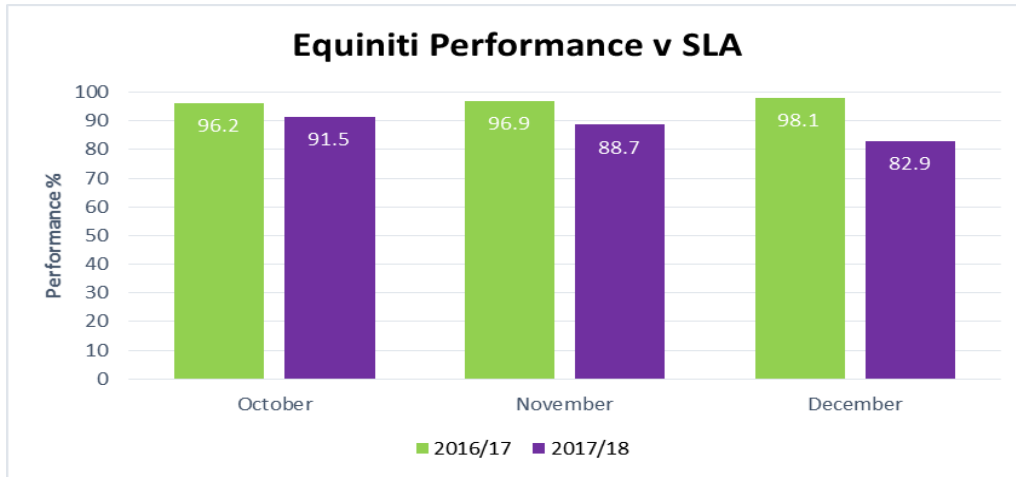
The average number of pieces of work received per month during Q3 2017/18 was 2,440 compared to an average of 2,116 received during the same period in 2016/17.

Much of this workload continues to be done manually as the new iTrent interface from the Council's payroll system is still under construction by Hackney's ICT. Extra queries continue to arise during the quarter as a result of ongoing data verification for last year's annual benefit statements. In order to assist Equiniti, the in-house pension team is currently working through 1,700 data validations with the aim of completing them by end of March.

The performance of the pension administrators is monitored by the Financial Services Section at Hackney on a monthly basis. Equiniti are working under a 'relaxed SLAs' regime due the number of data queries taking priority over the business as usual

(BAU). Therefore performance against the service level agreement (SLA) is being monitored against priority work only (death grants, bank detail changes, pension into payment; i.e. all work relating to financials), and remains at an average of 87.7% for Q3 2017/18, compared to 98.2% for the same quarter last year.

The administrator’s performance against the SLA for Q3 2016/17 and Q3 of the reporting period 2017/18 is set out below:



The volume of manual processing is 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. The Council is the largest employer in the Fund and has the majority of the work.

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 interfaces/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.

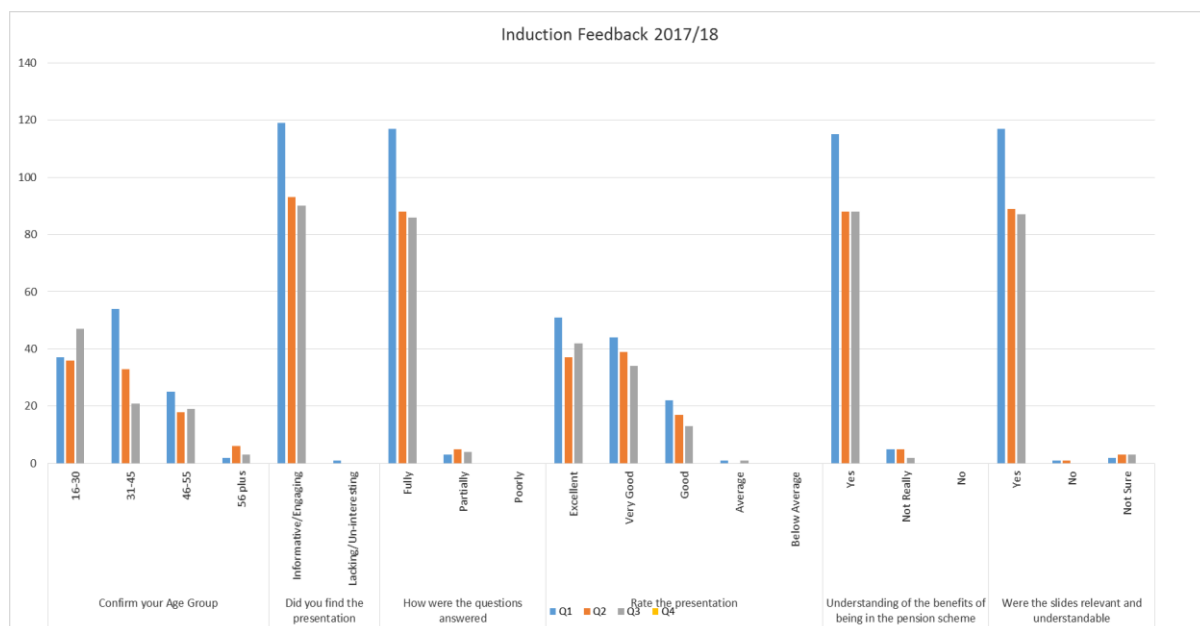
11.2 New Starters and Opt Outs

	Total Membership at End of Quarter	Total Opt Outs For Quarter
Q3 2016/17	7,549	92
Q3 2017/18	7,558	97

The opt outs in Q3 2017/18 remain in-line with previous months and average around 100 per month. The membership remains stable at 7,500.

11.3 Scheme Administration

The Financial Services in-house pension team facilitated at weekly induction sessions for 90 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 84% of those who attended the sessions, have said they now have a greater understanding of the benefits of being in the scheme



11.4 III 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 Q3 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
Q3 2016/17	2	0	0	2	0
Q3 2017/18	4	2			
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 2016/17	2	2	0	0	0
Q3 2017/18	0	0	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.

The following case was concluded in the 3rd quarter 2017/18:

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. – **awaiting from EQ.**

11.6 Other work undertaken in Q3 2017/18

Third Party Administration

Following the 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 have been slightly delayed, interfaces have not been available to test and the administration system at Equiniti has yet to be reconfigured to accept the full monthly data reports. Therefore, it has been agreed by both parties to delay the contract commencement date of 1 January 2018 to 1 April 2018. London Borough of Hackney will issue a letter of intent to Equiniti regarding the new contract and is currently seeking Legal advice before proceeding.

Redundancy Exercises for Departmental Budget Purposes

In Q3 of 2017/18, the in-house pensions' team have received a total of 91 redundancy estimate requests compared to 179 for the previous quarter, some of these are for members over the age of 55 who will have pension released. The last day of service for the majority of these estimate requests are from end of February to end of March 2018.

Additional Voluntary Contributions (AVC)

As reported in Q2, AVC contributions were being paid across the Prudential, for both LGPS & TPS schemes, but due to issues with the payroll system the statutory reporting required by the Prudential has not been produced. This lack of information prevented the Prudential from investing the member contributions into the appropriate investment schemes, thus impacting on the members' expectations of investment growth. Having worked closely with the payroll team and the Prudential, the in-house pension team were able to identify affected staff and compensation amount was paid, by Hackney, to those members in the December pay run.

Newsletters

The Pensions Team produced their quarterly Newsletter in December 2017, which was issued to both Employers and Schools/Academies within the London Borough of Hackney Pension Fund. The newsletter covered Data Protection regulations with the introduction of GDPR in May 2018, calculating contribution refunds, completing pension forms, the Pensions Dashboard coming in 2019 and a reminder that we will be organising the annual Employer Forum to be held in February or March of 2018.

12. REPORTING BREACHES

- 12.1 As reported in Q2, the Fund continues to engage with the Pensions Regulator in regard to the outstanding Annual Benefit Statements from 2016/17 year-end. At the time of reporting, 1,700 data queries (the bulk of which relate to LB Hackney employees), remain unanswered from last year and the in-house pension team are working on these as a priority to identify any active members. The administrators will then use the monthly data to produce any active member statements as soon as possible. Those queries that remain, are likely to be confirmed/unconfirmed leavers and once leaver information has been received, a deferred statement will be issued after the remaining actives have been processed.
- 12.2 This is the 3rd year the Fund has been required to submit a report to the Regulator concerning this issue. This issues 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 with the Council's new payroll system, iTrent, and Equiniti to produce a working interface that can be tested and implemented before the new administration contract starts on 1 April 2018.

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