

MINUTES OF A MEETING OF THE PENSIONS COMMITTEE

WEDNESDAY, 21ST MARCH, 2018

- Councillors Present:** Councillor Robert Chapman in the Chair
Cllr Michael Desmond (Vice-Chair),
Cllr Geoff Taylor, Cllr Kam Adams and
Cllr Patrick Moule
- Co-optee** Jonathan Malins- Smith
- Apologies:** Councillor Feryal Demirci
- Officers in Attendance:** Ian Williams (Group Director of Finance and Corporate Resources), Michael Honeysett (Director of Financial Management), Rachel Cowburn (Head of Investment & Actuarial Services), Sean Eratt (Legal Services) and Dan Paul (Head of HR & OD)
- Also in Attendance:** Andrew Johnston - Hymans Robertson
Michael Ferguson - AON

1 Apologies For Absence

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1.1 Apologies for absence were received on behalf of Councillor Demirci.

1 Declarations of Interest - Members to declare as appropriate

2.1 Councillors Chapman, Taylor, and Desmond declared a non-pecuniary interest as deferred members of the LGPS.

2.2 Councillor Moule declared a non-prejudicial interest as his partner is a member of the LGPS.

3 Consideration of The Minutes of The Previous Meeting

3.1 **RESOLVED** that the minutes of the meeting held on 4 December 2017 were confirmed as a correct record.

(Items 4 and 5 were considered together)

4 Training - De-risking

4.1 Rachel Cowburn introduced the training session on asset allocation and de-risking, which would assist Members in meeting the standards set out in the CIPFA Knowledge and Skills Framework and the Fund's training policy.

4.2 Andrew Johnston, Hymans Roberston delivered a training session on asset allocation and de-risking triggers. An outline of the presentation is set out below:

Asset Allocation GrIP

- Growth

Expected to deliver a higher level of return than bonds over the long term

- Income

Produces income to help pay for member benefits

- Protection

Gilts and cash used to match movements in liabilities.

Funding position – closing the deficit

- Value of liabilities exceeds the value of assets
- The two key sources of closing this shortfall are asset outperformance (relative to fund liabilities) and contributions
- If contributions fall, the requirement for asset outperformance increases – more growth assets are required
- If assets returns reduce, higher contributions are required

Projecting the future – modelling

- Assess the likelihood of different outcomes

Two key measures

- Best outcomes
- Worst outcomes

Current “flight path”

- Seek to improve funding over time
- Capture opportunities as they arise

Why have de-risking triggers

- In 5 years time the Funding Level is expected to improve by c8%
- Funding level evolution should not trigger a change in investment strategy

What if we are ahead of target

- Reduction in required return

Benefits and considerations

- Capture funding gains when ahead of target
- Improvement in downside risk
- Monitoring/implementation
- Drivers of improvement?

Interest rate changes, inflation expectations, asset performance etc

- Where to invest proceeds
- Periodic review- maintain probability of achieving objectives

Proposed triggers

Investment scenarios tested

- Asset Class and scenarios

Funding Level Evolution

Appropriate level to de-risk

- On the current strategy there is a 67% probability of achieving full funding by 2031
- Taking less investment risk reduces downside risk whilst the probability of success in 2031 remains broadly similar

As funding improves, what is the appropriate investment strategy?

Proposed triggers

<u>Date range</u>		<u>Required funding level on gilts +1.65%</u>
31/12/17	-	88.0%
31/12/18	-	89.5%
31/12/19	-	91.0%

Implementation - monitoring

- Supported by cutting edge technology
- Officers/committee monitor – frequency depends on proximity
- Report to Committee Chair and Group Director of Finance and Corporate Resources

Implementation – asset allocation change

- Reduce allocation to growth dependent asset classes (equities)
- Flexibility for re-investment
 - Depends on driver of funding improvement:
 - If predominately due to increase in bond yields – BMO /new debt mandate
 - If mainly driven by strong equity markets- Multi asset or new debt mandates or opportunities pot

Summary and next steps

- Approve de-risking triggers
- Asset allocation
 - Take enough risk to generate the returns required to close the deficit
 - Take no more risk than required
- De- risking
 - Monitor funding level at appropriate frequency
 - Allow for the expected improvement in funding level over time
 - Be prepared to act
- Keep plans under review
 - Review after any change to asset allocation

RESOLVED to note the contents of the report and training.

5 Investment Strategy - De-Risking Framework

5.1 Rachel Cowburn introduced the report setting out the proposal for the Pension Fund to introduce a set of updated de-risking triggers.

5.2 Mr Malins- Smith enquired about the impact of sterling devaluation on the Fund. Mr Johnston stated that the Fund held a broad range of assets and that currency devaluation could impact on assets significantly exposed to currency risk such as property and equity.

5.3 Cllr Adams asked about the effect of the de-risking target on contribution levels. Mr Johnston advised that the contribution rates were agreed at the Fund's actuarial valuation and that the de-risking targets were based on the current contribution levels. Ms Cowburn stated that officers would monitor the funding levels on a weekly basis if the Fund was near the trigger levels set out.

5.4 Cllr Desmond enquired whether the Fund's assets were registered to the LBH Pension Fund. Ms Cowburn clarified that the Pension Fund did not hold any assets

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directly but that the Council owned units in investment funds. Mr Johnston added that the Fund's pooled and segregated assets were not explicitly registered to the Pension Fund but held in accounts registered to the Council and at HSBC. Ms Cowburn emphasised that the Council reconciled the Pension Fund's custodian records with the Fund Manager records on a regular basis to ensure the assets were registered.

5.5 Members sought clarification regarding the proposed de-risking triggers set out in the report. Mr Johnston stated that the proposed trigger levels were based on the funding level during the Fund's current actuarial valuation and that it was good practice to set targets even if the proposed trigger levels were unlikely to be met. Ms Cowburn indicated that the de-risking triggers would not be implemented if growth in liabilities significantly outweighed growth in assets.

5.6 The Chair queried the investment strategy in relation to increasing the bonds allocation due to the potential risk of bonds depreciating in value in the future. Mr Johnston replied that the primary purpose of asset allocation was to enable Members to take a more flexible approach to future investments and be prepared to manage risks in order to achieve the Fund's funding objectives.

5.7 Cllr Moule asked whether investments held over a longer period would result in a broader range of outcomes. Mr Johnston stated that the range of outcomes was more flexible for higher risk asset classes such as equities and less flexible for lower risk asset classes. Ms Cowburn added that the Fund's actuarial valuation was reviewed every three years and that the aim of de-risking strategy was to reduce the deficit recovery period by the next valuation cycle and finally achieve full funding level by 2031.

5.8 A Member enquired about the funding level and asset allocation. Ms Cowburn confirmed that the Fund's current funding level was approximately 83% and Mr Johnston indicated that Members should be prepared to regularly review plans especially if there was movement in the markets.

5.9 In response to a question regarding the timescale for investments once a de-risking trigger level had been met, Ms Cowburn stressed that the Committee had to act promptly as the timescale for investing in assets could be a matter of weeks.

5.10 The Chair indicated that Members needed to be informed of more low risk investment options other than bonds. The Chair referred to recommendation 3 within the report and indicated that Committee Members needed to be involved in the decision making process in relation to any changes in asset allocation and it was proposed that the recommendation be amended to include 'in consultation with Committee Members'. The Chair stated that it was the Pension's Committee's intention to call a formal or informal meeting of Committee Members if practical should the trigger levels be breached which required implementing changes to the Fund's asset allocation.

RESOLVED approve:

- 1. Setting de-risking triggers for the Fund, i.e. 88% now, increasing to 89.5% from 1/1/19 and to 91% from 1/1/20**
- 2. The principle of regular review of triggers;**
- 3. The process for implementing changes to the Fund asset allocation should the trigger level be breached, i.e. report to the Chair and Group**

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Director, Finance and Corporate Resources for approval and in consultation with Committee Members; and

- 4. Delegate responsibility for reviewing the transition management arrangement for the Fund to ensure efficient implementation to the Officers, in liaison with the Chair of the Committee.**

6 Active and Passive Equity - Transition Update

RESOLVED by Virtue of Paragraph 3 Part 1 of schedule 12A of the Local Government Act 1972 this report is exempt because it contains Information relating to the financial or business affairs of any particular person (including the authority holding the information) and it is considered that the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

7 Pension Fund Quarterly Report

7.1 Rachel Cowburn introduced the report providing an update on the Fund's 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.

7.2 Ms Cowburn referred to paragraph 7.4 of the report and reported that the outstanding data queries had reduced from 1,700 to 300. Further, as the Council was preparing to issue the annual benefit statements for 2017/18 officers were concerned that this could generate more queries in relation to final pay values as the new payroll interface would provide more accurate data. Officers were therefore liaising with Equiniti to ensure that sufficient resources were in place to respond to any queries and also working with Payroll to ensure it provided the correct information for any queries that could not be resolved by Equiniti.

7.3 Mr Malins-Smith queried why so many active members had become deferred members. Ms Cowburn replied that this had resulted from an increase in records as new employees were automatically enrolled into the LGPS scheme, issues with Payroll not processing pension member's leaving forms and forwarding leaving dates to Equiniti and Equiniti's system being unable to categorise unprocessed leavers of the scheme. She advised that Equiniti had now upgraded its systems and could now categorise unprocessed scheme leavers. The Council's new payroll system did not have the facility to issue a scheme leaver's form when a member's contributions ceased.

7.4 Mr Paul addressed the concerns relating to the ongoing payroll data issues and stated that the work undertaken in relation to pensions and iTrent system had been a process between Pensions, Payroll and ICT teams. Mr Paul processing issues related relating to his service included issues with the new payroll system and lack of resources to process leaving forms, which was not related to the iTrent system. He assured the Committee that resources had been increased to address this issue and that a post had been created for a Payroll Pensions Officer specifically dealing with non-system related pension issues such as processing member's leaving form and progress had been made in this area. With regard to the issues relating to the payroll system, Mr Paul explained that the transition from the previous system to iTrent had not been a smooth process and the issues had impacted on the payments to Hackney's third party pension administrators LGPS and Prudential. The third party payments were now being processed manually, which had increased the risk of errors

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occurring and an error had resulted in a late payment. Mr Paul stated that progress was being made and an automated payment to the provider had been tested and would hopefully be resolved by April 2018. Hackney's Payroll team had also taken on the third party payments functions which had previously been outsourced and the previous supplier had not provided all necessary information to process payments and to enable third party administrators to deal with the payments received, however, this issue had now been resolved. In terms of the end of year data, the iTrent payroll system had been selected on the basis that it would provide a better system for pensions and work was being undertaken to improve the system and resolve these issues.

7.5 Mr Paul referred to the insufficient information provided with the AVC contributions which had led to Prudential being unable to invest into appropriate investment schemes and reported that the affected members had been compensated and the issue had been resolved in December 2017.

7.6 Mr Malins- Smith sought clarification regarding the number of people affected by the AVC contributions issue. Mr Paul confirmed that 140 members had been affected over a period of six months and that those affected had been awarded £5,000 compensation each.

7.7 Ms Cowburn said that officers needed to ensure that the quality of the end of year data file was accurate as the file would go live and it could generate data enquiries which would require more resources and the Chair asked when the pension issues would be resolved. Mr Paul advised that the third party payment could be resolved by April 2018 if the automated payment was successful. With regard to the end of year data, the data file had to be tested and it was important to get the data into the right format before it was sent to Pensions and Equiniti. Mr Paul added that a group including Payroll, ICT and Pensions had been set up to identify and resolve the pension issues and that officers from these teams would work together to resolve these issues.

RESOLVED to note the contents of the report.

8 Guaranteed Minimum Pensions (GMP) Reconciliations

8.1 Rachel Cowburn introduced the report providing an update on the Fund's Guaranteed Minimum Pensions (GMP) reconciliation exercise, which was being undertaken to ensure that scheme member records for periods spent contracted out of the second state pension were properly accounted for. An update was also provided on the progress of Phase 2 of the reconciliation exercise and whether to increase the budget for Phase 2 and proposals for Phase 3 – Certification & Rectification

8.2 Ms Cowburn stated that Equiniti had revised the costs to £245,000 to complete Phase 2 of the project. Members were being requested to agree an additional budget of £45,000 to complete the deferred and pensioner reconciliation in Phase 2 of the project. Ms Cowburn advised that following an agreement to bring active members into the scope of the project, this had led to a higher number of queries produced from active members records and the revised budget to reconcile active members was now estimated at £184,706.25. Since the progress report had been produced, officers had been in discussion with Equiniti regarding the substantial increase in the budget to £184k and further information had been requested relating to members queries. Officers had requested a breakdown of the active members' records to determine if it

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was necessary to check all these members' records. Ms Cowburn emphasised that the total budget would not be agreed until this further information had been provided, however Members were also being requested to agree a further budget of £45,000 for the reconciliation exercise being undertaken on active members.

8.3 In response to questions from the Chair regarding the additional budget, Ms Cowburn clarified that the initial budget had been underestimated as it had been based on fewer queries for active scheme members but there had been a significant increase in active members' queries which had resulted in an increase in the budget. It was clarified that Equiniti had been charging on the basis of minutes per case. Ms Cowburn stated that following discussions with Equiniti a compromise had been reached for an additional budget of £45,000 for the work being undertaken on active members' queries in this phase.

8.5 Ms Cowburn clarified that Members were being requested to agree an additional budget of £45,000 to complete the deferred and pensioner reconciliations and a further £45,000 for the work being undertaken on active member queries within Phase 2.

RESOLVED to approve the increase in budget to complete Phase 2, as set out in Appendix 1 of an additional budget of £45,000 to complete the deferred and pensioner reconciliation and a further £45,000 to reconcile active members, and to review and agree the commencement of Phase 3, subject to regular review of estimated costs as set out in Appendix 2 to this report. (It should be noted that further cost information has been requested from Equiniti with regards to Phase 2, and that this would be provided prior to the Committee – this recommendation was contingent on the receipt of satisfactory cost data from Equiniti.)

9 Pensions Administration Strategy 2018/19

9.1 Rachel Cowburn introduced the report on the draft Pension Administration Strategy for 2018/19, which had been updated to reflect changes to the Fund's third party administration contract

RESOLVED to approve the updated Pension Administration Strategy for publication

10 Pension Fund Communications Policy Statement 2018/19 - update

10.1 Rachel Cowburn introduced the updated Communications Policy Statement for the Pension Fund. The statement had been updated to incorporate a Privacy Notice provided to all members setting out certain prescribed information including the purpose for which member data was being collected, which organisations would receive it and how data would be safeguarded.

10.2 In response to questions from members, Ms Cowburn advised that more work was being done in terms of the process relating to disclosure and privacy of members data and reviewing contract arrangements to ensure file sharing and communication with employers within the Fund were secure. It was noted that this risk had been reflected in the risk register.

RESOLVED to note the update to the Communications Policy Statement 2018.

11 End of Administration Report 2014-2018

11.1 Rachel Cowburn introduced the report detailing the role of the Pensions Committee and summarising its key activities and achievements over the 2014-2018 administration. The Chair requested that the report be circulated to Members following the meeting.

11.2 The Chair noted that this was Cllrs Taylor and Moule's last meeting, and on behalf of the Members thanked them for their contributions to the Committee, especially Cllr Taylor and wished them the best for the future.

11.3 Cllr Moule expressed his thanks to the officers and consultants for working with him as a new member of the Committee.

RESOLVED to note the contents of the report.

12 Self-Assessment and Performance of Advisers

12.1 Rachel Cowburn introduced the report providing the background to the annual Self-Assessment Questionnaire and Performance of Advisers.

12.2 The Chair asked officers to explore further ways of providing training. Mr Williams stated that officers were reviewing the training programme in order to satisfy the new requirements following the introduction of new regulations. Officers were considering providing online training and holding special one day training. A report outlining proposals for Member training would be submitted at the meeting scheduled in June 2018. There were also plans to have annual training programme included in the agenda. Discussions were taking place with the Communications Team to publicise the positive work being undertaken in relation to pensions.

12.3 Mr Ferguson advised that any members interested in attending training on CIPFA competencies on 5 July 2018 could reserve a place. Mr Williams indicated that the training details would be circulated to the Chair following the meeting.

RESOLVED to:

- 1. Note the report**
- 2. Individually complete the self-assessment and assessment of advisers questionnaire**

13 Any Other Business Which in The Opinion Of The Chair Is Urgent

13a London CIV- Guarantee and Recharge Agreement

13.1 Noted the tabled paper circulated at the meeting.

13.2 Ms Cowburn explained that the request for signing the draft legal agreements between the London CIV and its member authorities was received on 16 March 2018 and therefore officers had requested the report be considered under any other urgent business.

13.3 Rachel Cowburn introduced the report setting out two draft legal agreements between the London CIV and its member authorities, relating to London CIV's (LCIV)

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participation in the LGPS as an admission body. LCIV's pension arrangements were provided through the City of London Pension Fund as an Admitted Body. The first agreement covered a guarantee in favour of the City of London whilst the second covered LCIV's FRS102 accounting liability. Both parties had been working together to develop these arrangements and LCIV had now requested that its member authorities formalise these arrangements by signing the agreement.

13.4 Ms Cowburn assured member that all authorities within LCIV would have to sign the guarantee agreement, which had been requested by the City of London Pension Fund, before it could be implemented.

RESOLVED to

- 1. Approve the signing of the Recharge Agreement, subject to written confirmation from LCIV that within 6 months, they will produce a formal remuneration policy with specific reference to the eligibility of staff to join the LGPS and any maximum limits on pensionable pay.**
- 2. Approve the signing of the Guarantee Agreement**

13b London CIV – Pooling agenda

In response to a query from Mr Malins-Smith regarding the London CIV pooling agenda, Mr Williams advised that a copy of the response would be circulated to all members and that a report would be submitted on this topic at a future meeting.

13c Terms of reference

Ms Cowburn reported that the terms of reference for the Pensions Committee was being reviewed by the Constitutional Review Group.

14 Exclusion of The Press And Public

RESOLVED

That the press and public be excluded from the proceedings of the meeting during consideration of the Items 6, 8 (appendices) and 15 on the agenda on the grounds that it is likely, in the view of the nature of the business to be transacted, that were members of the public to be present, there would be disclosure of exempt information as defined in Schedule 12A to the Local Government Act 1972 as amended.

15 Consideration of the Exempt Minutes of the Previous Meeting

RESOLVED that the exempt minutes of the meeting held on 4 December 2017 were confirmed as a correct record.

Duration of the meeting: 6.30-9.05pm

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