**Hackney**

| REPORT OF THE GROUP DIRECTOR, FINANCE & CORPORATE RESOURCES | | |
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| **Pension Fund – Quarterly Update**<br><br>**Pensions Committee**<br>**12th September 2018** | **Classification**<br>**PUBLIC**<br>**Ward(s) affected**<br>**ALL** | **Enclosures**<br>**Three** |

## 1. INTRODUCTION

1.1 This report is an update on key quarterly performance measures, including an update on the funding position, fund governance, investment performance, responsible investment, 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 2016 Actuarial Valuation and Funding Strategy Statement
- Pensions Committee 29th March 2017 – Approval of Investment Strategy Statement
- Pensions Committee 21st March 2018 – Approval of Pension Administration Strategy (PAS)

## 4. COMMENTS OF THE GROUP DIRECTOR OF FINANCE & CORPORATE RESOURCES

4.1 The Pensions Committee acts as quasi-trustee 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. 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 OF LEGAL AND GOVERNANCE

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 2018, the funding level was 85.8% compared to 77% as at the end of March 2016.

6.2 The funding level of 85.8% at 30th June is based on the position of the Fund having assets of £1,590m and liabilities of £1,853m, i.e. for every £1 of liabilities the Fund has the equivalent of 85.8p of assets. It should be noted that the monetary deficit remains high but has decreased slightly from £350m in March 2016 to £263m in June 2018. 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.

6.3 The progress of the funding level on both an ongoing and yield curve basis is shown in the Actuary's Funding and Risk Report at Appendix 1 to this report. The report also highlights the asset risks to which the Fund is exposed, providing a basic breakdown of the Fund's asset allocation along with returns of major asset classes since 31st March 2016.

## 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 in October 2018; however, prior to this, the Council's processes for making constitutional changes must be followed. As part of this process, Committee Members will be consulted with to ensure 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.

## 8. INVESTMENT UPDATE

8.1 Appendix 2 to this report provides a manager performance update from the Fund's Investment consultants, Hymans Robertson. The report includes an analysis of quarterly, 1 year and 3 year performance against benchmark, as well as Hymans Robertson's current ratings for each manager.

## 9. RESPONSIBLE INVESTMENT UPDATE

9.1 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.

9.2 The LAPFF Quarterly Engagement report is attached at Appendix 3 to this report, setting out LAPFF's engagement activity over the Quarter in relation environmental, social and governance issues. Following the restructuring of its equity portfolio, the Fund no longer retains any segregated mandates and therefore has no direct holdings in any of the companies referenced

9.3 Given the above, it is now key for the Fund to engage with its new pooled fund managers (BlackRock and the London CIV) and to develop a new approach to voting and engagement which is practical to implement in a pooled fund context. An in-depth review of this area will commence in autumn 2018 with a paper due to go to the December 2018 Pensions Committee meeting.

## 10. BUDGET MONITORING

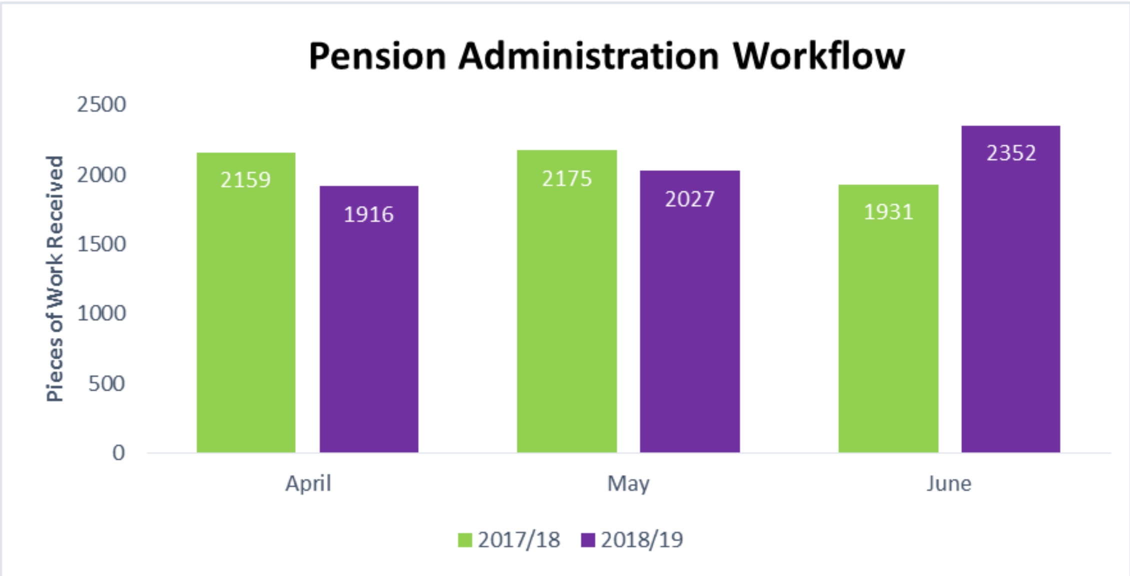
10.1 The Pension Fund has recently moved to a new company setup within the Council's accounting system which, when fully set up, will permit more improved in year reporting. New accounting codes are currently being introduced to ensure that in year reporting is properly aligned to year end requirements; the 2018/19 budget will be produced once this work is complete.

## 11. PENSION ADMINISTRATION

### 11.1 Pension Administration Management Performance

During Q1 2018/19, the administrators received a total of 6,295 new cases compared to 6,265 during Q1 in 2017/18.

A comparison of the monthly workflow between Q1 2017/18 and the reporting quarter is set out below:-

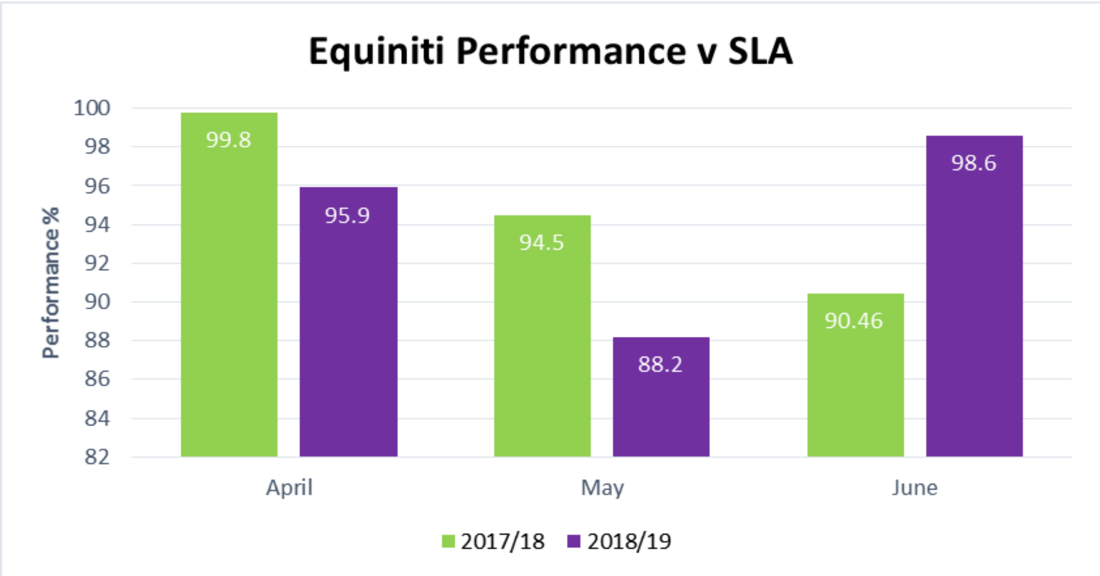



The average number of pieces of work received per month during Q1 2018/19 was 2,098, matching the average number during the same period in 2017/18.

Much of this workload along with all new starters and leavers has to be processed via an initial paper form request and then entered manually onto the pension administration system. This is due to the iTrent interface from the Council's payroll system still being under construction by Hackney's ICT and the technical team at Equiniti. There have been a number of delays in producing this report due to various technical mis-interpretations, but also the availability of iTrent consultants is proving difficult and furthers the delay. In the last month, Equiniti have managed to run an early test report, but the results have been poor and the interface report needs significant additional work.

The performance of the external pension administrators is monitored by the Pensions Administration Team at Hackney on a monthly basis. Equiniti are still working under a 'relaxed SLAs' regime due to 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 94.2% for Q1 2018/19, compared to 94.9% for the same quarter last year.

The administrator's monthly performance against the SLA during Q1 2017/18 and Q1 of 2018/19 is set out below:




The volume of manual processing is still significantly above the norm. As the Council is the largest employer in the Fund, it has the majority of the work.

It was hoped the introduction of the Council's new payroll system would decrease the level of manual processing required. However, as detailed above, delays to the development of monthly interfaces, and problems with some of the data transferred to the new payroll system, have meant that the administrators are unable to verify the accuracy of member data.

Nor can they confirm the correct contributions are being paid by the Council and its LGPS members, as monthly reports are still not being provided by payroll to Equiniti. This is contrary to the Regulations and tPR compliance.

## 11.2 New Starters and Opt-Outs

| | Total Active Membership at end of Quarter | Total Opt Outs for Quarter |
|---|---|---|
| Q1 2017/18 | 7,661 | 101 |
| Q1 2018/19 | 6,920 | 115 |

The in-house pensions administration team facilitated weekly induction sessions for 99 new employees during Q1 2018/19. These sessions continue to receive very positive feedback with respondents rating the presentations as 'Very Good' or 'Excellent', and those who attended the sessions have said they now have a greater understanding of the benefits of being in the scheme.

The number of employees who decided to opt-out in Q1 2018/19 remain in-line with previous months/quarters, and still average around 100 per month.

11.3 **Ill Health Pension Benefits.**

The release of ill health benefits fall into 2 main categories, being those for deferred and active members. The in-house pensions administration team process all requests for the release of deferred members' 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 members' benefits on the grounds of ill health.

Deferred members' 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 member's 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 table sets out the number of cases that have been processed during Q1 of 2018/19, compared to the same period in the previous year

| DEFERRED MEMBER'S ILL HEALTH RETIREMENT CASES | | | | | |
|---|---|---|---|---|---|
| | CASES RECEIVED | SUCCESSFUL | UNSUCCESSFUL | ONGOING | WITHDRAWN |
| Q1 2017/18 | 3 | 1 | 0 | 2 | 0 |
| Q1 2018/19 | 2 | 0 | 0 | 2 | 0 |

| ACTIVE MEMBER'S ILL HEALTH RETIREMENT CASES | | | | | |
|---|---|---|---|---|---|
| | CASES RECEIVED | BENEFITS RELEASED ON TIER 1 | BENEFITS RELEASED ON TIER 2 | BENEFITS RELEASED ON TIER 3 | UNSUCCESSFUL |
| Q1 2017/18 | 1 | 0 | 0 | 1 | 0 |
| Q1 2018/19 | 1 | 1 | 0 | 0 | 0 |

11.4 **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.

There were no cases concluded in the 1st quarter 2018/19.

11.5 **Other work undertaken in Q1 2018/19**

**Third Party Administration Implementation update**

As reported to Committee in December 2017 and March 2018, the commencement date of the new contract with Equiniti was delayed as there were still a number of essential points of delivery that had yet to be completed such as monthly interface, monthly MI reporting in relation to SLAs and KPIs, website & secure portal with guides and factsheets.

As reported in March 2018, despite good progress being made in many of those areas in the new specification during the initial *'go-live'* extension period (1 January 2018 to 31 March 2018), the Council had to agree once again to extend the commencement date from 1 April to 1 July 2018.

Progress continues to be made in a various areas, but there are still a number of significant points of delivery on the new service specification that remain outstanding, and despite best efforts may not be completed by the final agreed commencement date of 1 July 2018. If this is the case, it is not be possible or feasible to offer any further extensions to the commencement date, and as such it has been agreed that

Equiniti will automatically move to the Contract T&Cs on 1 July regardless but any non-deliverables could result in retention of monthly contract fees payable to Equiniti, until the service is delivered to a reasonable standard.

There has been good progress made in regard to the contract fee structure, and performance rectification and resolution planning has been added to the new contract. It is hoped this can be signed and sealed in July/August.

**New & Ceasing Employers**

During Q1, the Fund has admitted 1 new scheduled body and 1 new employer; no employer contracts ceased during this period: breakdown is as follows:

| Employer | Date Joined | Date Ceased | Deficit upon Ceasing Y/N |
|---|---|---|---|
| Lubavitch Foundation | 01/04/2018 | - | - |
| Westgate Cleaning | 01/05/2018 | - | - |
| - | - | - | - |

**Redundancy Exercises for Departmental Budget Purposes**

In Q1 of 2018/19, the in-house pensions' administration team have received a total of 33 redundancy estimate requests, compared to 101 for Q4 2017/18; some of these are for members over the age of 55 who will have pension released. Of the 33 requests, only 6 employees received final paperwork and left the organisation.

**Pre-retirement workshops**

The in-house Pensions Team have set up a series of 'Pre-retirement workshops' in conjunction with a company called Affinity Connect. Affinity specialise in providing seminars/workshops on various aspects of pension and employment issues, such as retirement (as mentioned), mid-career financial planning and redundancy. Affinity provide the facilitator, learning material and bookings for the seminars/workshops free of charge to the Fund and are aimed at members who are thinking of retiring within the next 2 to 5 years. The first workshop was held on 10 May 2018 and the feedback from this session has been very positive. Further sessions are set for 10 July, 10 Sept and 10 November 2018.

## 12. REPORTING BREACHES

12.1 The Fund continues to experience significant issues with the provision of timely year end data from some employers, in particular the Council. Annual Benefits were due to be issued to all active and deferred members on 31st August 2018; statements were sent by the deadline for deferred members (8849) and for 625 active members. Nearly 7000 statements for active members will therefore be sent late, of which the vast majority relate to employees of the Council and its schools. Officers are working with Equiniti to establish a timescale for these to be sent out.

12.2 Only a minority of the Fund's employers (most significantly the Council) failed to submit year end data when requested, with most employers providing the relevant information by the deadline. Some challenges were experienced around queries with school data as a result of the holiday period but broadly speaking, the timeliness of data provided has improved since last year. Hackney Council's failure to submit timely data continues to cause significant problems, however, as the Council is by far the Fund's largest employer

12.3 Officers of the Fund will make a report to the Regulator detailing the issues experienced around receipt of timely and accurate data. This is the fourth year running that such a report has been made, highlighting the long running nature of the Council's problems with LGPS data provision.

12.4 The Council has made some progress on provision of LGPS data since the implementation of the iTrent payroll system in July 2017. However, this progress has been relatively slow, and has been delayed by Equiniti making changes to their own interface specification during the iTrent's first year of operation. Meaningful progress has been made on development of a new interface; however, this is likely to generate a significant backlog of data queries for Equiniti once up and running.

Ian Williams
**Group Director of Finance & Corporate Resources**

**Appendices:**
Appendix 1 –Funding & Risk Report (Hymans Robertson – Actuary) - TO FOLLOW
Appendix 2 – Manager Performance Report (Hymans Robertson – Investment Consultant)
Appendix 3 – LAPFF Engagement Report Jan-March 2018

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