Hackney

REPORT OF THE GROUP DIRECTOR, FINANCE & CORPORATE RESOURCES		
Pension Fund – Quarterly Update **Pensions Committee** **12th December 2018**	**Classification** **PUBLIC** **Ward(s) affected** **ALL**	**Enclosures** **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.

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 2018, the funding level was 81.8% compared to 77% as at the end of March 2016.

6.2 The funding level of 81.8% at 30th September is based on the position of the Fund having assets of £1,507m and liabilities of £1,842m, i.e. for every £1 of liabilities the Fund has the equivalent of 81.8p of assets. It should be noted that the monetary deficit remains high but has decreased slightly from £350m in March 2016 to £334m in September 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 early 2019; 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. Following discussion at Pensions Board at its November 2018 meeting, it is however recommended that the Fund proceed with the appointment procedure in order that the recruitment to the vacant employer representative role on the Committee is progressed, pending formal changes being agreed by Council.

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. The Responsible Investment Paper elsewhere on the agenda represents the start of this review process and will allow a discursive forum for the Committee to consider practical solutions.

10. BUDGET MONITORING

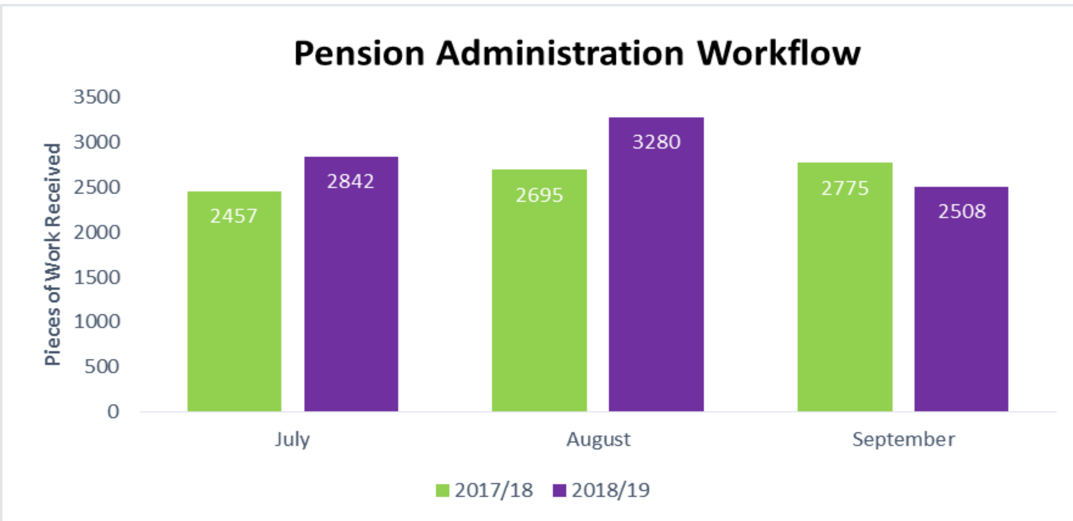
10.1 The Pension Fund has recently moved to a new company setup within the Council's accounting system which, when fully set up, will permit more improved in year reporting. The work to change the Fund's accounting system over to its own separate company is now almost complete and will permit a full business planning and budgeting reporting process for 2019/20 to commence in January 2019.

11. PENSION ADMINISTRATION

11.1 **Pension Administration Management Performance**

During Q2 2018/19, the administrators received a total of 8,630 new cases compared to 7,927 during Q2 in 2017/18.

A comparison of the monthly workflow between Q2 2017/18 and the reporting quarter is set out below:-



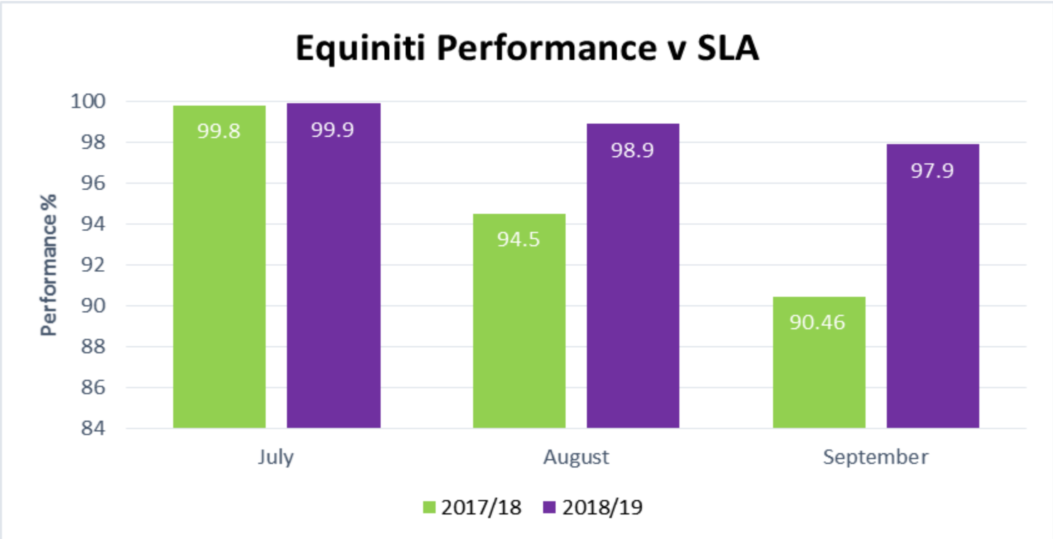
The average number of pieces of work received per month during Q2 2018/19 was 2,877, 200 pieces more that the same period in 2017/18.

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 this quarter significant progress has been made and the interface is now ready to run in the test environment.

Once this has been done, it will then move to *'live'* and it is at this point we will have an accurate picture of the quality of our data. We are expecting a high level of exceptions (error reports) and these will need to be corrected by the employer, LB Hackney. Therefore resources will be required to work through the data queries to ensure pension records are corrected for future benefits to be paid correctly.

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 98.9% for Q2 2018/19, compared to 97.6% for the same quarter last year.

The administrator's monthly performance against the SLA during Q2 2017/18 and Q2 of 2018/19 is illustrated out below:



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 but is being progressed with the HR/payroll.

The continued lack of useable data from Hackney, being the main employer in the Fund, has again impacted on the production of the statutory annual benefits statements (ABS) due to members at the end of August 2018. A pragmatic approach was taken very early on in order to meet the end of August deadline, and focus was directed to those employers who were able to provide a year-end report that could be validated, and the ABSs produced.

Therefore Equiniti were only able to send the following number of statements:

- 627 - active members
- 8,805 - deferred members
- 44 - Councillor deferred members

Further work continues to cleanse the data, provided by Hackney, by the in-house pension administration team, and Equiniti are hopeful they can run some validations in October/November. If successful, further batches of ABSs will be produced and sent to members accordingly.

We have, again, had to report this failure to the Pensions Regulator – full details are provided in the Breaches section of this report.

11.2 **New Starters and Opt-Outs**

	Total Active Membership at end of Quarter	Total Opt Outs for Quarter
Q2 2017/18	7,568	61
Q2 2018/19	6,857	126

The in-house pension administration team facilitated weekly induction sessions for 63 new employees during Q2 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 Q2 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 pension 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 Q2 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
Q2 2017/18	1	0	0	1	0
Q2 2018/19	1	0	0	1	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
Q2 2017/18	2	2	0	0	0
Q2 2018/19	0	0	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 relating to ill health, are reviewed and determinations made by a senior technical specialist at the Fund's pension administrators, Equiniti, other appeals are determined by the Head of Pensions Administration.

- 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 2nd quarter 2018/19.

11.5 **Other work undertaken in Q2 2018/19**

Third Party Administration Implementation update

Progress continues to be made in various areas, but there are still a number of significant points of delivery on the new service specification that remain outstanding. It was agreed by both parties, that Equiniti automatically move to the new Contract Ts&Cs on 1 July regardless, but any non-deliverables could result in the retention of some of the monthly contract fees 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. The full Contract & Order were provided to Equiniti in September for signing.

New & Ceasing Employers

During Q2, the Fund has admitted 1 new scheduled body, Lubavitch Multi Academy Trust, whose start date was finally confirmed as 1 April 2018, and 1 new employer, CIS Security who have taken over the contract that was previously with G4S. There have been 2 employer contracts that have ceased during this period: breakdown is as follows:

Employer	Date Joined	Date Ceased	Deficit upon Ceasing Y/N
Lubavitch MAT (multi academy trust)	01/04/2018		
G4S Security Services		03/08/2018	TBA
Birkin Cleaning Services		20/07/2018	TBA
CIS Security Services	04/08/2018		

Redundancy Exercises for Departmental Budget Purposes

In Q2 of 2018/19, the in-house pensions' administration team have received a total of 35 redundancy estimate requests, some of these are for members over the age of 55 who will have pension automatically released. Of the 35 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 Sept and 10 November 2018

12. REPORTING BREACHES

12.1 As at 31st August 2018 the Fund had sent out statements to all its deferred members and 627 active members. The Fund therefore breached the statutory deadline for statements for approximately 6,300 active members, the vast majority of whom were employed by Hackney Council or its maintained and voluntary-aided schools. The failure to send these statements primarily resulted from the failure of Hackney Council to provide data by the deadlines requested.

12.2 Approximately 3,600 additional statements were sent out by Equiniti for distribution in early November. Equiniti are continuing to work on the production of statements for the remaining 2,600 (approx.) active members. Progress on these statements has been delayed by an issue around transferred-in service affecting approximately 360 statements from the previous batch; further details on the timeframe for sending these statements will be provided as the remaining data issues are assessed

12.3 The failure to send these statements represents a clear breach of law, and this issue has been reported to the Pensions Regulator. The Fund has been required to report to the Regulator regarding this issue on 3 previous occasions (2015-2018). Provision of employer data by the Council has been a long term issue for the Fund; we recognise the scale of the issue and are committed to working with the Council and Equiniti to resolve this.

12.4 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

12.5 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
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List of Appendices:
Appendix 1 –Funding & Risk Report (Hymans Robertson – Actuary)
Appendix 2 – Manager Performance Report (Hymans Robertson – Investment Consultant)
Appendix 3 – LAPFF Engagement Report Jan-March 2018

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Background Papers
None