Hackney

REPORT OF THE GROUP DIRECTOR, FINANCE & CORPORATE RESOURCES		
Pension Fund – Quarterly Update **Pensions Committee** **26th March 2019**	**Classification** **PUBLIC** **Ward(s) affected** **ALL**	**Enclosures** **Four**

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 –2016 Actuarial Valuation and Funding Strategy Statement
- Pensions Committee 29th March 2017 –Investment Strategy Statement
- Pensions Committee 26th March 2019 –Pension Administration Strategy (PAS)

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

4.1 The Pensions Committee has delegated responsibility for management of the Pension Fund. Quarterly monitoring of key aspects of the management of the Pension Fund is good practice and assists the Committee in making informed decisions. .

4.2 Monitoring the performance of the Fund's 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 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's Terms of References sets out its responsibility for management of the Pension Fund. The Committee has delegated responsibility:

- To make arrangements for the triennial actuarial valuation, monitor liabilities and to undertake any asset/liability and other relevant studies as required.
- To monitor the performance and effectiveness of the investment managers and their compliance with the Statement of Investment Principles (Investment Strategy Statement).
- To set an annual budget for the operation of the Pension Fund and to monitor income and expenditure against budget.
- To act as Scheme Manager for the Pension Fund

5.2 Given these responsibilities, it is appropriate for the Committee to consider a regular quarterly update covering funding and investment matters, budget monitoring and scheme administration and governance.

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 2018, the funding level was 74.5% compared to 77% as at the end of March 2016. This represents a considerable decrease relative to the previous quarter (81.3%), following an extremely challenging quarter for investment markets.

6.2 The funding level of 74.5% at 31st December 2018 is based on the position of the Fund having assets of £1,396m and liabilities of £1,874m, i.e. for every £1 of liabilities the Fund has the equivalent of 74.5p of assets. The monetary deficit remains high, increasing from £350m in March 2016 to £479m in December 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 Asset Pooling remains a high priority issue for LGPS funds and brings significant changes to investment governance. MHCLG has recently prepared new statutory guidance on LGPS asset pooling and has now invited views on the draft guidance via an informal consultation.

7.2 Interested parties, (including the Scheme Advisory Board, LGPS funds, the pool Joint Committees, the Cross Pool Collaboration Group, the pool operating companies where owned by participating funds, CIPFA and ALATS) have been invited to comment. A response to the consultation is being prepared by officers of the Fund and will be circulated to Committee Members prior to submission.

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 to 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. This process commenced late in 2018; the Fund is beginning a programme of specific engagement with LCIV to help drive the introduction of robust voting and engagement processes. The Fund is also hoping to work with other London Authorities on this project to help establish broad support and drive consensus-building.

10. BUDGET MONITORING

10.1 Officers are currently developing a new budget template to link the Fund's operational budget to its business plan – the 2019/20 budget will be brought the June Pensions Committee for approval along with the Business Plan

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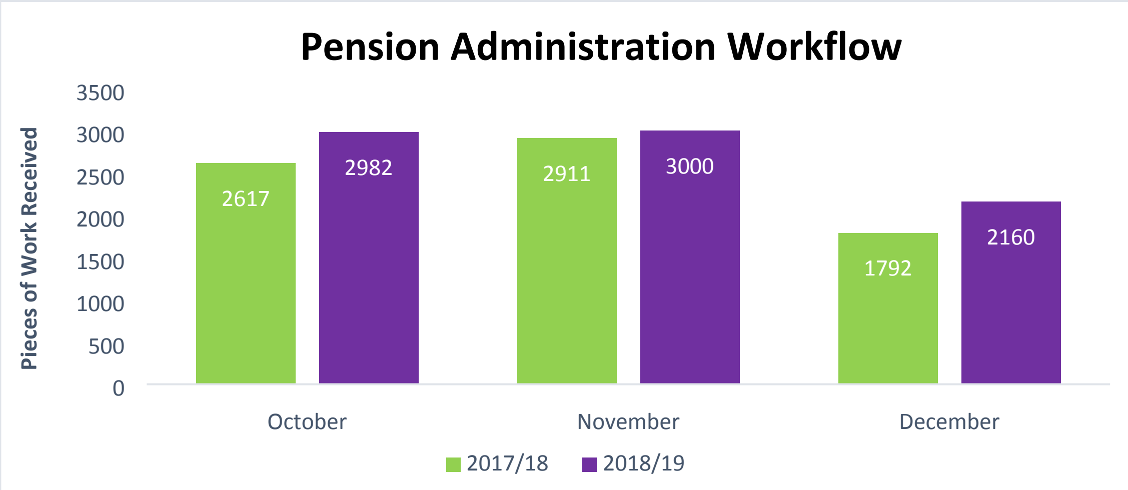
11. PENSION ADMINISTRATION

11.1 **Pension Administration Management Performance**

During Q3 2018/19, the administrators received a total of 8,142 new cases compared to 7,320 during Q3 in 2017/18.

A comparison of the monthly workflow between Q3 2017/18 and the reporting quarter is set out below:-



The average number of pieces of work received per month during Q3 2018/19 was 2,714, an increase of 274 pieces for the same period in 2017/18.

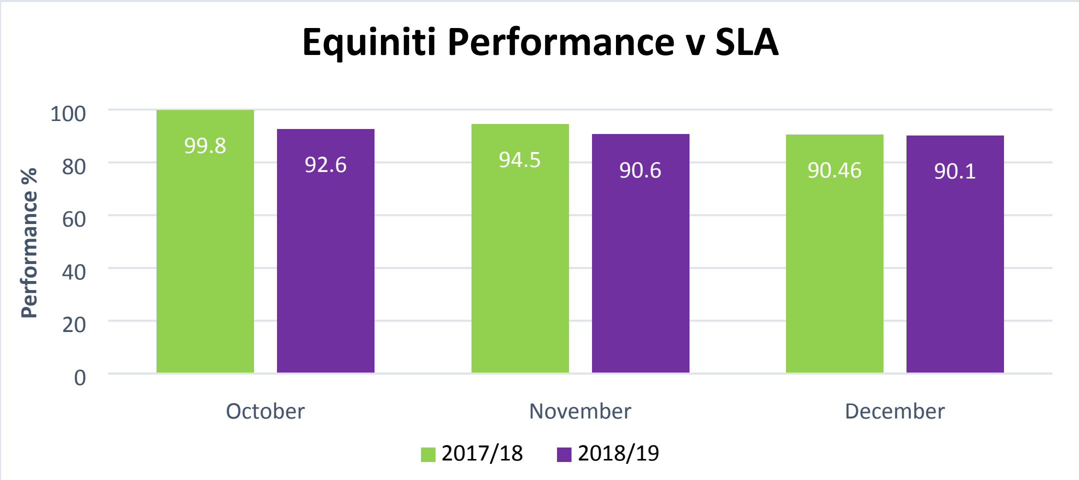
Much of this workload along with all new starters and leavers, has to be processed via an initial paper form request and then entered manually onto the pension administration system. Despite significant progress being made on the payroll interface during Q2, there has been numerous problems in Q3 with regard to iTrent system providing any reports, not just for pensions. There have been issues, that are still yet to be explained by Midland, as to why the reports would not run, one theory is with the 'hosting site' at Hackney and it's connect with Midland, but it is yet to be confirmed. Test reports have not been run for approximately 3 months and this has severally hampered the efforts of the Equiniti and the Hackney pension team, in testing the interface and resolving data queries.

Until the issues had been resolved, testing at Equiniti was on hold, so any progress that could have been made in the quarter iwasdelayed, which will of course having a knock-on effect with the other work that needed to be undertaken.

Since the end of Q3, the Council have been able to run a report from iTrent that has been sent to Equiniti for testing. Whilst the report is still under review it is hoped feedback can be provided verbally at the Committee meeting

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 has dipped slightly with an average of 91.1% for Q3 2018/19, compared to 98.9% for the previous quarter.

The administrator's monthly performance against the SLA during Q3 2017/18 and Q3 of 2018/19 is illustrated out below:



Continued delays to the development of a monthly interface, 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 contribution reports are still not being provided by payroll to Equiniti. This is contrary to the Regulations and tPR compliance.

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. As reported in the last quarter, 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 were produced and sent for those members.

The in-house pension team continue to work through LB Hackney data, line by line, member by member, to update and correct the pension data. Equiniti are currently validating some of the data and are hopeful they can run further batches of ABSs by the end of March 2019.

We have, again, had to report the Council's failure to the Pensions Regulator – and an update on the situation was given to tPR in November 2018. 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
Q3 2017/18	7,558	97
Q3 2018/19	6,911	172

The in-house pension administration team have been undertaking a data cleanse since August 2018 and have identified a number of un-notified leavers and opt outs that have since been processed following receipt of the correct paperwork from the employers. There is also been a reclassification of 'work in progress', whereby cases being undertaken for active members are now moved to a ‘restricted’ status that removes them from the active membership numbers. This has reduced our overall active membership to a more realistic level.

The in-house team have facilitated at weekly induction sessions for 133 new employees during Q3 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 Q3 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.

A breakdown of cases for Q3 2018/19 against the same period for 2017/18 follows:

DEFERRED MEMBER'S ILL HEALTH RETIREMENT CASES					
	CASES RECEIVED	SUCCESSFUL	UNSUCCESSFUL	ONGOING	WITHDRAWN
Q3 2017/18	4	2	1	0	1
Q3 2018/19	4	0	0	3	1

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
Q3 2017/18	0	0	0	0	0
Q3 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 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 2 cases concluded at Stage 1 in the 3rd quarter 2018/19:

1) Dependant member appeal against non-award of co-hab partner pension.
Decision - Appeal not upheld as deceased member's pension was in payment before the regulation change, so no co-hab partner pension can be awarded.

2) Member appeal against non-release of pension on the grounds of ill health retirement.
Decision - Appeal upheld and referred back to the employer to reconsider.

11.5 **Other work undertaken in Q3 2018/19**

<u>Third Party Administration Implementation update</u>

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. 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.

<u>New & Ceasing Employers</u>

During Q3, the Fund has admitted 1 new transferee body, 1 existing contract renewed and 1 renewal of an existing contract still under negotiation for renewal. There have been no employer contracts ceased during this period: breakdown is as follows:

Employer	Date Joined	Date Ceased	Deficit upon Ceasing Y/N
PJ Naylor – Grasmere School	01/10/2018		
SND – Our Lady & St Josephs (renewed)	01/11/2018		
Peabody Trust (under negotiation)		31/12/2018	

Redundancy Exercises for Departmental Budget Purposes

In Q3 of 2018/19, the in-house pensions' administration team have received a total of 49 redundancy estimate requests, some of these are for members over the age of 55 who will have pension automatically released. Of the 49 requests, only 5 employees received final paperwork and left the organisation.

12. REPORTING BREACHES

12.1 The breaches register for Q3 2018/19 is attached at Appendix 4 to this report. There were 12 breaches during the period, all relating to contributions. 5 are rated amber and 7 green; none are considered reportable.

12.2 During Q2, the Fund experienced a breach relating to Annual Benefits Statements which was reported to TPR. The Fund 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.

12.3 The Fund provided a further update to the Regulator during March 2019, discussing progress towards rectifying the breach and preventing recurrence in the future. 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 1,600 (approx.) active members.

12.4 Meaningful progress has now been made on development of a new interface for the Council; 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)
Appendix 2 – Manager Performance Report (Hymans Robertson – Investment Consultant)
Appendix 3 – LAPFF Quarterly Engagement Report
Appendix 4 – Breaches Register

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