

REPORT OF THE GROUP DIRECTOR, FINANCE & CORPORATE RESOURCES
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Pension Fund – Quarterly Update Pensions Committee 25th June 2019	Classification PUBLIC Ward(s) affected ALL	Enclosures Five
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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 UPDATE

- 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 March 2019, the funding level was 76.5% compared to 77% as at the end of March 2016. This represents a slight increase relative to the previous quarter (74.5%), following a more stable quarter for investment markets.
- 6.2 The funding level of 76.5% at 31st March 2019 is based on the position of the Fund having assets of £1,515m and liabilities of £1,981m, i.e. for every £1 of liabilities the Fund has the equivalent of 76.5p of assets. The monetary deficit remains high, increasing from £350m in March 2016 to £466m 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 MHCLG released a consultation on the LGPS fund valuation cycle in May 2019. The consultation asks respondents if the local fund valuation cycle for LGPS funds should be changed from triennial to quadrennial to align with the public sector scheme valuation cycles. It also asks respondents to consider proposed regulation changes connected to exit payments and credits. It is proposed that the Fund submit a response to this consultation. More information on the consultation can be found in the report titled “LGPS Valuation Cycle Reform Consultation”.
- 7.2 During May 2019, officers of the Fund provided individual responses to a governance survey issued by Hymans Robertson. The survey was commissioned by the LGPS Scheme Advisory Board and asked respondents to consider the governance of the LGPS and potential conflicts of interest between the pensions function of administering authorities and their host local authority. The survey focused on financial decision-making and the role of the s151; officers considered that a number of the suggestions represented good practice (e.g. approval of pension fund budgets by pensions committees) but recommended against radical change to existing structures.
- 7.3 Officers of the Fund have also provided information and sought legal advice to feed into the Council’s response to HM Treasury’s consultation on restricting exit payments in the public sector. The proposed cap of £95,000 on exit payments includes strain cost payable on early release of pension; whilst there is no direct impact on the pension fund (as strain is payable by the employer), the outcome will impact active scheme members made redundant over the age of 55.

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 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. RISK MONITORING

10.1 Quarterly risk monitoring for Q4 2018/19 is included at Appendix 5. The reports cover the key risks faced by the Fund across 3 categories – Investment & Funding, Admin & Comms, and Governance. The reports highlight key and new risks, as well as any that have changed status relative to their target during the quarter.

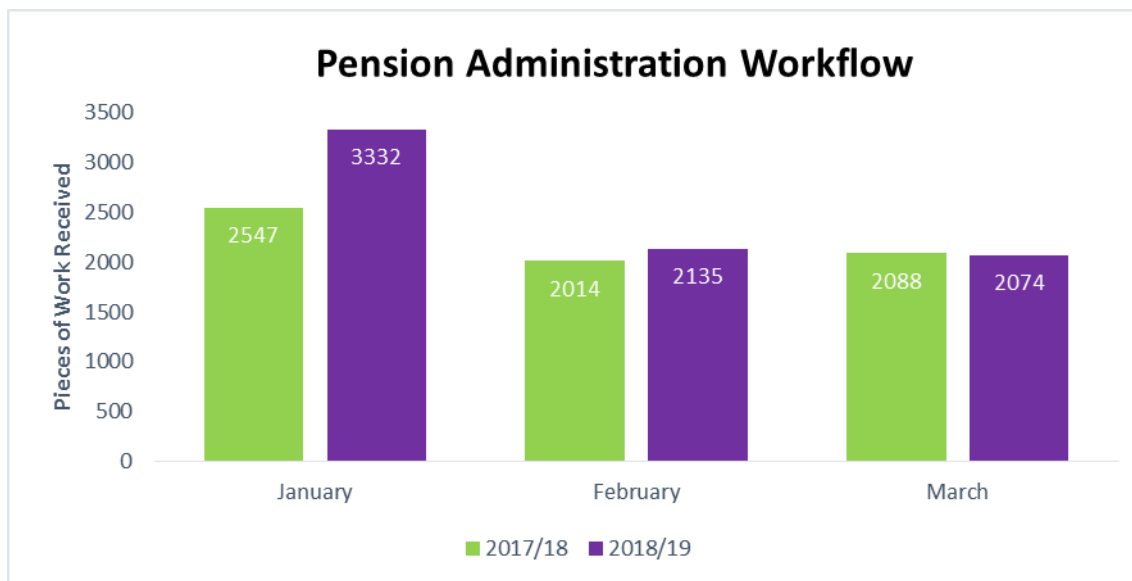
11. BUDGET MONITORING

11.1 The Fund's budget for 2019/20 is presented for review by the Pensions Committee in the Pension Fund Budget report. Quarterly budget monitoring for Q1 2019/20 will be available in the September Pensions Committee Quarterly Update Report.

12. PENSION ADMINISTRATION

12.1 Pension Administration Management Performance

During Q4 2018/19, the administrators received a total of 7,541 new cases compared to 6,649 during Q4 in 2017/18. A comparison of the monthly workflow between Q4 2017/18 and the reporting quarter is set out below:-

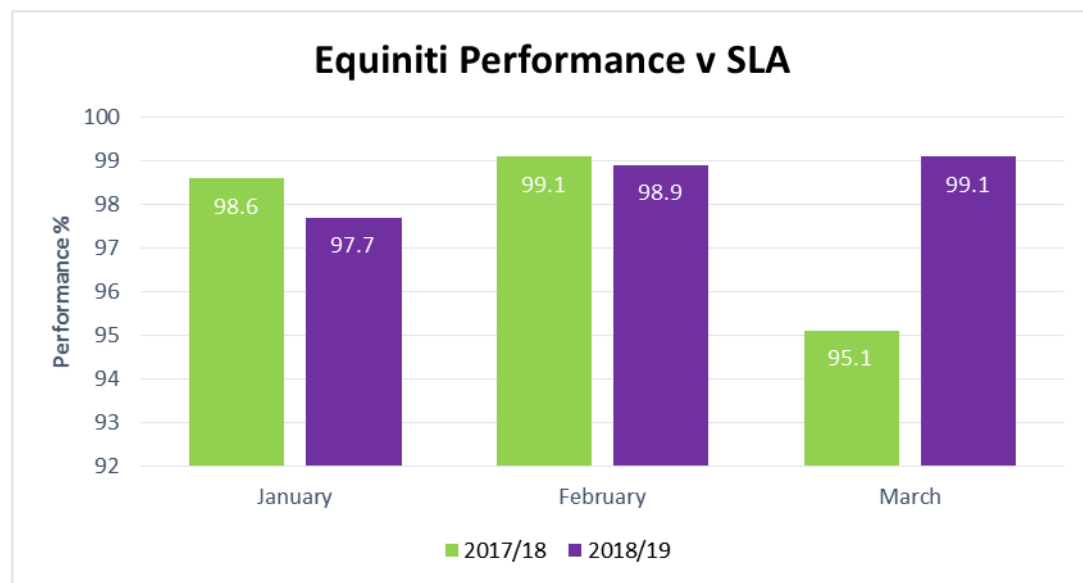


The average number of pieces of work received per month during Q4 2018/19 was 2,513, an increase of 297 pieces for the same period in 2017/18.

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, due to ongoing issues with the lack of electronic reporting from the main employer in the Fund, London Borough of Hackney. Since the last report, there has been a significant amount of progress made on the payroll interface in terms of getting the correct format, and of the 7 files required, 6 have been completed. There is still some way to go before the 7 reports can be run in full, in a test environment that will then provide detailed feedback on the quality of the data being produced from the payroll system.

The performance of the external pension administrators is monitored by the Pensions Administration Team within the Financial Services section 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 increased with an average of 98.5% for Q4 2018/19, compared to 91.1% for the previous quarter.

The administrator's monthly performance against the SLA during Q4 2017/18 and Q4 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 for members who are employed by the London Borough of Hackney. 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 administering authority's in-house pension team at Hackney, continue to work through LB Hackney data, line by line, member by member, to update and correct the pension data. Equiniti are still validating those data updates, and it was hoped that further annual benefit statements could be issued by the end of March, however due to further data issues this date has had to be revised. Indications are that a further 472 statements for the year 2017/18 will be issued by the end of May 2019 and the remaining 1,276 active members will receive an apology letter. Those members in receipt of an apology will of course be informed of their right to request the statement be produced.

12.2 New Starters and Opt-Outs

	Total Active Membership at end of Quarter	Total Opt Outs for Quarter
Q4 2017/18	7,522	112
Q4 2018/19	6,728	110

There is a notable drop in active membership from Q4 2017/18 to the reporting quarter and this is due to the ongoing data cleanse project which began in August 2018, that has identified a number of leavers and opt outs that were not reported to the administrator, and as such were reporting incorrectly as 'active'. There has also been a reclassification of 'work in progress', whereby cases being actioned for active members are now moved to a 'restricted' status that removes them from the active membership numbers. This has meant that we can report our active membership at a more realistic and accurate level.

The number of employees who decided to opt-out in Q4 2018/19 remain in-line with previous months/quarters, and still average around 100 per month.

The administering authority's in-house pension team have facilitated at weekly induction sessions for 154 new employees during Q4 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.

12.3 **Ill Health Pension Benefits.**

The release of ill health benefits fall into 2 main categories, being those for deferred and active members. The administering authority's in-house pension 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 Q4 2018/19 against the same period for 2017/18 follows:

DEFERRED MEMBER'S ILL HEALTH RETIREMENT CASES					
	CASES RECEIVED	SUCCESSFUL	UNSUCCESSFUL	ONGOING	WITHDRAWN
Q4 2017/18	2	0	0	2	0
Q4 2018/19	3	1	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
Q4 2017/18	3	2	0	1	0
Q4 2018/19	4*	2	0	1	0

*There is 1 active member's case that was not completed in the reporting quarter, as the employer's IHRP (ill health retirement panel) have requested a second opinion from the occupational health service (OHS) before making a final decision.

12.4 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, or by the Head of Pensions Administration if they have not had any prior input into the case.
- 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 was 1 case concluded at Stage 1 in the 4th quarter 2018/19:

- 1) Pensioner member appeal against the administrators request to repay to the Fund an overpaid lump sum increase made to the member in error.
Decision - Appeal not upheld as the Fund had made the correct steps to correct the error and recover the overpayment as soon as it was discovered.

12.5 Other work undertaken in Q4 2018/19

Third Party Administration Implementation update

There are still a number of significant points of delivery on the new service specification that remain outstanding, but an agreed joint effort to get these delivered to the expected standard is proving productive and good progress is being made. Performance rectification and resolution planning has been agreed by both parties and added to the new contract, which has now been signed by Equiniti and returned to the Fund.

New & Ceasing Employers

In Q4, the Fund had 2 employers, who have existing contracts, renewed at the end of the quarter, and 1 renewal of an existing contract is still under negotiation. There have been no employer contracts ceased during this period: breakdown is as follows:

Employer	Date Joined	Date Ceased	Deficit upon Ceasing Y/N
Birkin Cleaning – Gayhurst & Jubilee Schools – contract renewed	01/04/2019		
P J Naylor – Daubeney School – contract renewed	01/04/2019		
Peabody Trust (under negotiation – end date was 31/12/2018)			

Annual Employers' Forum

The annual Employers' Forum was held on 7 March 2019, and was attended by representatives from 4 of the Fund employers, also 2 of our schools were represented and 3 of our academies. The Forums agenda was varied and covered subjects from the Fund overview, employer discretion policies and the year-end data timetable & processes for the annual benefit statements. AON gave us some insight into '*pension hot topics*' and Hymans (the Funds actuary) spoke about the forthcoming 2019 Valuation exercise. Equiniti guided us through a demo of the new on-line self-service facilities for both employers and employees/members to use, together with an overview of our new LGPS website – all of which will be launched in the autumn of 2019.

Redundancy Exercises for Departmental Budget Purposes

In Q4 of 2018/19, the administering authority's in-house pensions' team have received a total of 105 redundancy estimate requests, some of these are for members over the age of 55 who will have pension automatically released. Of the 105 requests, only 12 employees received final paperwork and left the organisation.

13. REPORTING BREACHES

- 13.1 The breaches register for Q4 2018/19 is attached at Appendix 4 to this report. There were 9 breaches during the period, all relating to contributions. 4 are rated amber and 5 green; none are considered reportable.
- 13.2 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.

- 13.3 Given that production of annual benefit statements has been a long-standing issue for the Fund, the Pensions Regulator has now commenced a programme of engagement with the Fund on this issue. Further details of the breach and the Fund's response to it can be found in the report titled 'Data Improvement Update'.

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

Appendix 5 – Risk Reporting

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