Item 9

Hackney

REPORT OF THE GROUP DIRECTOR, FINANCE & CORPORATE RESOURCES		
Quarterly Update Report **Pensions Committee** **16th June 2021**	**Classification** **Public** **Ward(s) affected** **ALL**	**Enclosures** **Two** **AGENDA ITEM NO.**

1. INTRODUCTION

1.1 This report is an update on key quarterly performance measures, including an update on the funding position, investment performance, responsible investment, administration performance and reporting of breaches. It provides the Committee with information on the position of the Fund between January and March 2021. The report also provides an update on the implementation of the investment strategy approved at previous meetings.

2. RECOMMENDATIONS

2.1 The Pensions Committee is recommended to note the report.

3. RELATED DECISIONS

- Pensions Committee (Urgency Delegation March 2020) – 2019 Final Valuation Report 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 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.

4.4 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 As at the end of March 2021, the funding level based on the 2019 valuation was 102% compared to 91% as at the end of March 2019, an improvement from 92% previously reported as at end December 2020.

6.3 The funding level of 102% at March 2021 represents a reduction in the deficit of some £127m over the last quarter, largely due to the rise in gilt yields. This means that the fund is showing a small surplus of £24m as at 31 March 2021. 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.

6.4 As can be seen from the above, the markets remain volatile with asset values being affected by developments in the Covid-19 pandemic and other economic factors and sentiments. The valuation of liabilities are affected by the expected future return on investments, an estimate of the Fund's annualised return over 20 years. This changes as economic conditions fluctuate, with a reduction in the expected return resulting in a higher present value placed on liabilities.

6.5 Although the current funding level of 102% as at 31st March 2021 shows a positive trajectory since the Spring of 2020, members of the Pensions Committee are reminded of the volatility of markets even pre-Covid and that this funding level is subject to both a negative and positive change as well as to changes in assumptions used.

7. INVESTMENT UPDATE

7.1 Appendix 1 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. The report shows that the Fund produced positive returns over the quarter performing broadly in line with benchmark. The Fund's equity and property portfolios produced positive returns whilst the corporate bond mandate produced negative returns, largely due to the rise in interest rates over the quarter.

8. INVESTMENT STRATEGY IMPLEMENTATION UPDATE

8.1 Following the Committee's approval to its refreshed investment strategy, Officers agreed to provide a quarterly update on its actual implementation.

8.2 To date the following has been achieved:

- Due diligence has been completed on the LCIV private debt and renewable infrastructure funds and suitability notes issued by our investment advisers.
- Subscription documentation has been completed for the LCIV private debt and renewable infrastructure funds and initial capital calls have now been made and funded.
- Due diligence has also been completed on the LCIV Paris Aligned Global Alpha Fund, Emerging Market Equity Fund and Diversified Growth Fund with suitability notes to be issued shortly.
- Implementation of the remaining three funds is expected to take place over the summer months and a further update on these will be provided at the September Committee meeting.
- Managers have been contacted regarding the implementation of the currency hedging mandate and a report is being produced for consideration, pending clarification of procurement requirements.

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. 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.

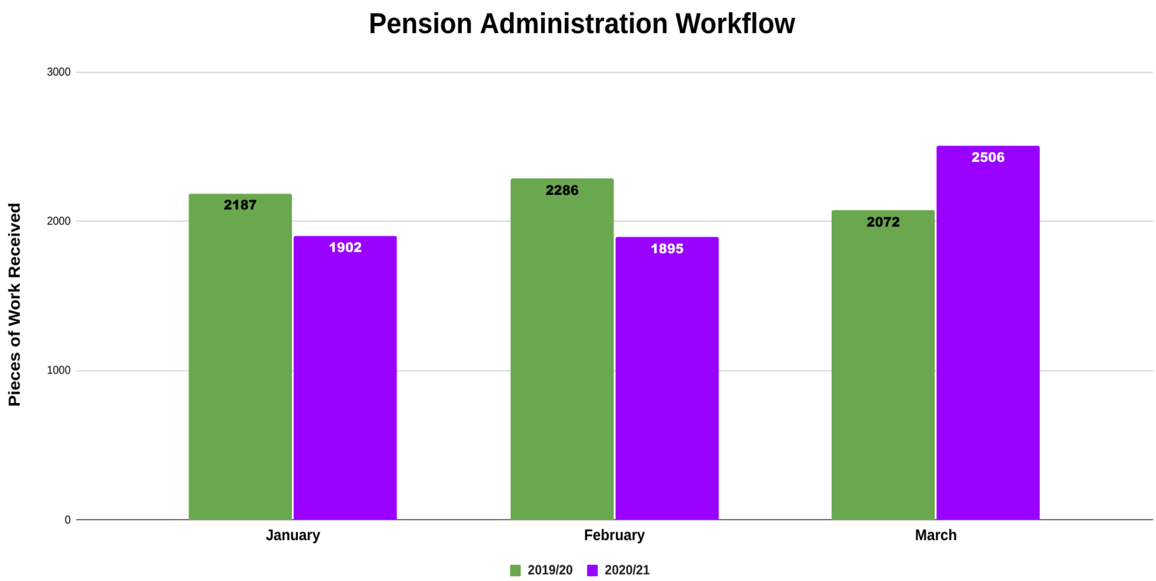
9.2 The LAPFF Quarterly Engagement report is attached at Appendix 2 to this report, setting out LAPFF's engagement activity over the Quarter in relation to environmental, social and governance issues. Following the restructuring of its equity portfolio, the Fund no longer retains any segregated mandates and therefore has no direct holdings in the companies referenced. It does, however, retain exposure via its pooled passive funds to a large number of the companies LAPFF engages with.

9.3 As can be seen from the LAPFF Quarterly Update Report, much of the engagement with companies has continued to focus on climate change issues. They have also continued to focus on social issues including requesting and starting meetings with some of those companies included in the UN list of companies that it had identified as having business activities related to settlements in the IsraelilPalestinian Territories. Further to this LAPFF have met with a range of large global asset managers to discuss their approaches to responsible investment. The aim of these discussions is to ensure that asset managers are engaging on behalf of LAPFF members in a way that facilitates its responsible investments policies and objectives.

10. PENSION ADMINISTRATION

10.1 Pension Administration Management Performance

During Q4 2020/21, the administrators received a total of 6,303 new cases compared to 6,545 during Q4 in 2019/20. A comparison of the monthly workflow between Q4 2019/20 and the reporting quarter is set out below:-



As previously reported, due to the COVID-19 pandemic, guidance was issued by the Pension Regulator, and in accordance with this, the administering authority and Equiniti shifted priorities to ensure the critical services continued to be delivered during this period:-

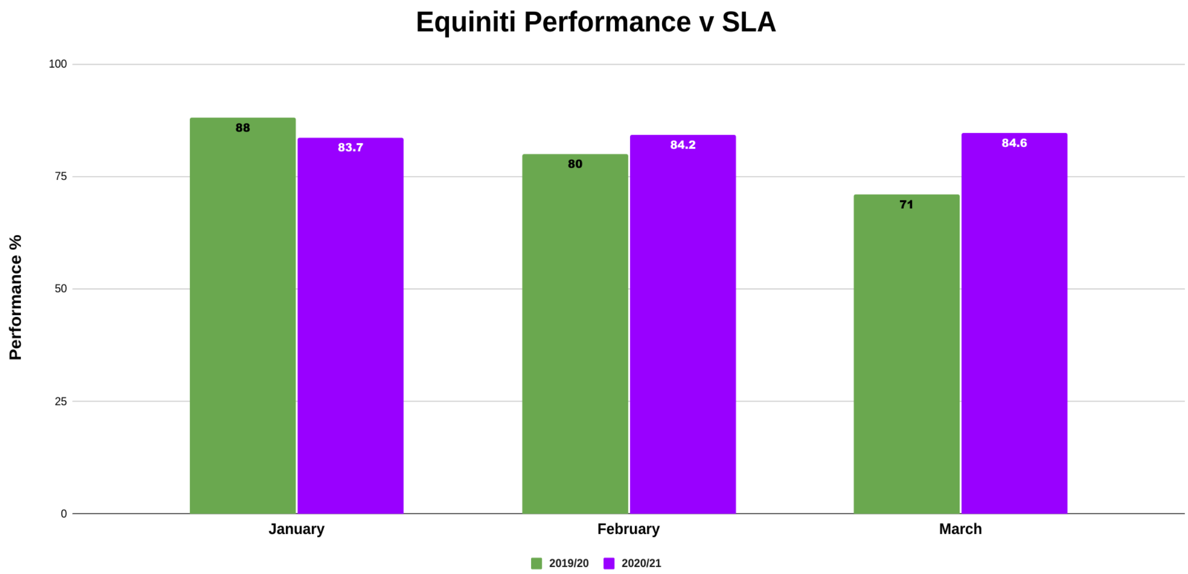
- Paying member's benefits – ensure the monthly pension pay is continued
- Retirement processing – those retiring to receive priority in the workflow and payments made
- Bereavement services – to ensure the process of informing the Fund and the payment of death grants is as smooth as possible

The administering authority applied a number of other measures and process changes that would allow the services to continue, albeit with varying degrees of change to the normal practices. Therefore we would accept:-

- Electronic or typed signatures on starter, leaver and opt out forms
- Photographs of member ID – passport, birth certificate, driving licence
- A medical certificate issued at the time of death if relatives are unable to obtain death certificates
- Expression of Wishes forms for the payment of death grants – if it cannot be witnessed the member is to reference COVID on the form

These measures have been in place throughout the reporting period but will be revisited by Equiniti and the administering authority once the pandemic eases. Based on current government lockdown easing, the measures in place will all be reviewed in mid June.

Performance against all of the service level agreement (SLA) is being monitored and an averaged SLA of 84.2% was achieved for Q4 2020/21, compared to 79.7% for the same quarter last year. The administrator's monthly performance against the SLA during Q4 2020/21 and Q4 of 2019/20 is set out below:



SLAs being reported are still in relation to the SLAs in the old contract. For the new reporting year the administration report will move to the new contract SLAs, together with additional monitoring of the magnitude of work tasks being received, completed and outstanding.

The performance of the external pension administrators is monitored by the administering authority's pension team at Hackney on a monthly basis. The SLA performance has been disappointing and the administering authority are continuing to work with Equniti to continue the month on month increases.

In the reporting period the BAU team were working to clear a backlog of work items that had gone into a pending queue on their work management system. The bulk of these items were duplicate work items that once reviewed could then be closed off. The problem has now been sorted in order to prevent these duplicate items occurring again, but this did impact on the SLA figures. If these backlog clearance items were stripped out of the SLA figures then the “true” SLA average for the quarter was 94%.

10.2 **New Starters and Opt-Outs**

	Total Active Membership at end of Quarter	Total Opt Outs for Quarter
Q4 2020/21	7,078	166
Q4 2019/20	6,915	170

The figures are inline with usual trends.

10.3 **Ill Health Pension Benefits**

The release of ill health benefits fall into two main categories, being those for deferred and active members. The administering authority team at Hackney process all requests for the release of deferred members’ benefits. Deferred members' ill health benefits are released for life, are based on the benefits accrued to the date of leaving employment, (with the addition of pension increases whilst deferred), but they are not enhanced by the previous employer.

The team also assist the Council’s HR team with the process for requests to release an active members’ benefits on the grounds of ill health retirement.

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 – paid for life, no review
- Tier 2 – the pension benefits are enhanced by 25% - 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 undertaken when pension has been in payment for 18months.

The applications received have been higher in volume compared to the same period in the previous year:

DEFERRED MEMBER'S ILL HEALTH RETIREMENT					
	CASES RECEIVED	SUCCESSFUL	UNSUCCESSFUL	ONGOING	WITHDRAWN
Q4 2020/21	6	4	0	1	1
Q4 2019/20	1	0	0	0	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
Q4 2020/21	5	3	0	2	0
Q4 2019/20	4	3	1	0	0

10.4 **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 two stages:-

- Stage 1 IDRP's are reviewed and determinations made either by the Pensions Manager or 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.

Stage 1 – One application was submitted during this quarter against the administering authority in relation to a CETV dispute. The appeal was upheld.

Stage 2 – No applications were submitted in this quarter.

10.5 **Other work undertaken in Q4 2020/21**

Third Party Administration Implementation update

As previously reported, the major outstanding point of delivery under the new contract specification is in relation to employer interfaces and member online services. These were delayed due to the onset of the COVID-19 outbreak in the UK in late March 2020 which unfortunately halted the planned rollout and training programme. However, the first phase of the employer online portal work is in progress. The inhouse Hackney pension team has worked closely with the project delivery manager from Equiniti and have agreed a detailed specification proposal. Employer training for the portal has been scheduled for June 2021 and invitations sent to all employers. It is anticipated that the employer portal can be rolled out for employers to use in Q2/Q3 of 2021/22.

Annual Benefit Statements

There is a legal timescale for issuing annual benefit statements to all active and deferred members of the scheme, which is 31 August. This is a major exercise carried out by Equiniti, but it relies on all the Fund's employers providing them with pensions information relating to the scheme members in a timely manner. The vast majority of the 2020/21 year end data has now been returned to Equiniti who are carrying out data validations. Any queries will then go back to the employers.

As a result of previous lessons learnt the process has been improved this year with increased communication and coordination between the different teams involved in the process within Equiniti. The timescales for employer submissions and responses have also been tightened up and early validation work from the largest scheme employer has also been undertaken.

A further update on the benefit statement work will be provided at the next meeting.

<u>McCloud Programme Update</u>

Programme background

Regulatory changes are required to rectify the age discrimination identified in the transitional protections put in place across the public sector in moving from final salary to career average revalued earnings (CARE) benefits schemes in 2014 and 2015. The key features of the proposed remedy include levelling up benefits for the younger members who suffered discrimination using a form of final salary underpin. Final regulations are now expected to be effective from 1 April 2023 (see Regulatory Update Report) and will be retrospective back to 1 April 2014.

In order to prepare the Hackney Pension Fund for the expected regulatory changes the administering authority has set up a Programme to implement the changes in the regulations.

Update

Work has been progressing in the Data; Communications and Finance workstreams, with the workstreams including key officers from Hackney pensions, team members from Equiniti and consultants from Aon (providing Programme management and technical assurance) and Hymans Robertson, as set out in the Programme Charter.

The Programme has been focussing on priority areas as follows:

- The agreed data validation is in progress for those employers who have submitted the data required to implement the expected benefit changes, with queries issued to some employers.
- Officers continue to chase outstanding data returns and have provided a hard deadline of 31 May from which point action may be taken if there are continued delays.
- The Programme team has been developing an alternative approach to sourcing pre July 2017 data for Hackney Council following difficulties with the initial preferred approaches resulting from the cyber attack. The current expectation is that this alternative approach will provide all of the information required within a reasonable timescale, but this is subject to final verification checks.
- Updated financial analysis has been concluded for employers and the fund as a whole with key messages provided to the relevant stakeholders.
- An initial review of governance and administration policy documents has been undertaken to identify where updates are required, and officers are updating communications to provide an update for members and

employers following the Written Ministerial Statement for McCloud issued 13 May.

- The Written Ministerial Statement has not materially impacted on planned Programme activity at this stage. The Programme team is continuing to progress additional planning for the next priority areas for the Programme, including areas such as data upload; benefit rectification; ongoing administration and specialist cases, but noting some key areas of uncertainty remain pending the detailed consultation response expected form MHCLG later this year.

Work is slightly behind plan as a result of delays in obtaining data for some employers (notably relating to Hackney Council as a result of issues outlined above, as well as delays to post July 2017 data as a result of the volume of data required) and continued regulatory uncertainty which is impacting on detailed planning for some workstreams.

Risks continue to be monitored within the Programme governance structure, including oversight from the Programme Management Group. These risks are actively managed and the overall Programme risk is included in the Fund risk register.

We will provide a further update on progress at the next meeting.

<u>Address Tracing and Verification Exercise</u>

Equiniti are in the process of carrying out an address tracing and verification exercise on the entire deferred member population. This will help to trace those members which the Fund currently holds no current address for, but also verify that the addresses that are held are still up to date. The initial data set has been run through the electronic systems, which the specialist data services team use, and this has resulted in circa 1,000 deferred members being flagged as needing a more indepth forensic trace. This work is now underway. Once the results of this are known verification letters will be sent to all of the traced population to the identified new addresses.

An update on this exercise will be provided at the next meeting.

<u>Guaranteed Minimum Pension (GMP) Reconciliation</u>

As explained in the last report, a project has been ongoing to reconcile the Fund's GMP data with that held by HMRC, following the change to contracted-out pension rules in April 2016. This has led to the identification of a number of scheme members who have had benefits either overpaid or underpaid, in some cases for a number of years.

It had been hoped that those pensioners who had been underpaid would have their benefits corrected (and the arrears paid) in the March pensioner payroll (with the overpayment cases being dealt with later this year), but as previously reported the final checks on member data took longer than anticipated and it wasn't possible to meet the March payroll deadlines. April and May payrolls were affected by the annual Pensions Increase exercise and because of this it is not recommended to make other changes to member records during these payrolls.

The Pension Increase has now been run and implemented and therefore currently Equiniti are finalising the recalculated adjustments of benefits. It is now anticipated that the underpaid will have their benefits corrected (and the arrears paid) in the August pensioner payroll, and the overpayment cases will see their pension decrease in the September pensioner payroll. This will allow for members to receive adequate notice of the amendments to their benefits.

Around 380 members are being reviewed as a separate exercise, and any amendments needed to their benefits will be actioned on an individual basis. These are members who became entitled to their GMP before reaching their State Pension Age (SPA). This makes their calculation more complicated, so additional checks are being undertaken with this group to ensure accuracy and to ensure that checks on this group do not hold up the overall exercise. It is not known at this stage how many of this group will actually see a change to the benefits they are currently receiving.

As requested at the last meeting, the member communications have been shared and agreed with the Chair.

Once all the recalculations have been done a final report on the numbers affected will be provided to the committee

11. REPORTING BREACHES

11.1 There have been no reportable breaches in the last quarter.

Ian Williams
Group Director of Finance & Corporate Resources

Appendices:
Appendix 1 – Investment Performance and Report (Hymans Robertson – Investment Consultant)
Appendix 2 – LAPFF Quarterly Engagement Report

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