Hackney

REPORT OF THE GROUP DIRECTOR, FINANCE & CORPORATE RESOURCES		
Quarterly Update Report **Pensions Committee** **30 September 2021**	**Classification** **Public** **Ward(s) affected** **ALL**	**Enclosures** **Two** **AGENDA ITEM NO.** **7**

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 April and June 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 June 2021, the funding level based on the 2019 valuation was 107% compared to 92% as at the end of March 2019, a further improvement from 102% previously reported as at end March 2021.

6.3 The funding level of 107% at June 2021 represents an increase in the surplus of some £99m over the last quarter, largely due to strong investment performance. This means that the fund is showing a surplus of £123m as at 30 June 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 have remained strong over the last year or so, however they can be 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 107% as at 30th June 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. This is explored more fully in the “Funding and Investments Considerations” paper elsewhere on this meeting’s agenda

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 the last quarter, 1 year and 3 year performance against benchmark and target, as well as Hymans Robertson’s current ratings for each manager. The report shows that the Fund produced positive absolute returns over the quarter of 4.9%, performing broadly in line with benchmark. All asset classes produced positive returns over the quarter, with the largest contribution coming from growth assets, particularly equities. Over the last 12 months, the Fund outperformed the benchmark by circa 1%, producing overall returns of 17.5%. Over the last 3 years, returns of 8.2% are in line with the benchmark.

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 In June’s update report it was reported that the the following had 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 (now received).

8.3 Over the last quarter, officers have liaised with Hymans, our investment consultants, and the LCIV regarding the transitions into the LCIV Paris Aligned Global Alpha Fund, Emerging Market Equity Fund and the Diversified Growth Funds. In addition, MJ Hudson (via LCIV) has provided transition advice in order that we can ensure the transitions are completed at the optimum times and costs, minimising risks regarding market exposures. It is intended that we will be transitioning into the equity funds week commencing 27 September with the LCIV Diversified Growth Fund the following week.

8.4 The business case and contract award report regarding the implementation of the currency hedging mandate is being produced for consideration by procurement and the outcome of this will be reported to the Pensions Committee at its meeting in November 2021.

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. As the Committee will recognise, 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 human rights and climate change issues. LAPFF has also now issued a number of voting alerts in respect of both climate change issues and wider social/human rights issues. Further to this, LAPFF also met with a range of large global asset managers to discuss their approaches to responsible investment. The aim of these discussions were to ensure that asset managers are engaging on behalf of LAPFF members in a way that facilitates its responsible investments policies and objectives.

9.4 The Committee held a workshop on 22nd September dedicated to the development of the Fund's approach to responsible investment policy, including discussion of UN principles and related issues, its approach to climate change and the future development of a refreshed target and impact on its investment strategy. A brief update of the discussions will be provided at the Committee meeting setting out next steps and actions to be taken.

10. PENSION ADMINISTRATION

10.1 Pension Administration Management Performance

In this quarter's update we include new style graphs showing the case levels as well as performance against service level agreement standards (SLAs).

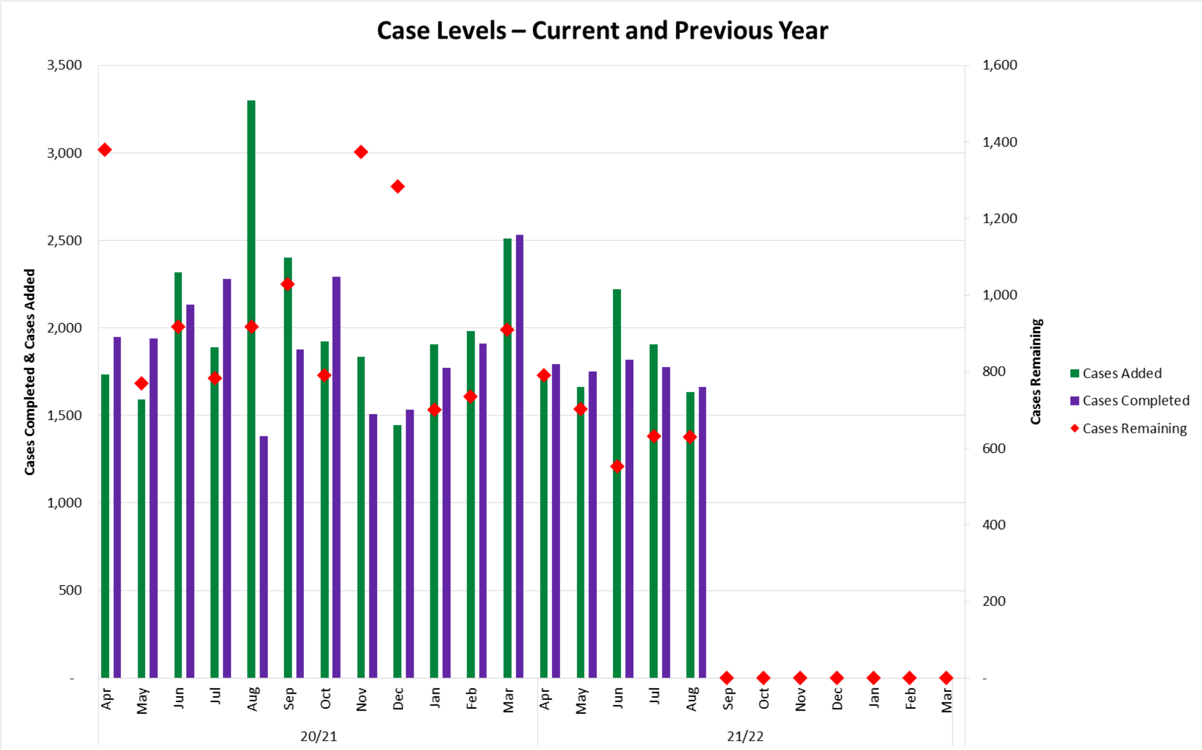
Case Levels

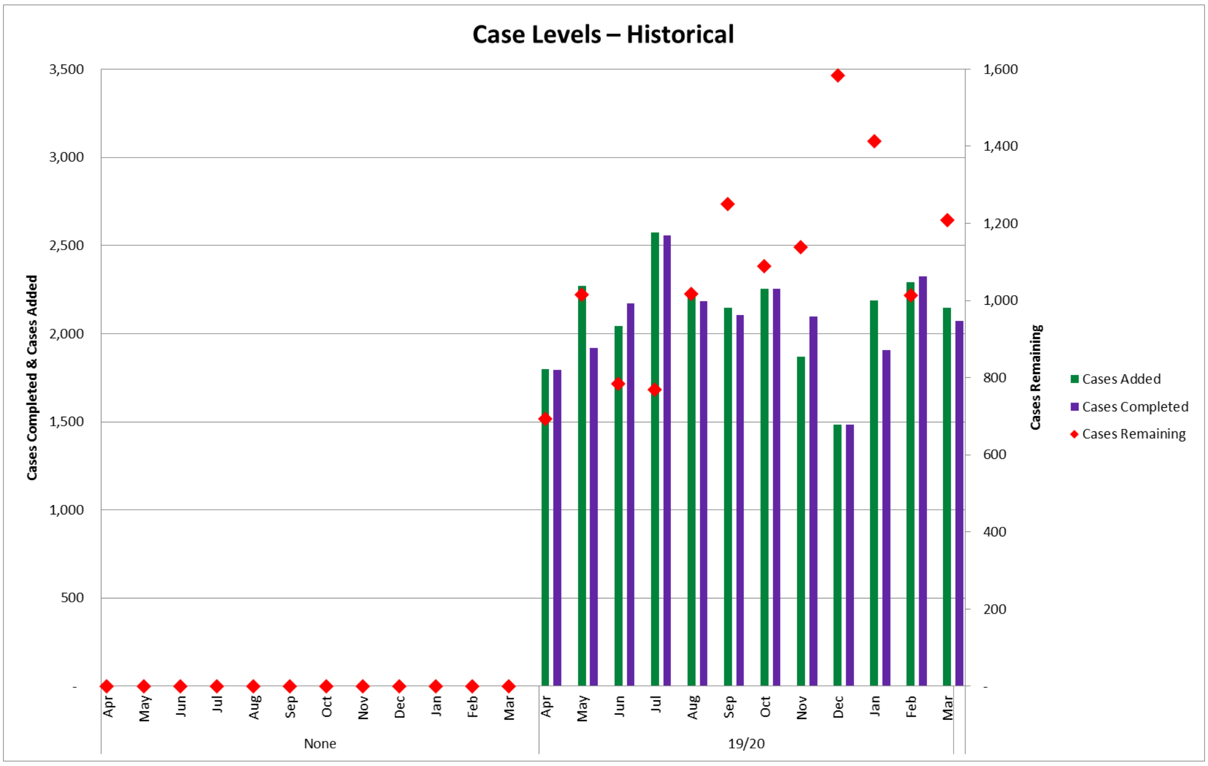
The new graphs now show greater historical information dating back to April 2019 relating to the case numbers that are being received and processed by Equiniti. For each month, the graph shows:

- "cases added" - the number cases received by Equiniti during the month ("cases added") and
- "cases completed" - the number of cases completed by Equiniti during the month ("cases completed")
- "cases remaining" - the numbers of cases that are outstanding and therefore waiting to be processed by Equiniti at the end of each month ("cases remaining")

This analysis should allow the Committee to better understand fluctuations in the amount of Hackney Pension Fund work being received and completed by Equiniti. Increases in cases remaining are likely to indicate a backlog of work.

The remaining cases since April have been consistently below 800, which is an improvement on the averages for each of the previous two years (965 for 2020/21 and 1082 for 2021/22), albeit the cases being added for 2021/22 to the end of August have been lower than in previous years.





SLA and KPI monitoring

The contract with Equiniti includes a large number of service level agreement standards (SLAs). A proportion of these are highlighted as being key performance indicators (KPIs) for the Fund. The KPIs include target timescales for processes such as:

- providing new members with information about the scheme
- notifying retiring members of the amount of retirement benefits and paying them their tax free cash lump sum
- informing members who leave the scheme before retirement of their deferred benefit entitlement.

For most measures there are two targets:

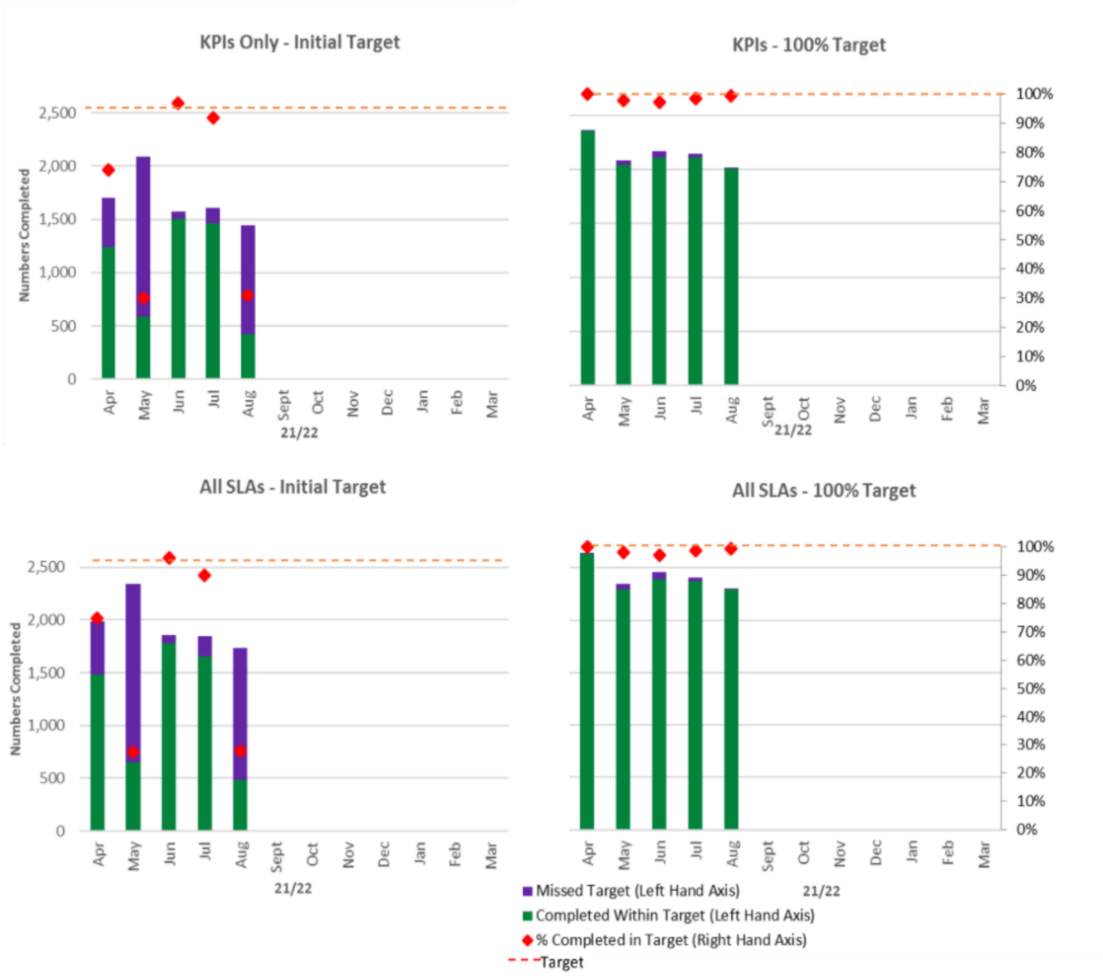
- an initial target – this is the initial timescale within which the majority of cases must be processed (typically 95% is the target to be processed by the initial target period)
- the 100% target – this is a later timescale by which it is expected that 100% of cases will be processed by.

Equiniti has now commenced reporting against these new SLA and KPI targets and the following graphs show their performance since April 2021. Each graph illustrates the numbers of cases completed within the target (green) and the number outstanding (purple), as well as the percentage of cases completed within the target (red diamond which relates to the right hand axis). The four graphs are as follows:

- KPIs Only – Initial Target: this shows the performance against **only** the key performance indicators based on the initial target where it is expected that (in the main) 95% of cases will be processed.
- KPIs Only – 100% Target: this shows the performance against **only** the key performance indicators based on the 100% target where it is expected that all cases will be processed.
- All SLAs – Initial Target: this shows the performance against **all** service level agreement standards based on the initial target where it is expected that (in the main) 95% of cases will be processed.
- All SLAs – 100% Target: this shows the performance against **all** service level agreement standards based on the 100% target where it is expected that all cases will be processed.

As can be seen, for both the KPIs and SLAs, there have been a number of months where Equiniti has failed to meet the expected targets, some by quite a major gap (less than 30% was achieved in May and August). Resources of the Business As Usual (BAU) team were impacted by the annual benefit statements project as they were supporting the annual events team with data validations. Additionally in August and September the BAU team has seen an influx of annual leave due to summer holidays and lockdown easing.

However, they have managed to turn this around by the 100% Target deadline, achieving an average of over 98.5% for both KPIs and all SLAs during the months of April to August.



As previously reported, due to the COVID-19 pandemic, 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

Due to the easing of lockdown measures it was decided that from 1 August 2021 that the changes put in place in relation to Death Certificates, Expression of Wish and ID documents are to revert back to the pre covid measures. Equiniti are now working on requesting the full documentation from members who provided documents under the covid measures. Given the permanent shift to home working/hybrid working from the scheme employers it has been decided that electronic forms and signatures from Employers can be accepted- as long as they have been authorised and uploaded through the secure facility by the appropriate personnel.

10.2 **New Starters and Opt-Outs**

	Total Active Membership at end of Quarter	Total Opt Outs for Quarter
Q1 2021/22	6,956	142
Q1 2020/21	7,011	96

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 18 months.

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
Q1 2021/22	3	1	1	1	0
Q1 2020/21	1	1	0	0	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 2021/22	3	2	0	1	0
Q1 2020/21	1	0	0	0	1

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 – No applications were submitted in this quarter.

Stage 2 – Two applications were submitted during this quarter, one against the administering authority in relation to a CETV dispute. The appeal was upheld. The second was against the former employer (Hackney Council) regarding an ill health pension dispute. The appeal was partially upheld.

The administering authority team at Hackney also dealt with a Pensions Ombudsman adjudicator case. This was in relation to an IDRP Stage 2 from July 2019. The member did not accept the findings and applied to the Pension Ombudsman, who in the first instance has an adjudicator determine the case. The dispute involved a cohabiting partner pension in relation to the 1997 pension regulations. The adjudicator did not uphold the appeal and agreed with the Stage 2 findings.

10.5 **Other work undertaken in 2021/22**

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

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 was held in June 2021 and follow-up work is now in progress with the employers. It is anticipated that the employer portal can be rolled out into "live" for employers to use in Q3/Q4 of 2021/22.

<u>Annual Benefit Statements</u>

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. In previous years not all statements had been issued within the legal timescale and, as a result, reports had been made to the Pensions Regulator. However improvements have since been made year on year.

Unfortunately not all statements have been issued by the legal deadline this year as outlined below (information as at 15 September):

- Active member benefit statements
  - statements issued within timescale: 5,784
  - statements issued 2nd September 2021: 437
  - statements issued 13th September 2021: 125
  - statements not yet issued: 291

Equiniti are continuing to work through the remaining 291, the majority of which are Employer data queries. It may transpire that some of these members should not be provided with statements.

- Deferred member benefit statements
  - statements not yet issued: 6,665
  - statements not able to be issued due to no current address: 2,013 (see address tracing update below)

It is highly disappointing that such a large proportion of statements are late this year given work that was done in previous years to improve the process. The Fund is currently trying to establish what has gone wrong with Equiniti's processes and a verbal update will be given at the committee meeting. The administering authority's pension team will be working with Equiniti to ensure the remaining statements are issued as quickly as possible and to fully understand the reasons behind the delays so that their process is improved for future years. The Pensions Regulator will be advised that some statements were not issued within the legal timescale. A further update will be provided at the committee meeting.

Address Tracing and Verification Exercise

As referred to above Equiniti have carried out an address tracing and verification exercise on the entire deferred member population. This was in order to help to trace those members which the Fund currently holds no current address for, but also to verify that the addresses that are held are still up to date, which is essential for data protection purposes.

Some 2,400 verification letters were sent- these are those in the deferred population that were flagged as living at a different address to that which was currently held on the administration system, or where no current address was held on the system.

To date circa 1,000 verification letters have been received back which show a full match. These addresses have now been updated on the administration system. This leaves some 1,400 addresses which still need to be verified (some of these addresses may relate to multiple records). The fund is working with Equiniti on the next steps for these. An update on this exercise will be provided at the next meeting.

McCloud Programme Update

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 for the LGPS 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 relate to an underpin period from 1 April 2014 to 31 March 2022.

In order to prepare the Hackney Pension Fund for the expected regulatory changes the administering authority has set up a Programme to ensure smooth and timely implementation of the changes in the regulations.

Update

All workstreams are now in progress (Data; Communications, Finance, Ongoing Administration and Benefits Rectification), 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 (Fund actuaries), as set out in the Programme Charter.

We continue to await confirmation of the regulatory changes although the Written Ministerial Statement (13 May 2021) provided clarity in some areas. The Public Service Pensions and Judicial Offices Bill was introduced on 19 July 2021. This is enabling legislation that will allow the MHCLG to make McCloud regulations for the LGPS. Draft LGPS regulations are expected by the end of the year.

The Programme has been focusing 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. Data held by Hackney Council has now been received and is with Equiniti to review and validate.
- Officers continue to chase outstanding data returns and are making efforts to speak to employers before considering what action may be taken if there are continued delays.
- Delivering 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 the majority of the information required within a reasonable timescale, but this is subject to final verification checks which are underway. There is a period (April 2014 – October 2014) where data may not be available using this approach and further consideration is being given to this.
- Officers have updated communications to provide an update for members and employers following the Ministerial Statement and an initial review of governance and administration policy documents has been undertaken to identify where updates are required.
- Additional planning for the next priority areas for the Programme, including areas such as data upload; benefit rectification; ongoing administration and specialist

cases, noting some key areas of uncertainty remain pending the detailed consultation response expected from MHCLG later this year.

Work is slightly behind the original plan as a result of delays in obtaining data for some employers (notably relating to Hackney Council as a result of issues outlined above) and continued regulatory uncertainty which is impacting on detailed planning for some workstreams. With final regulations now not expected to be in force until 1 April 2023 the Fund is making good progress, but planning by Equiniti for changes to ongoing administration and benefits rectification is becoming all the more pressing.

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.

Guaranteed Minimum Pension (GMP) Reconciliation

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 following on from the implementation of Pension Increase the adjustments of benefits would be recalculated and finalised with the underpaid having 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.

However, during the recalculation work questions were raised in relation to survivor benefit rectifications, as survivor GMP is calculated differently depending whether the original member retired before or after 24 July 1990. Additional investigations and checks are being undertaken with this group to ensure accuracy of the original survivor calculations. Therefore it has been decided that in order to minimise further delays in the wider project circa 200 survivor cases are being reviewed separately.

Around 380 members are also 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) and required more complicated calculations and checks.

Therefore, the remaining pensioner benefits have now been recalculated and finalised with the underpaid having their benefits corrected (and the arrears paid) in the October pensioner payroll, and the overpayment cases will see their pension decrease in the November pensioner payroll. This will allow for members to receive adequate notice of the amendments to their benefits.

As previously requested, 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.

The Prudential

There have been ongoing issues with the Fund's Additional Voluntary Contribution (AVC) providers, Prudential, and their service delivery standards.

Prudential implemented a new pensions administration system in Autumn 2020 across all LGPS AVC funds. The new system, compounded by Covid lockdowns, has impacted the delivery of the service and created delays in processing member pension benefits, as well as investing and allocating delays to member contributions. The delays are causing some member benefits at retirement to be paid late, member complaints are not being resolved in a timely fashion and Prudential has been unable to provide the Pension Fund accounting team with full closure of accounts details for 2020-21.

Prudential has assured the administration team in Hackney that all active scheme members AVCs paid will be invested correctly, and any late investments will be backdated to the date the contributions were received, so no member will be negatively financially impacted. For members retiring, Prudential's delays in disinvesting the AVCs causes a knock-on impact. Without the value of the disinvested AVCs, Equiniti cannot calculate a member's LGPS retirement benefits, thereby delaying retirement options and payments.

The Pensions Regulator is aware of Prudential's problems and the inhouse Hackney team are working with the relationship manager to help resolve outstanding cases for those retiring imminently.

11. REPORTING BREACHES

11.1 As set out above, the fund will be reporting a breach to the Pensions Regulator in respect of the non-compliance with the deadlines in respect of issuance of Annual Benefits Statements. At the time of writing this report Officers were engaging with Equiniti in order to fully understand the cause of the delay and to ensure that an urgent action plan is in place to remedy the situation.

11.2 A further update will be provided to the Committee at its November meeting in respect of this issue and any response from the Pensions Regulator to the reported breach.

Ian Williams
Acting Chief Executive / S151 Officer

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

Report Originating Officers: Michael Honeysett 020-8356 3332
Financial considerations: Jackie Moylan, 020.8356 3032
Comments of the Director of Legal and Governance: Angelie Walker 020-8356 6012