Hackney

REPORT OF THE GROUP DIRECTOR, FINANCE & CORPORATE RESOURCES		
Quarterly Update Report **Pensions Committee** **20 January 2022**	**Classification** **Public** **Ward(s) affected** **ALL**	**Enclosures** **Two**

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 July and September 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 23rd November 2021 –Investment Strategy Statement
- Pensions Committee September 2021 –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 An update on the funding level of the Fund as at 30 September will be provided at the meeting pending completion of associated analysis required at the time of writing this report.

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 1.4%, performing slightly ahead of benchmark. Most of the mandates produced positive returns over the quarter with the exception of RBC Emerging Markets, GMO DGF Fund and the BMO Bonds. It should be noted that the Fund had fully divested from the RBC Emerging Markets by the end of the quarter and GMO DGF Fund shortly after, in line with the agreed investment strategy. Over the last 12 months, the Fund outperformed the benchmark by circa 1%, producing overall returns of 16.3%. Over the last 3 years, returns of 7.8% 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 September'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).
- Liaison with Hymans and LCIV regarding approved transitions into Paris Aligned Global Alpha Fund, Emerging Market Equity Fund and the Diversified Growth Funds, along with the receipt of transition advice in order to ensure they are undertaken is the most cost effective manner.

8.3 During the month of September, the BlackRock UK Equity Fund mandate was fully redeemed along with part redemption of the BlackRock World Equity Fund mandates in order to transition funds to the LCIV Paris Aligned Global Alpha Fund. In addition the RBC Emerging Market mandate was fully redeemed in order to finance transition over to the LCIV Emerging Market Fund. The transition from GMO DGF mandate to the LCIV DGF mandate, along with the full redemption of the Invesco DGF mandate took place in the following quarter.

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, social and climate change issues. LAPFF continue to issue voting alerts in respect of both climate change issues and wider social/human rights issues.

9.4 Officers have continued to work with advisors in the development of the RI work and in particular have produced a more detailed workplan in respect of the related work required during 2022 in respect of both the Fund’s carbon targets and wider RI policies. A separate paper is included on the agenda for this meeting. In addition, Trucost have been re-engaged to carry out an analysis of the Fund’s current position against the carbon reduction target. It is anticipated that this work will be presented at a workshop in February along with work to develop a refreshed target going forward.

10. PENSION ADMINISTRATION

10.1 Pension Administration Management Performance

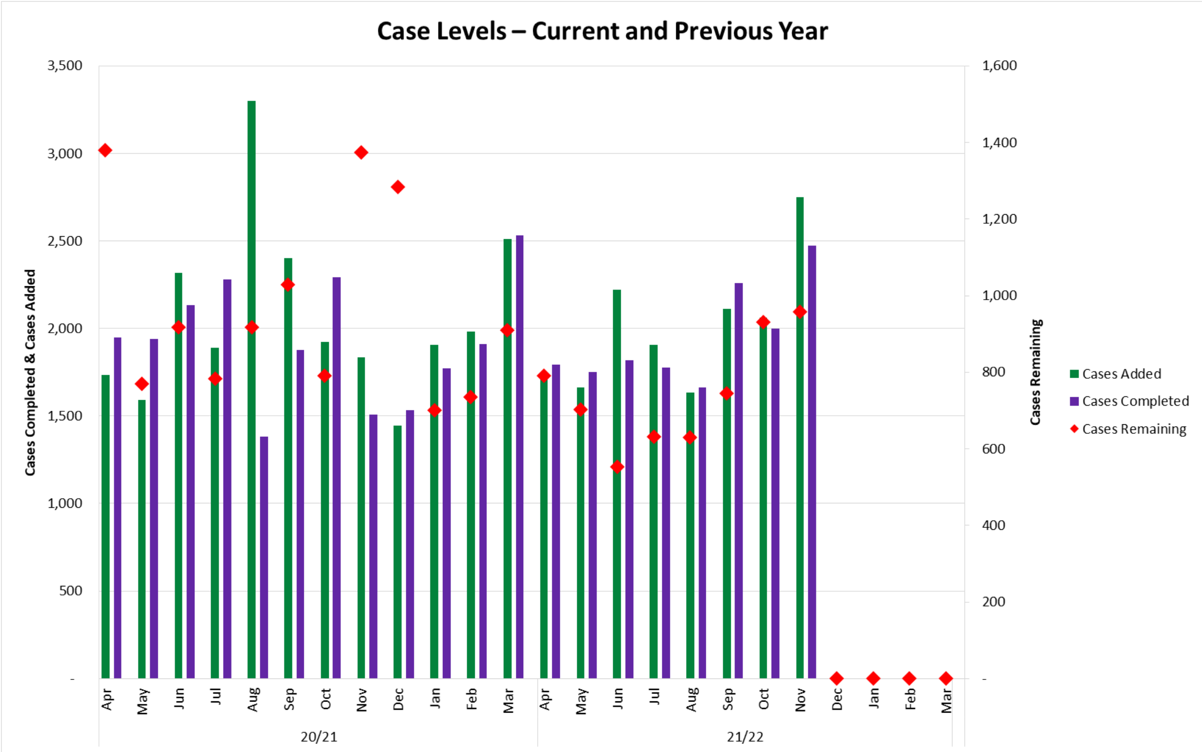
The following sections provide information on the numbers of cases being received and processed by Equiniti, as well as their performance against the Fund’s service level agreement standards (SLAs).

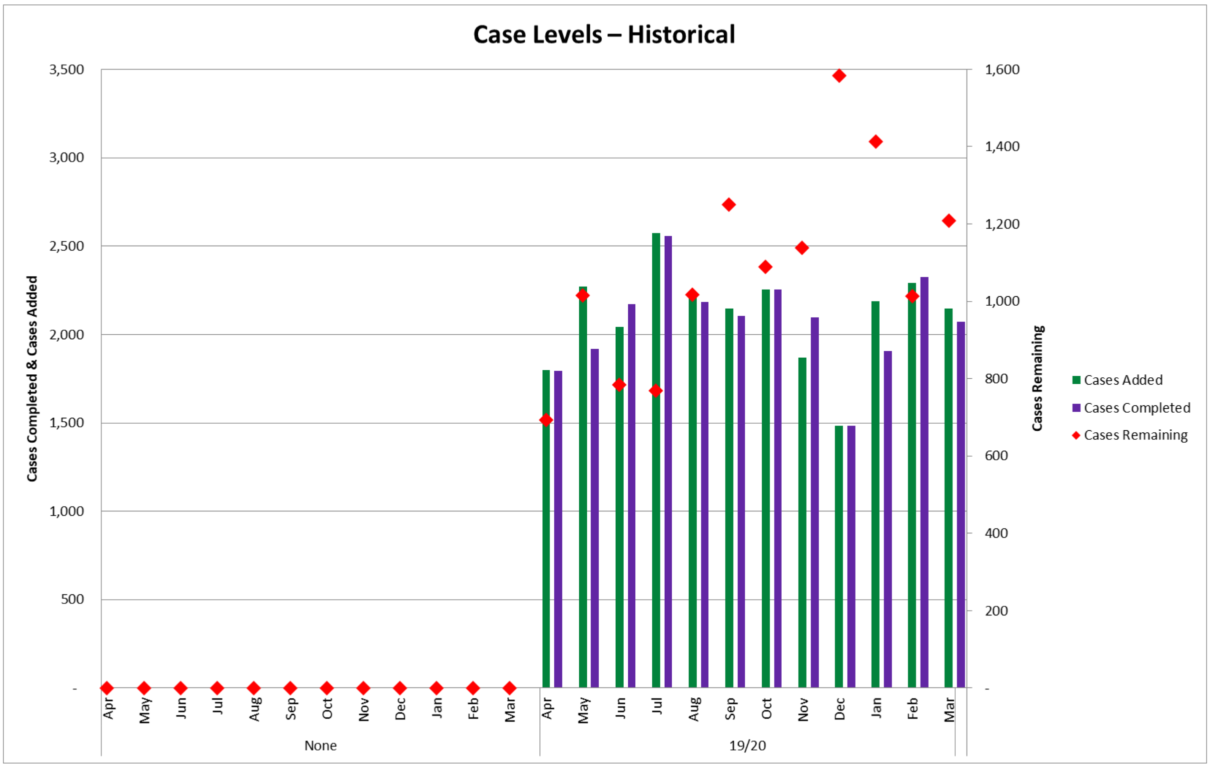
Case Levels

The graphs below show historical cases levels received and processed by Equiniti dating back to April 2019. 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")

There has been a significant increase in cases received and also cases completed by Equiniti for the period from September 2021 to November 2021, compared with the previous quarter. Member queries were higher in this period, probably caused by members receiving ABSs. As you might expect, the cases still to be processed (“cases remaining”) are also higher than in previous months.





SLA and KPI monitoring

The contract with Equiniti includes a large number of service level agreement standards (SLAs). The most significant of these for the Fund, are categorised as being key performance indicators (KPIs) and these are monitored closely. 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.

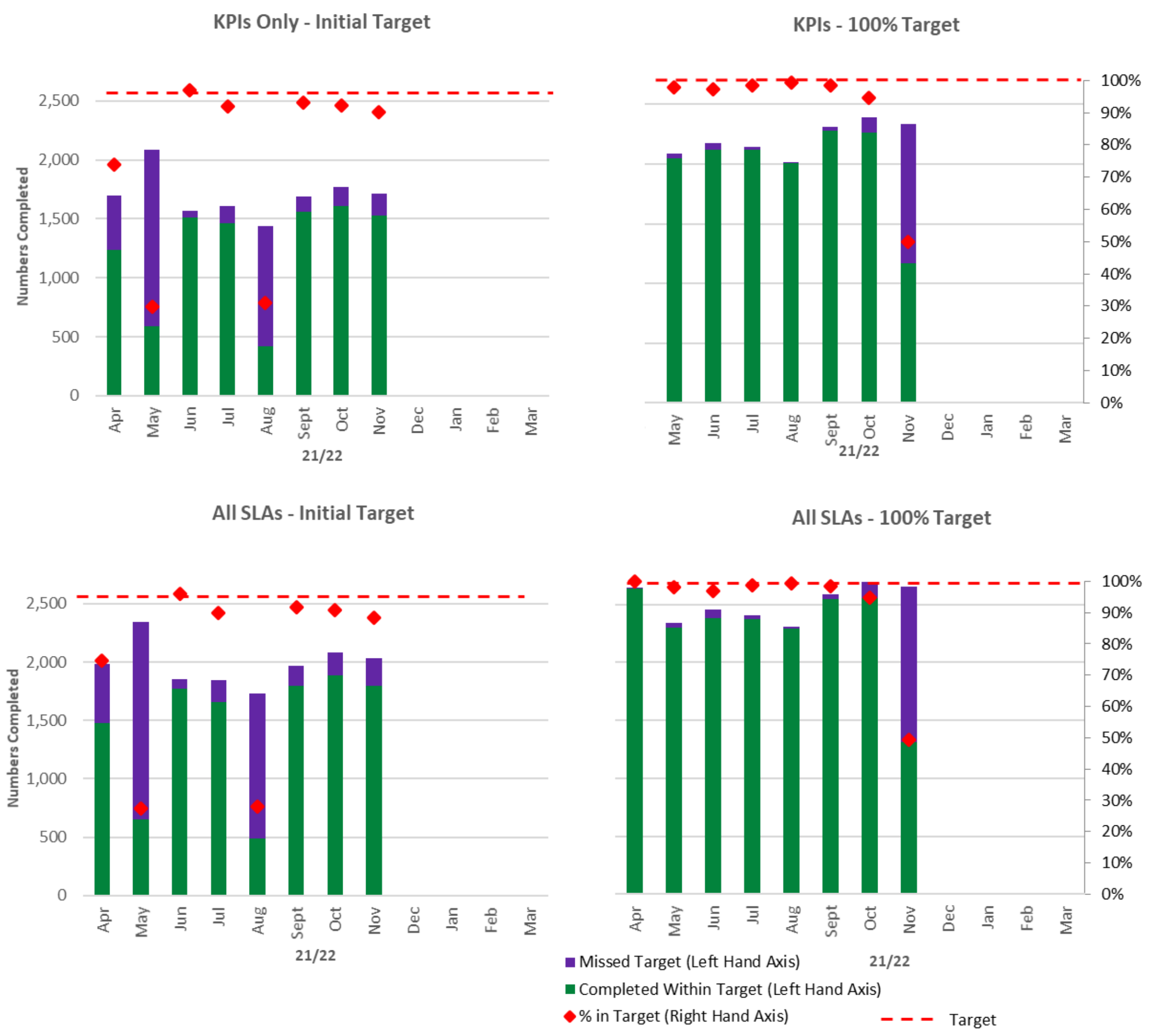
For most SLAs there are two targets:

- 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.

The following graphs show Equiniti's performance against the various targets 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.

For the period September to October, Equiniti have performed very close to target in all measures apart from in November for the two 100% target measures. A key element of this may be due to the significant increases in cases that have been received during the period (as illustrated in the graphs above).



10.2 **New Starters and Opt-Outs**

	Total Active Membership at end of Quarter	Total Opt Outs for Quarter
Q2 2021/22	6,937	88
Q2 2020/21	6,846	102

The figures are in line 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
Q2 2021/22	3	1	0	4	0
Q2 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
Q2 2021/22	4	3	1	0	0
Q2 2020/21	2	0	2	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 in this quarter against the administering authority in relation to a CETV dispute. The appeal was not upheld.

Stage 2 – No applications were received in this quarter.

10.5 Other work undertaken in Q2 2021/22

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 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 Q4 of 2021/22.

Address Tracing and Verification Exercise

As referred to in previous reports 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 1,200 verification letters have been received back which show a full match. These addresses have now been updated on the administration system. This leaves some 1,200 addresses which require a chaser verification letter. The Fund is working with Equiniti to approve and issue a chaser verification letter.
Equiniti has also identified some 500 addresses that have not generated a result from the electronic tracing nor from a further manual trace. This group currently has no last known address held on compendia and therefore can prove very difficult to trace. The LBH pensions team have, using historic pension records, been able to find a last known address. These data sets have now been returned to Equiniti who are currently performing a subsequent electronic trace on these members which is hoped will produce some results. An update on this exercise will be provided at the next meeting.

Pension Saving Statements- Update

At the meeting on 23rd November 2021, the Committee was provided with an update on the issuing of the Pension Saving Statements , which confirmed that all 23 Pension Saving Statements that had been deemed as due were issued by the statutory deadline of 6th October.

However, following this year’s exercise a problem has been identified with the Pensions Savings Statements issued in October 2020, in respect of the 2019/2020 financial year. It appears that while the calculations were carried out correctly the information provided on the statements sent to members was incorrect. The output from an incorrect source was used to populate the PSS template, and this was not identified when the statements were issued. This meant that whilst the correct members received statements the figures on them were incorrect.

All of the 2020 statements have now been reissued and an explanation letter sent explaining the next steps that the member may need to take.

Having found the errors in the 2020 PSSs Equiniti thought it prudent to also check the 2021 PSSs. Equiniti revised the PIAs in the 2020 statements so this then meant that the historic PIAs in the 2021 statements also had to be revised, although the 2021 calculations were correct. However, most of the members who only had a 2021 statement, and had not had a statement in previous years, had correct 2021 PSSs in the initial batch.

Now that all statements have been revised which required it, Equiniti are working on a lessons learnt document which the Fund will receive in due course.

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 progressing with regular meetings being attended by key Hackney pensions officers and representatives from Equiniti and Aon. Good progress is being made in relation to the Data, Communications, Finance and Governance Workstreams. The Ongoing Administration and Systems and Benefits Rectification workstreams are slightly behind where we would want them to be at this stage of the project, but as we are not now expecting final regulations to be in force before 1 April 2023, with draft regulations now pushed back to early Spring 2022, we believe there is still sufficient time for this work to be planned and actioned. It will be important however to continue to monitor progress to ensure smooth and timely implementation of the remedy for scheme members.

The Programme update is as follows:

- Within the Data Workstream, data validation continues by Equiniti for those employers who are still submitting data, including Hackney Council who have recently provided revised data from July 2017 onwards. For employers where data discrepancies are being found and cannot be confirmed (such as Hackney Council where the original data was lost in the cyber-attack) a data acceptance principles document has been drafted by the project team and will be approved by the Programme Management Group in due course. Officers have now collated the majority of data from employers and are continuing to chase the remaining few data returns. A decision is to be made early in 2022 on a deadline for this data so this doesn't adversely affect or delay progress in other workstreams.

- The Communications, Finance and Governance workstreams' actions are now up to date, and meetings will continue to ensure future planning of programme deliverables. There may be some further actions to consider once the regulatory changes are confirmed by DLUHC.

- Planning work is still required for the Ongoing Administration and Benefit Rectification workstreams to ensure that all programme deliverables are achieved as set out in the Programme Charter. Initial planning meetings were held in July 2021 with follow up meetings in November. High level plans have been discussed and Equiniti have agreed to draft plans and share these with the project team shortly.

- For the Specialist Cases workstream, an initial workshop was held and it was agreed within the project team to put this workstream on hold until after the final regulations have been published, with the expectation of guidance for certain types of cases.

- Risks for all workstreams continue to be actively managed within the programme and these are reviewed regularly by the Programme Management Group (PMG). A new risk was identified by the PMG in terms of there being insufficient documentation of changes to member data following submission by employers and not having a clear audit trail. This is being mitigated through development and agreement of the data principles document. Other key risks are erroneous data which is being mitigated by extensive validation and within the Benefits Rectification workstream the risk of errors in the rectification calculation tool that is being built by Equiniti, which will be mitigated by robust and thorough testing with separate technical assurance by Aon.

Whilst the overall project is running slightly behind the original schedule, principally due to the slower than expected progress with the Ongoing Administration and Benefit Rectification workstreams, this needs to be considered in the context of the regulatory timetable having been pushed out. We do however need to maintain our momentum and plan to reflect on the timetable in early 2022 as part of our ongoing programme management to ensure that all key deliverables are met. A further update will be provided at the next meeting.

Guaranteed Minimum Pension (GMP) Reconciliation

At the meeting on 23rd November 2021, the Committee was provided with an update on the number of members affected by the GMP reconciliation exercise and some data analysis was provided. As you will recall, underpaid pensioners had their pensions corrected (and the arrears paid) in the October pensioner payroll, and overpaid pensioners had their pensions decreased from the November pensioner payroll.

It was reported that, as at 11 November, a total of 13 queries had been received in writing, requesting more detail on the breakdown of the pension reduction and/or overpayment. At the date of writing this a further 5 queries have been raised and responded to.

Following on from concern that was raised at the November committee, the automated message was taken off Equiniti's phone line.

Equiniti's data team are now liaising with the BAU team and formulating a way forward with regard to the two groups which were separated from the main reconciliation process. The first group is 48 members who became entitled to their GMP before reaching their State Pension Age and therefore required more complex calculations and checks. The second group is 240 survivor pensioners, who were also identified as requiring additional investigations and checks. Progress of rectifying pensions for the two groups mentioned in section will be provided to the Committee at future meetings.

11. REPORTING BREACHES

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

Ian Williams
Group Director, Finance & Corporate Resources

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

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