

Induction - Introduction to the Local Government Pension Scheme

Training for Hackney Pension Fund LGPS
Pension Committee members



Prepared for: Hackney PF Pension Committee members

Prepared by: Karen McWilliam, Partner/Public Sector Team, Aon

Date: 30 September 2021

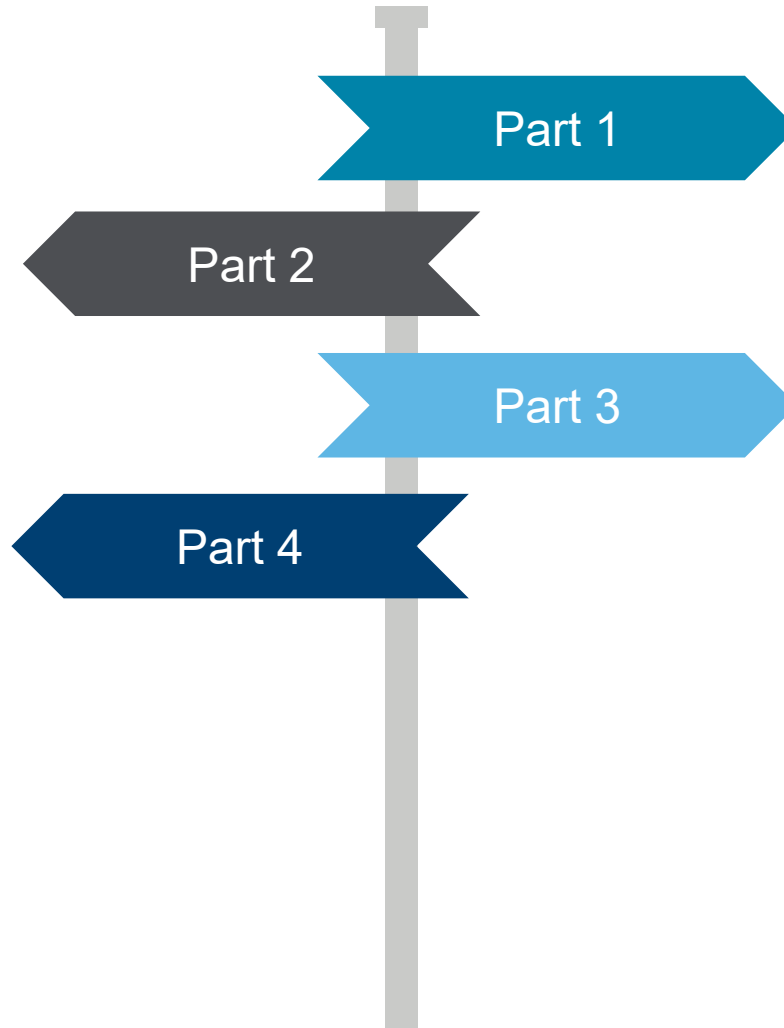
Agenda

An overview of the LGPS

Regulations, roles and responsibilities

Hot topics

Current big issues in the LGPS world



An overview of UK pensions

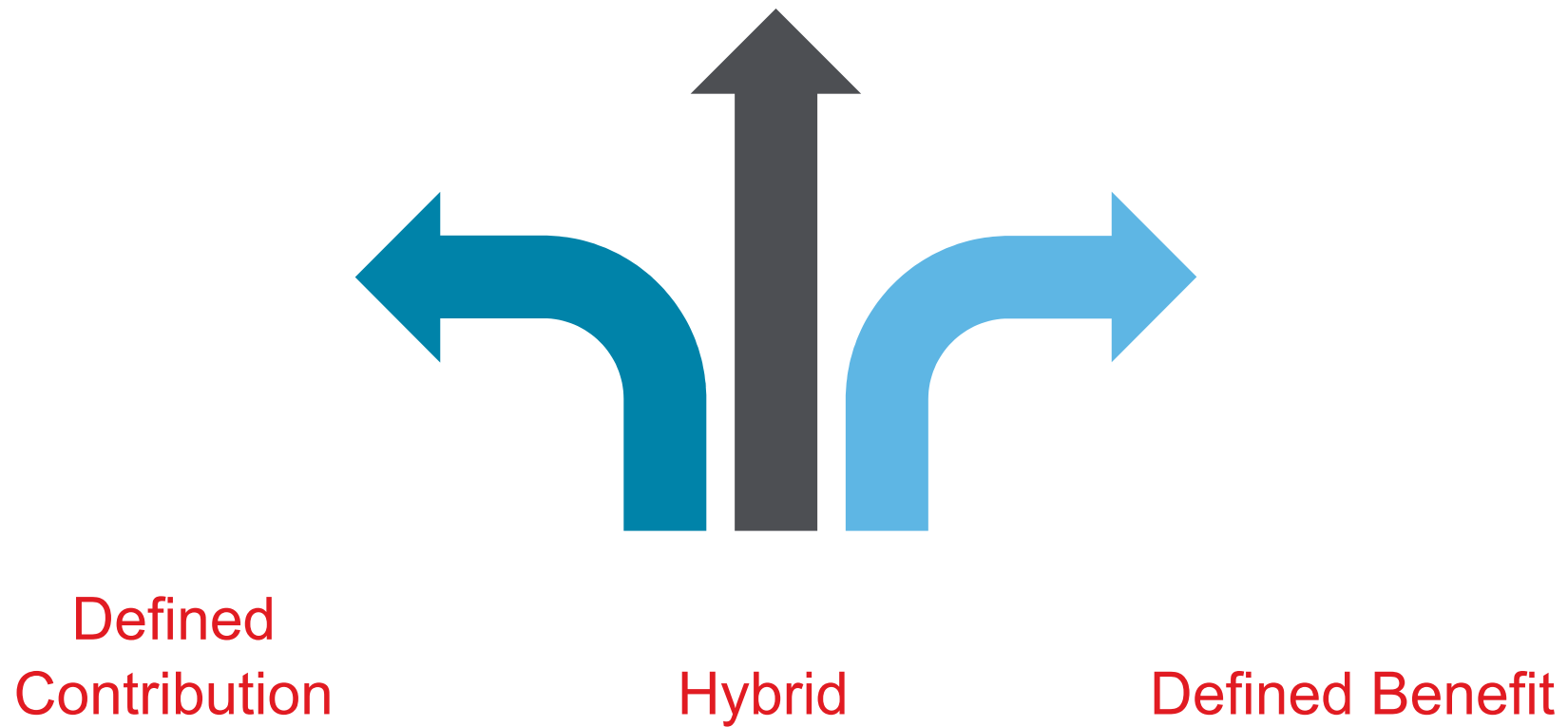
LGPS Benefits

Basis of benefits, member events and options

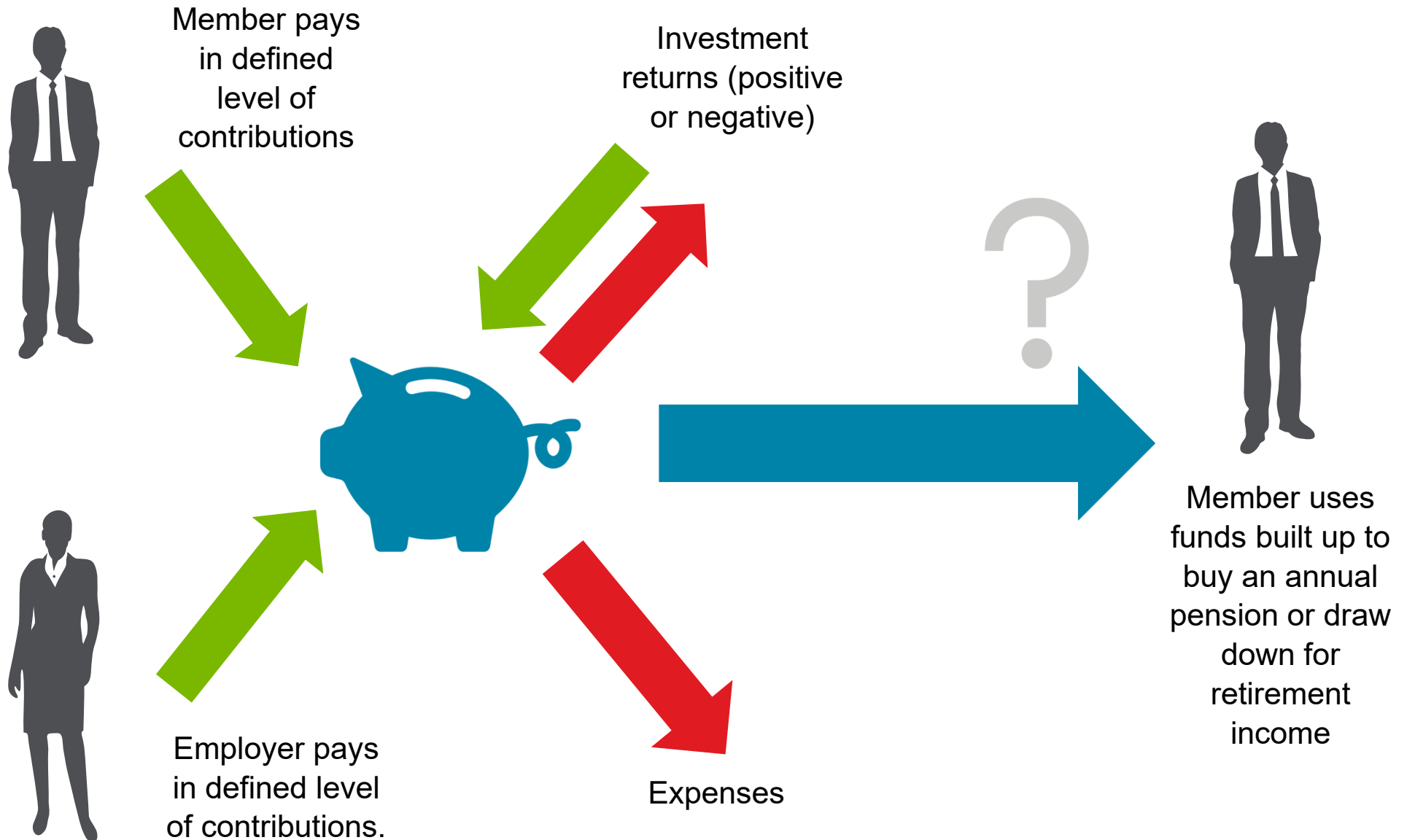


Part 1: An overview of UK pensions

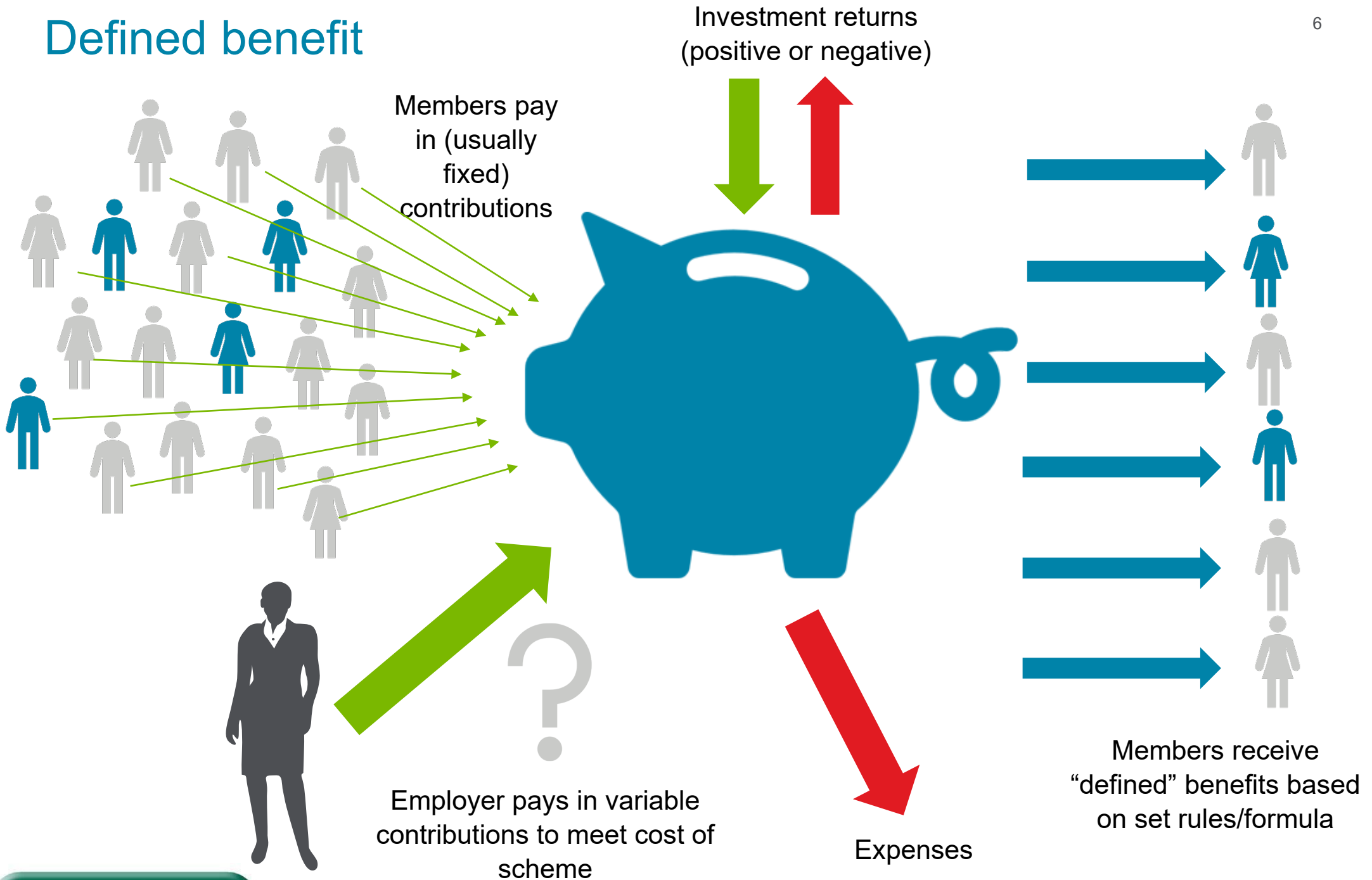
Occupational Pension Schemes



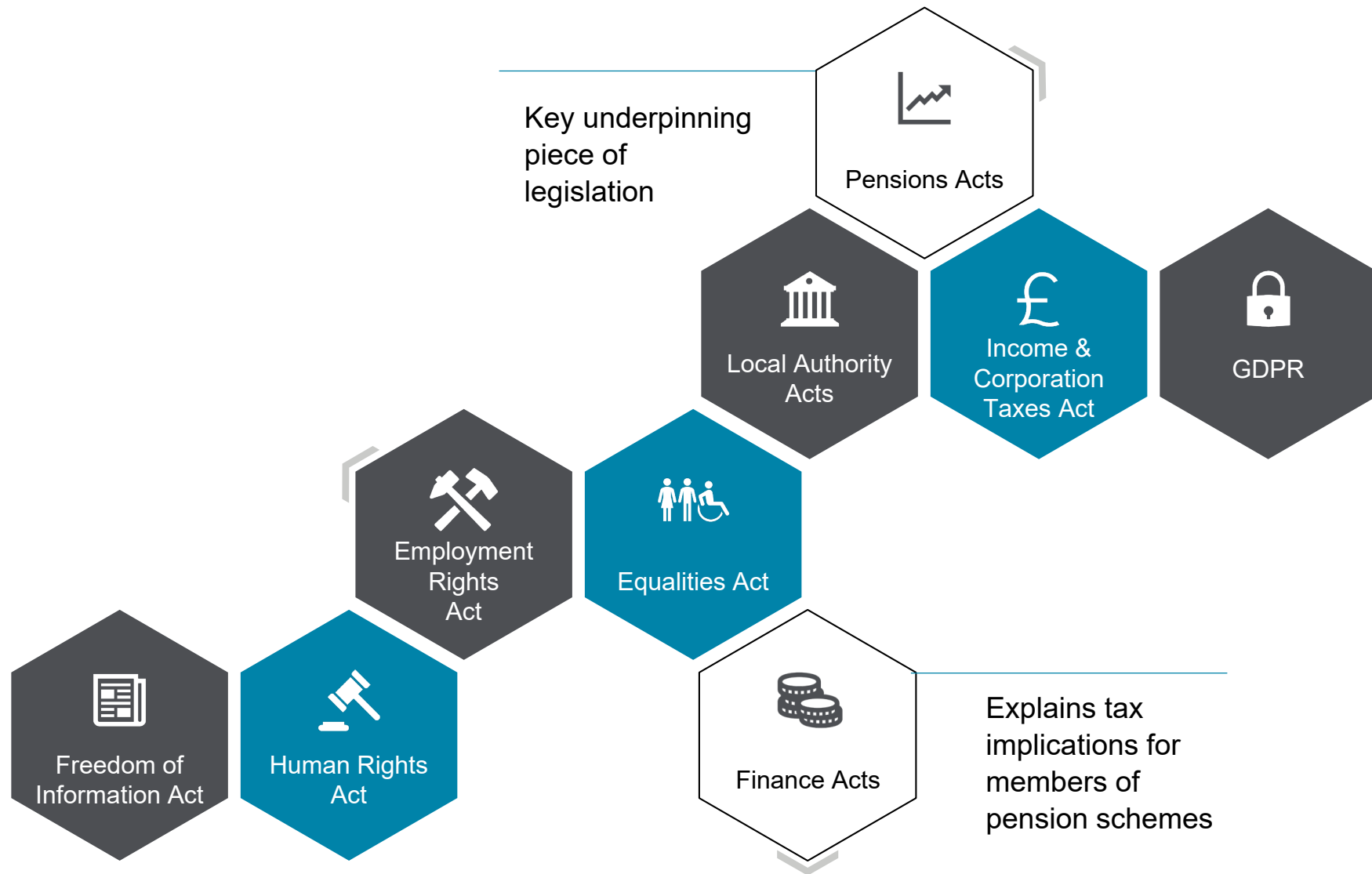
Defined contribution



Defined benefit



Which Laws Apply to UK Pension Schemes?



UK Public Sector Pension Schemes

Pension Schemes for UK public service employees

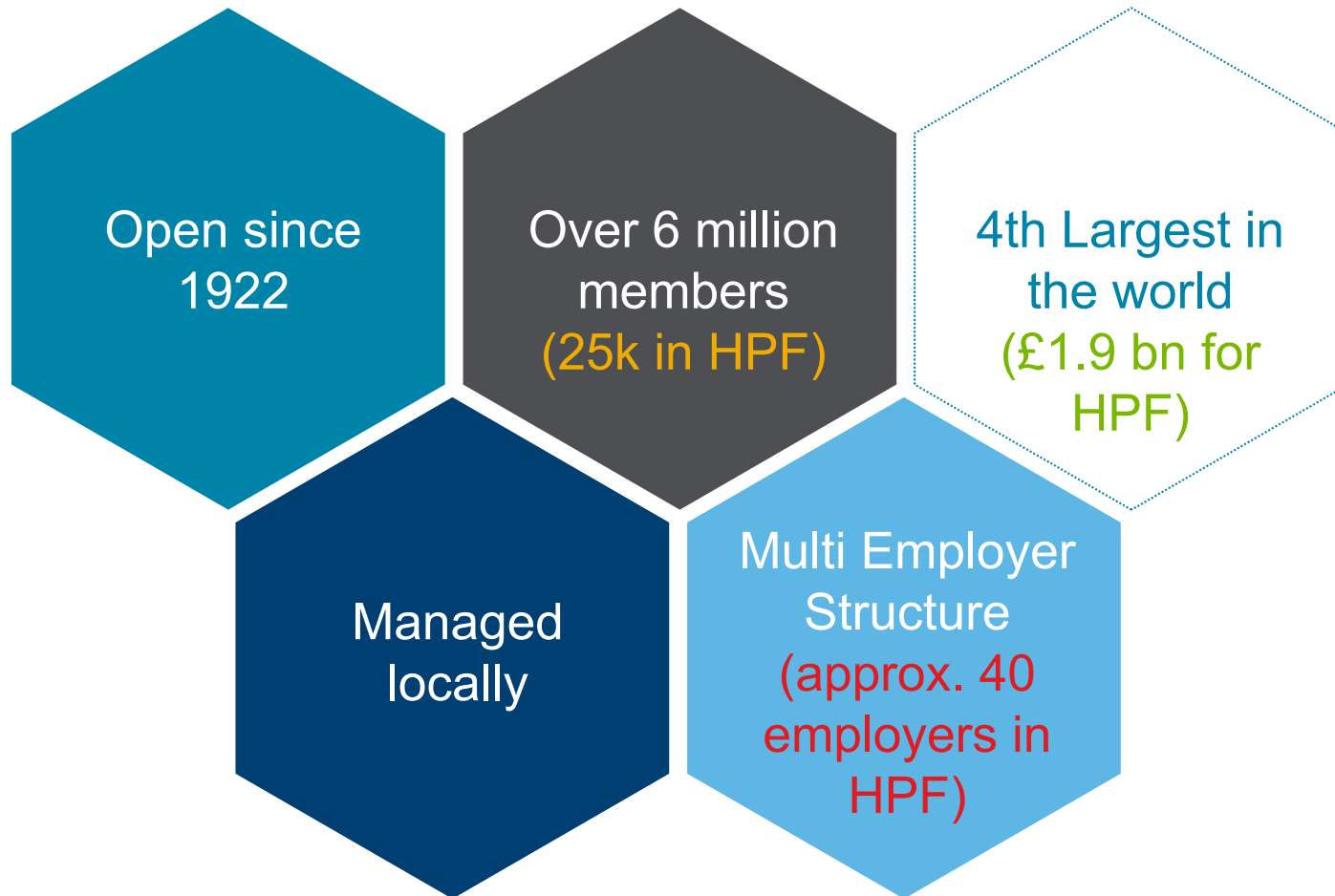
- Occupational Pension Schemes
- For employees of central or local government, a nationalised industry or a statutory body
- All unfunded except Local Government Pension Scheme (LGPS)
- Scheme rules set out in legislation not trust deeds





Part 2: An overview of the LGPS

LGPS and Hackney Pension Fund (HPF) Facts



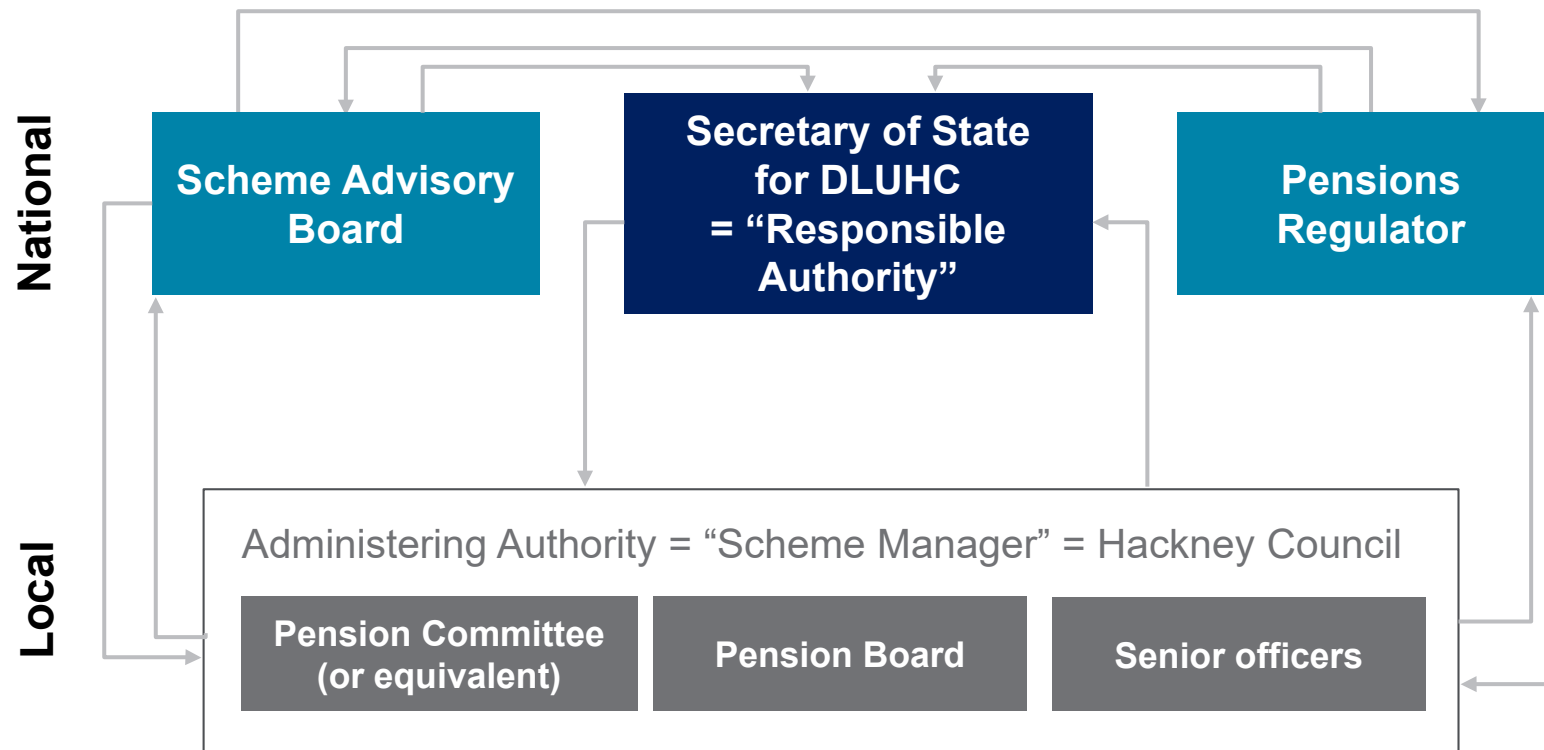
National Scheme Administered Locally

- 87 funds in England and Wales
- 11 main funds in Scotland
- Northern Ireland

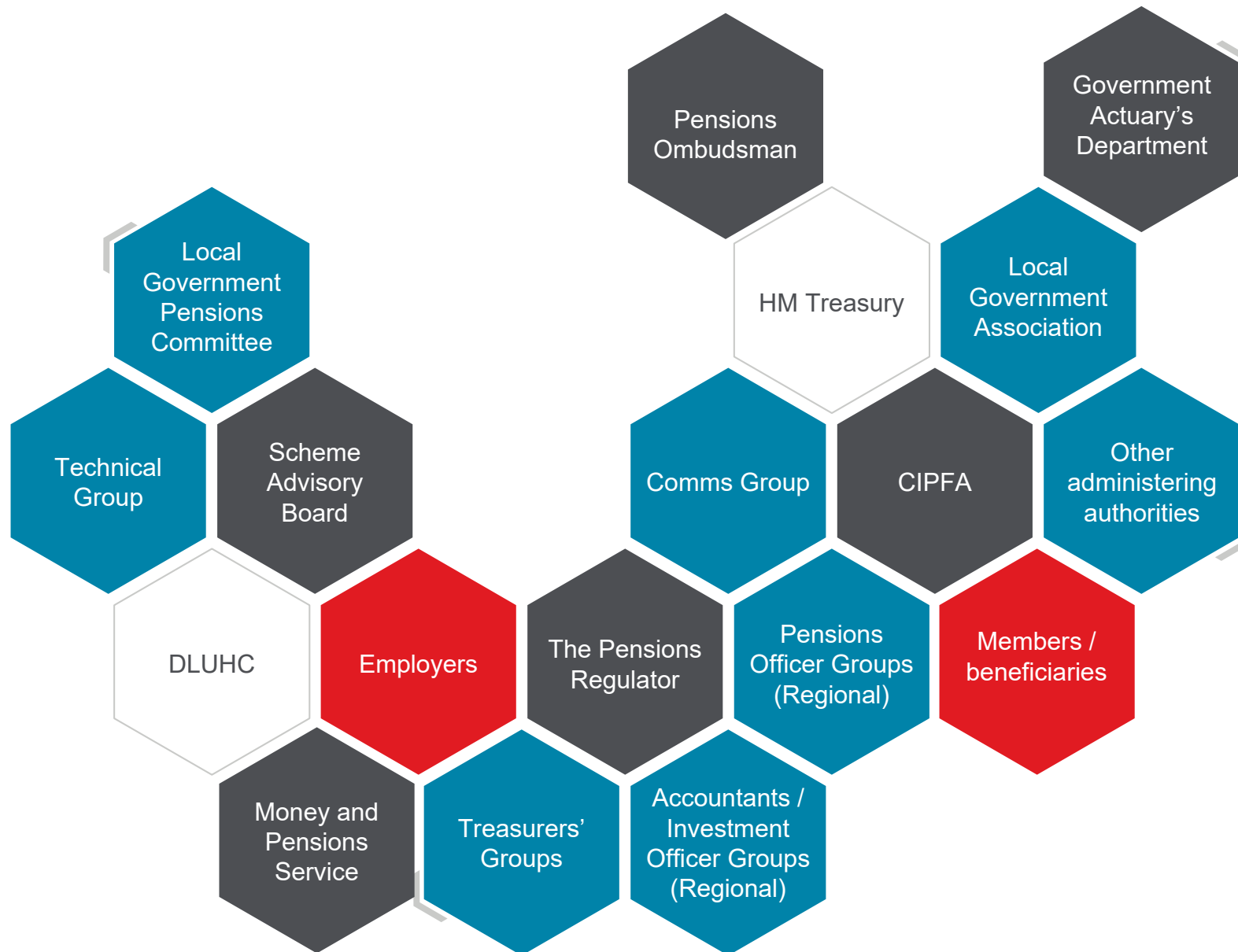
Sources –

- UK numbers at March 2020 (SAB website)
- Hackney Pension Fund member and employer numbers as at June 2021
- Hackney Pension Fund assets – Hymans Robertson Q2 2021 Investment Monitoring report

LGPS Governance Structure



LGPS stakeholders



LGPS Regulations and Key Documents

LGPS Regulations

- Public Service Pensions Act 2013
- **LGPS Regulations 2013**
- LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014
- **LGPS (Management and Investment of Funds) Regulations 2016**
- Various statutory guidance

Important documents

Statutory Requirements	Best Practice
Governance Policy & Compliance Statement	Administration Strategy
Funding Strategy Statement	Conflicts of interest policy
Investment Strategy Statement (including responsible investment)	Breaches of the Law Procedure
Communications Strategy	Risk Management Policy
Discretionary Policy	Knowledge and Skills / Training Policy
Annual Report	Voluntary Scheme Pays Policy
	Business Plan

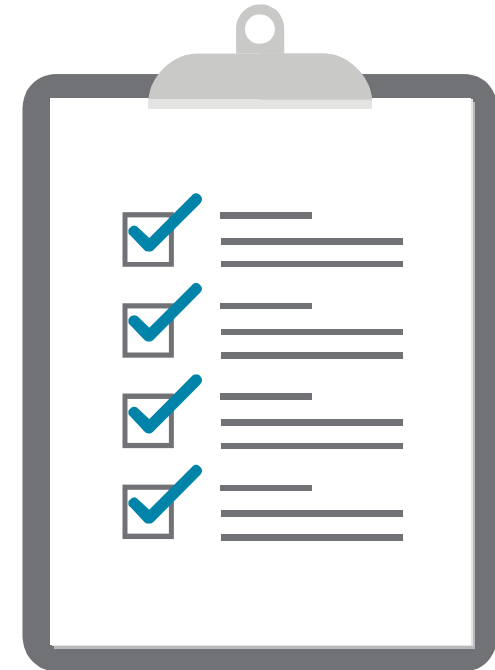
Hackney Pension Committee Terms of Reference

1. To act as **Trustees of the Council's Pension Fund**, consider pension matters and **meet the obligations and duties of the Council** under the Superannuation Act 1972, the Public Service Pensions Act 2013, and the various pension legislation.
2. To act as **Scheme Manager** for the Pension Fund
3. To **make arrangements for the appointment of and to appoint** suitably qualified pension fund administrators, actuaries, advisers, investment managers and custodians and periodically to review those arrangements.
4. To formulate and publish a **Statement of Investment Principles**.
5. To **set the overall strategic objectives** for the Pension Fund, having taken appropriate expert advice, and to develop a medium term plan to deliver the objectives.
6. To determine the **strategic asset allocation policy**, the mandates to be given to the investment managers and the performance measures to be set for them.
7. To make arrangements for the **triennial actuarial valuation**, to monitor liabilities and to undertake any asset/liability and other relevant studies as required.
8. To **monitor the performance and effectiveness of the investment managers** and their compliance with the Statement of Investment Principles.
9. To **set an annual budget** for the operation of the Pension Fund and to monitor income and expenditure against budget.
10. To receive and **approve an Annual Report** on the activities of the Fund prior to publication.
11. To make arrangements to **keep members of the Pension Fund informed** of performance and developments relating to the Pension Fund on an annual basis.
12. To keep the **terms of reference under review**.
13. To determine all matters relating to **admission body issues**.
14. To focus on **strategic and investment related matters** at two Pensions Committee meetings.
15. To **review the Pension Fund's policy and strategy documents** on a regular basis and **review performance** against the Fund's objectives within the business plan
16. To maintain an **overview of pensions training for Members**.

Role of Pension Board members

To Assist the Scheme Manager

- Role defined by regulation 106(1) of the LGPS Regulations
- To assist in:
 - securing compliance with the LGPS Regulations and any other legislation relating to the governance and administration of the Scheme, and requirements imposed in relation to the LGPS by TPR
 - ensuring the effective and efficient governance and administration of the LGPS by the Fund
- The Local Pension Board does not:
 - replace the Administering Authority; or
 - make decisions which are the responsibility of the Administering Authority
- The Administering Authority can delegate its LGPS functions to the Committee or Officers, but not to the Board



Further information

Hackney Pension Board's terms of reference can be found in section 3.3.15 of the Council's Constitution (page 133 of part 3) - [Constitution - Google Drive](#)

Role of administering authority officers

Senior Officers

- Often a key officer's responsibility set out in Constitution for operational aspects e.g.
 - ensuring day to day delivery (administration, including receiving contributions & paying pensions)
 - For HPF – Group director, Finance and Corporate Resources
 - all other pension related functions not delegated to PC
- S151 Officer – responsibility for the proper administration of financial affairs
- Monitoring Officer – responsibility for reporting to Council anything illegal/maladministration plus functions relating to conduct of councillors



Outsourced work

Some administering authorities may outsource some or all of the administration work to a third party, but the responsibility remains with the administering authority

HPF have outsourced administration to Equiniti



Hot topic – LGPS Senior Officer

“Coming soon” - Single named officer responsible for the delivery of all LGPS related activity – more information in the governance – focused training sessions

Conflicts of interest

How many “hats” do you wear?

- a. 1
- b. 2
- c. 3
- d. 4
- e. 5
- f. 5+

In other words, how many roles / responsibilities do you have?



For example:

- Pension Committee / Local Pension Board member
- Councillor of the Administering Authority
- Other political role
- Member of the Fund entitled to benefits
- Family member in your LGPS fund
- Employed by a participating employer
- Council tax payer
- Trade union member
- Family member is employed by an adviser

Potential Conflicts of Interest

Conflicts of Interest Policy

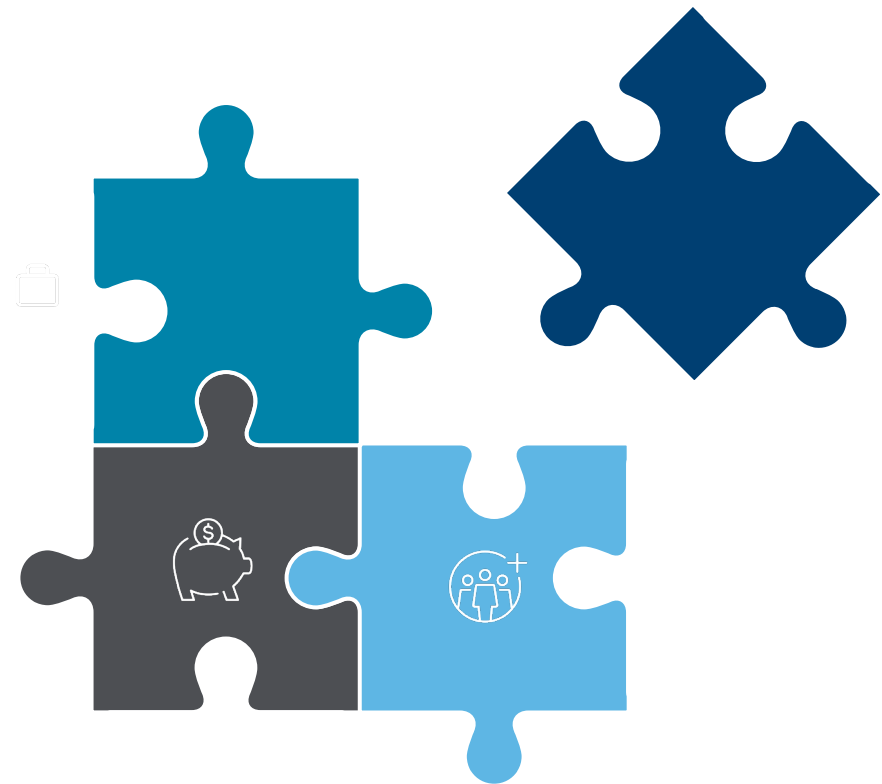
Applies to those with LGPS Administering Authority responsibilities and advisers to LGPS funds

Fiduciary Duty and Public Law duties

Administering Authorities have to act in the **best interest** of both the scheme members and employers

Other roles and responsibilities

May result in an actual or potential conflict of interest.



Action

Look out for Hackney Pension Fund's Conflict of Interest Policy at November or January PC meeting.

An individual responsibility for you

Recording and Reporting breaches

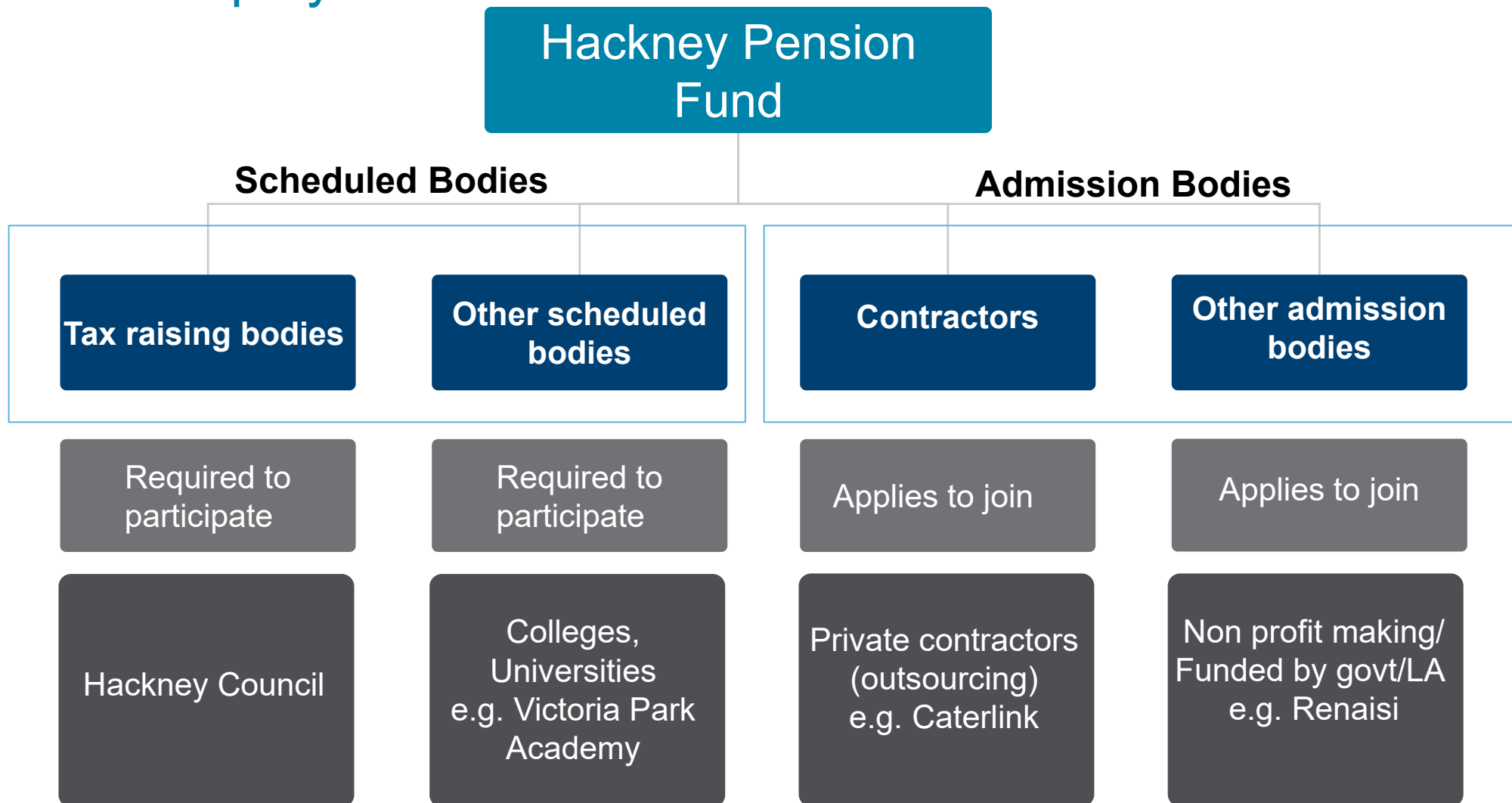
- Requirement to report breaches of the law to the Regulator where there is reasonable cause to believe that
 - a legal duty relating to the administration of the scheme has not been, or is not being, complied with
 - the failure to comply is likely to be of material significance to the regulator in the exercise of any of its functions
- Applies to (as a minimum)
 - scheme managers
 - members of pension boards
 - any person who is otherwise involved in the administration of a public service pension scheme
 - employers
 - professional advisers (including fund managers)
- The report must be made in writing as soon as reasonably practicable



Action

Read Hackney Pension Fund's Breaches Procedure (to be circulated separately)

Fund Employers



Administering authority = Employing authority

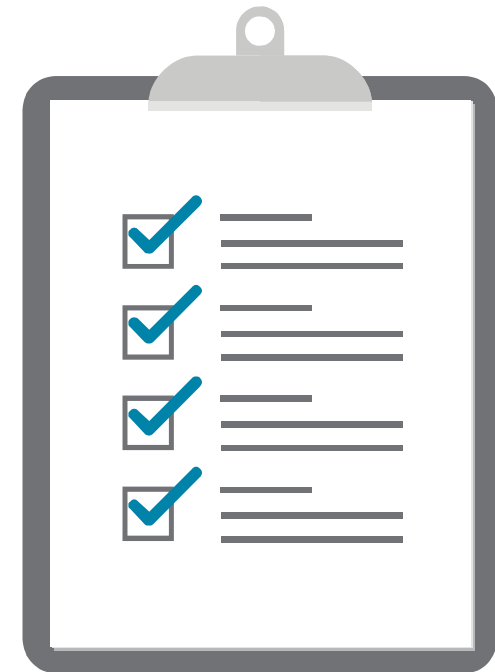


Hackney Council is both the Administering Authority and a participating employer in the Hackney Pension Fund

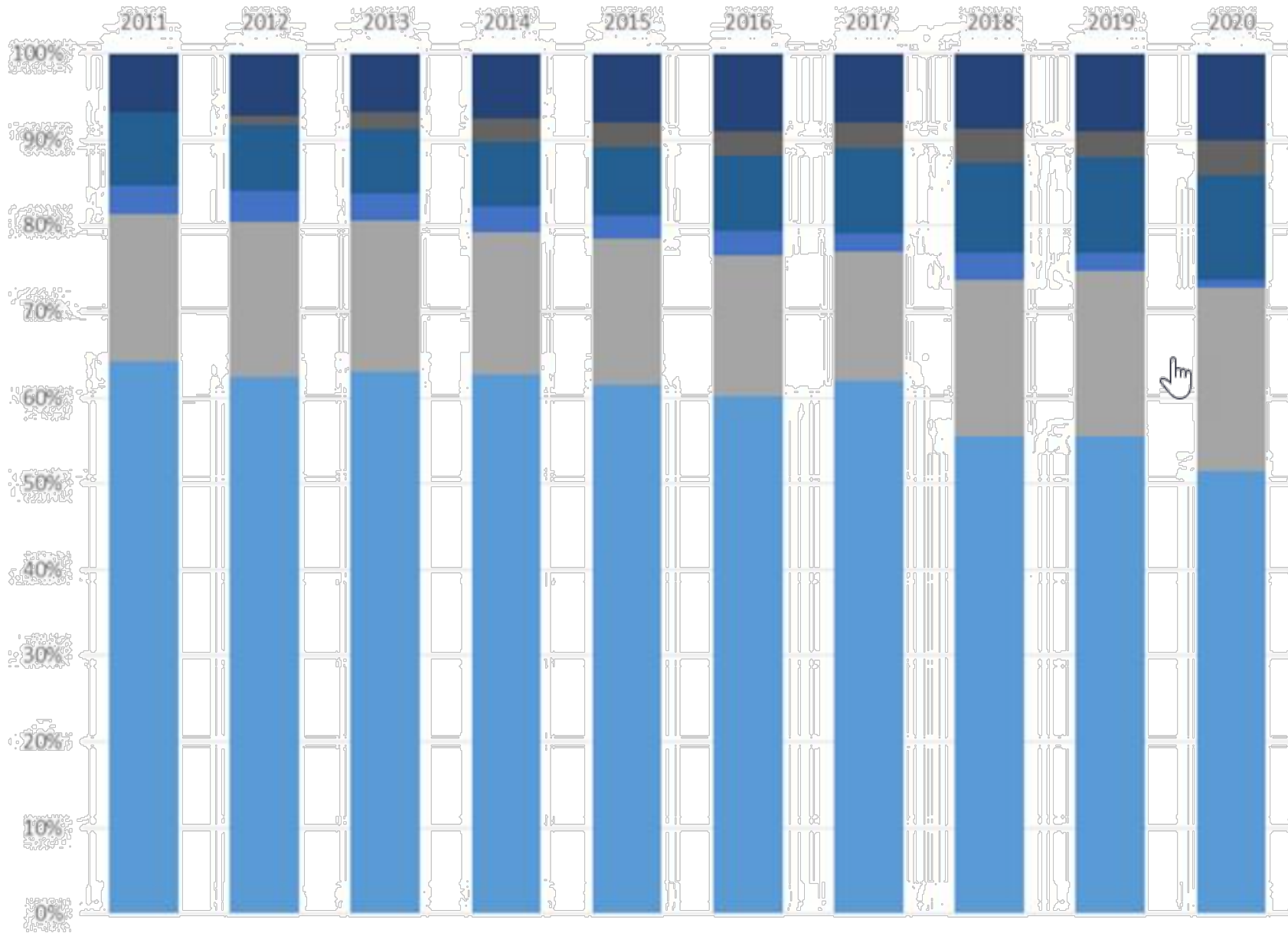
Role of scheme employers

Scheme employers must:

- Pay contributions
- Member events e.g. joining, leaving
- Provide all relevant information to the Fund
 - Member details, financial information
- Make decisions and establish policies (discretions)
- Deal with complaints
- **Note – if employer uses an outsourced payroll provider, responsibility remains with the employer!**



LGPS Assets



Action

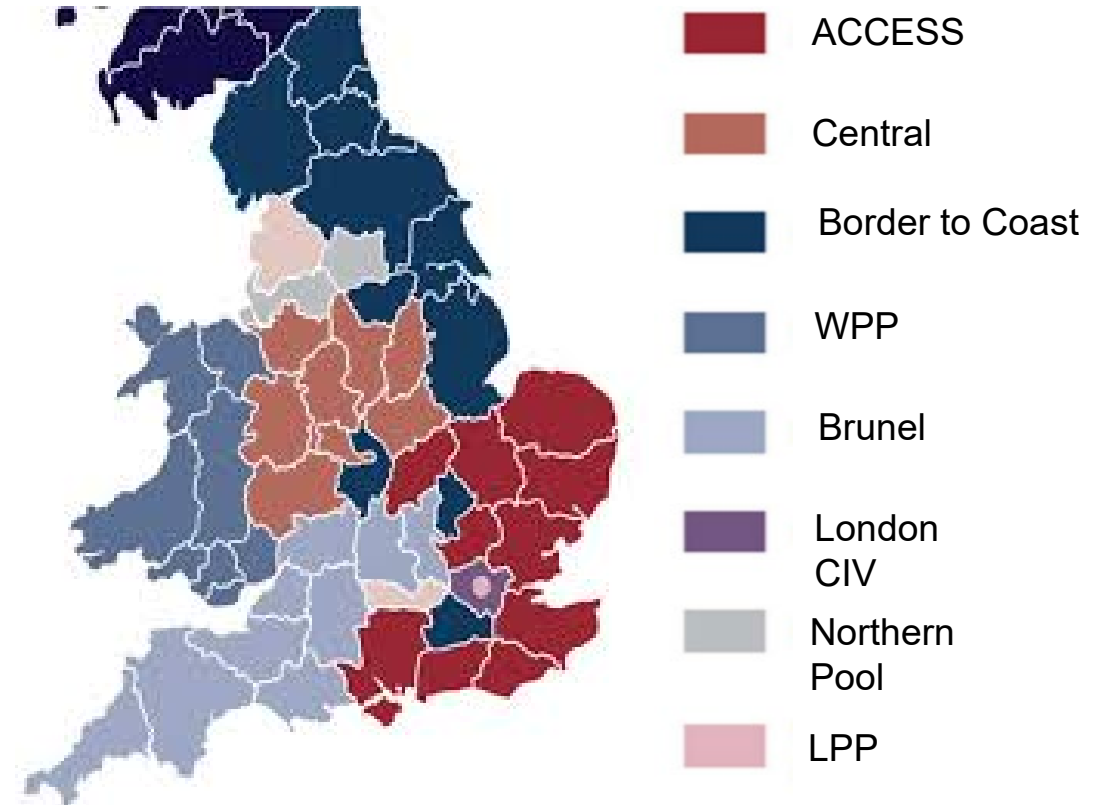
Read the Hackney Fund's Investment Strategy Statement to understand its asset allocation – it'll be part of Annual Report at November PC.

Source: SAB scheme report 2020
Average fund asset allocation over time

LGPS Asset Pooling – Overview

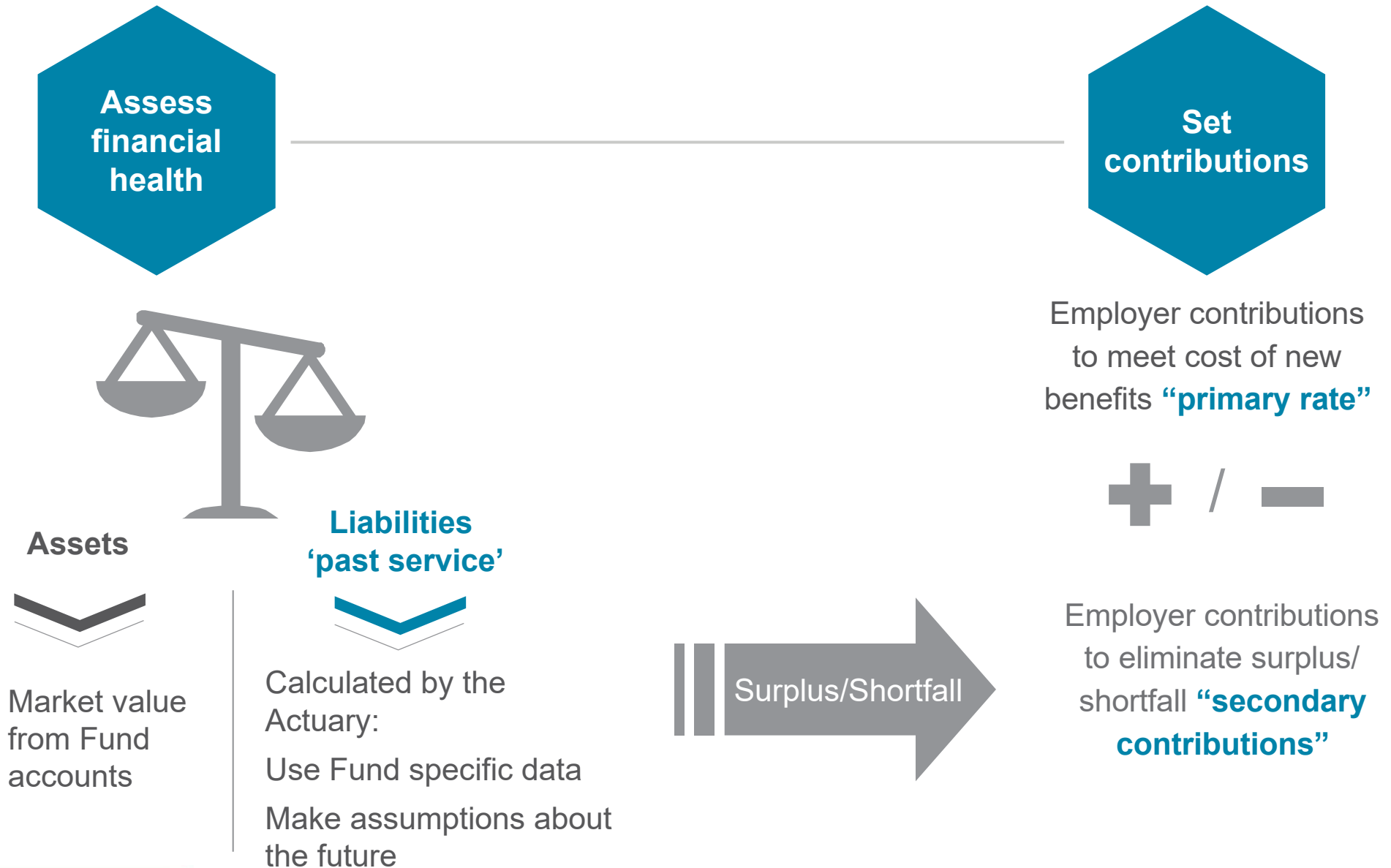
Pooling timeline and approach

- **November 2015** – DCLG (as it was then) published criteria for pooling for the LGPS including:
 - A. Asset pool(s) that achieve the benefits of scale
 - B. Strong governance and decision making
 - C. Reduced costs and excellent value for money
 - D. An improved capacity to invest in infrastructure
- Since **April 2018** – 8 pools in England and Wales
- **No single approach** mandated by Government – so pools and their structures are different



Hackney Pension Fund participates in the London CIV

What is an actuarial valuation?



Key valuation documentation

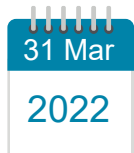
Valuation report

- Key information on the method, data and assumptions used
- Required by 31 March of year following valuation

Rates and Adjustments Certificate

- Also by 31 March
- Primary and Secondary Contribution Rates (in E&W)
 - For each active employer
 - For the following three years

Funding Strategy Statement



Valuation date 31 March 2022

Results due by 31 March 2023



Action

Read the Funding Strategy Statement – part of Annual Report coming to November PC



Part 3: LGPS benefits

Basis of benefits

Overview

- Up to 3 'tranches' of benefits to be calculated separately then added together, depending when the member joined and left the scheme
 - Pre 2008 service, final salary benefits, accrual rate 80ths
 - 2008-2014 service, final salary benefits, accrual rate 60ths
 - Post 31 March 2014 service, career average, accrual rate 49ths
- Member contributions vary by salary
 - From 5.5% for those earning less than £14,600
 - To 12.5% for those earning over £165,000
 - Can increase benefits in various ways by paying additional contributions
- Most employees under 75 eligible to join
 - Automatic enrolment – eligible jobholders re-enrolled every 3 years if opted out
- Differences between
 - England and Wales
 - Scotland
 - Northern Ireland



Example

John



Date of birth	1 April 1962
Joined the Scheme	1 April 1990
Retired	31 March 2019 (age 57 – no employer consent)
Pay (new scheme)	From £32,334 to £35,000
Revaluation Orders	3% each year
Final Pay (old scheme)	£35,000

Example (continued)

	Membership up to 31 March 2008	Membership from 1 April 2008 to 31 March 2014	Membership from 1 April 2014
Pension	$18 \times \text{£}35,000 / 80$ $= \text{£}7,875$	$6 \times \text{£}35,000 / 60$ $= \text{£}3,500$	5 years of $1/49 \times \text{£}32,334$ to $\text{£}35,000 = \text{£}660$ to $\text{£}714$ (basic) Revalued Total = $\text{£}3,751$
Lump sum	$3 \times \text{£}7,875 = \text{£}23,625$	$\text{£}0$	$\text{£}0$

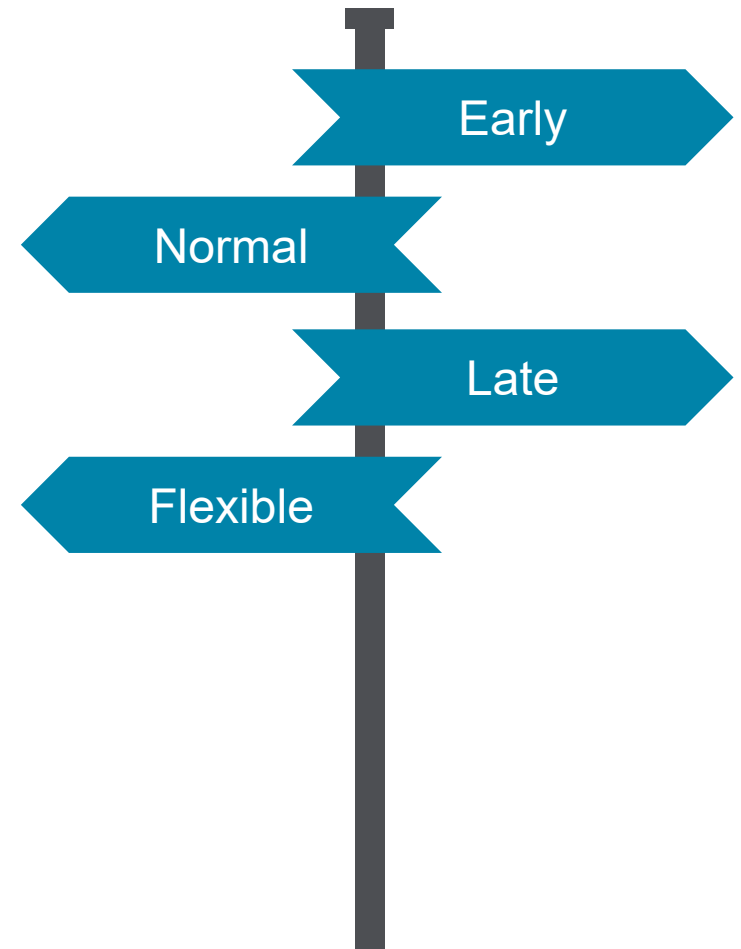


This is not the end of the calculation!

The next stage would be to apply any early retirement reductions – a different one for each tranche of pension (and the lump sum)

Types of retirement

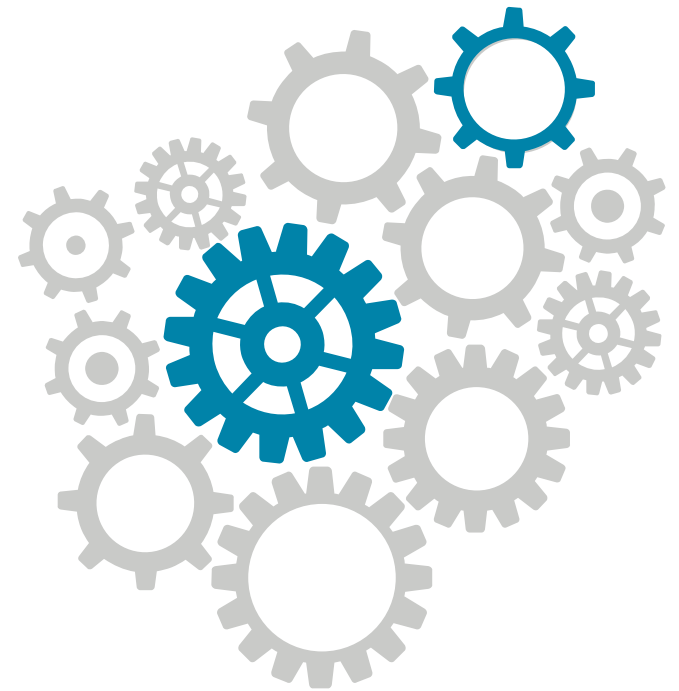
- **Normal retirement**
 - Normal Pension Age (NPA)
 - Possibly different NPA for different tranches of benefit
- **Late retirement**
 - After NPA
- **Voluntary early retirement**
 - From age 55 but before NPA
- **Flexible retirement**
 - From age 55
- **Ill-health retirement**
 - At any age
- **Redundancy/Efficiency retirement**
 - From age 55



Death benefits

Potential death benefits

- Death grant lump sum – in some circumstances
- Survivor's pension – for those that qualify
 - Widow/Widower
 - Civil partner
 - Cohabiting partner
 - Eligible children



Early leaver options



- Can lead to Early, Late, or Normal retirement
- Could result in ill health pension or death benefits



Part 4: Hot topics

Hot topics in UK pensions landscape

Environmental

Environmental, Social and Governance
Responsible Investment
Climate change
Task Force for Climate-related Financial Disclosures



Cybercrime & Scams

Cyber security
Pension scams



Governance

The Pensions Regulator's new single code of practice
Good governance



Hot topic - McCloud

2014 LGPS changes:

- Changed from final salary to CARE accrual
- Protections for those within 10 years of NPA* on 1 April 2012
- NPA increased from 65 to SPA

Legal challenge – unlawful age discrimination:

- 2018: McCloud case (Judges) and Sargeant case (Firefighters)

McCloud proposals in LGPS:

- No need for member to have been within 10 years of NPA to qualify for underpin
- Changes to underpin
- No protections for post 31 March 2012 joiners



Hot topic - McCloud

Significant impact on administration

- Changes to apply retrospectively
- Ongoing administration more complex
- Proposed implementation date and end of protections is 1 April 2022
- Response to consultation and draft regulations expected later this year



Further information

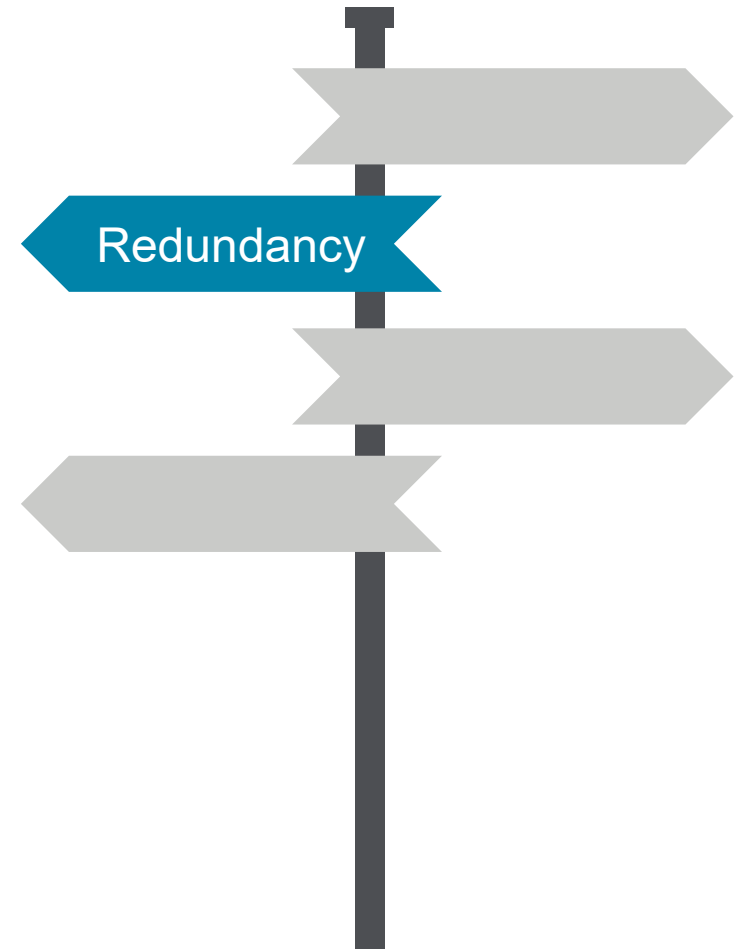


Look out for the Hackney Pension Fund McCloud updates in the Committee Quarterly Update reports

Retirement – hot topic

£95k Exit Payment Cap

- Came into effect on 4 November 2020
- Disapplied on 12 February 2021 and formally revoked on 19 March!
- However, guidance states that “HM Treasury will bring forward proposals at pace to tackle unjustified exit payments”, so watch this space...



Latest guidance on exit payment cap

<https://www.local.gov.uk/reform-local-government-exit-payments>

Hackney Pension Fund in a nutshell!

Strategic Objectives

1. To provide an efficient and effective pensions administration service to the Fund's employers and members
1. To ensure that the fund's investments are maintained in line with the approved investment strategy

Upcoming Decisions

March 2021 - Refreshed RI Policy/Climate change target

December 2020/March 2021 - Tenders for actuarial, governance and benefits and investment consultancy services

2022 through to March 2023 - Triennial valuation/ employer contribution rates

Key Risks:

- Funding level reductions due to market conditions
- Poor membership data
- Poor performance from 3rd party administrator - Equiniti

Key stats:

Fund Value 09/21: c£1.9bn
Funding level 06/21: 107%
Membership 03/21:
Active 7,083
Deferred 10,352
Pensioners 7,502

Other issues:

Ongoing pressure re Human Rights issues (particularly Palestine and active local pressure group).
Divest Hackney local pressure group re climate change

The end!

Any questions?

Further resources

Further information on the LGPS and pensions generally can be found here:

LGPS member site: <https://www.lgpsmember.org>

LGPS regulations <https://www.lgpsregs.org>

Scheme Advisory Board <https://www.lgpsboard.org/>

The Pension Regulator's toolkit

<https://education.thepensionsregulator.gov.uk/login/index.php>

.. and Code of Practice 14

<https://www.thepensionsregulator.gov.uk/en/document-library/codes-of-practice/code-14-public-service-pension-code-of-practice>

The Money and Pensions service <https://www.pensionadvisoryservice.org.uk>

The Pensions Ombudsman <https://www.pensionombudsman.org.uk>



Further information

Further information available on Hackney Pension Fund website - <https://hackneypension.co.uk>

pensions@hackney

Contact details



Karen McWilliam

Partner / Head of Public
Sector Governance and
Benefits Consultancy

07711 016 707

karen.mcwilliam@aon.com

Thank you for attending!

Aon plc (NYSE:AON) is a leading global professional services firm providing a broad range of risk, retirement and health solutions. Our 50,000 colleagues in 120 countries empower results for clients by using proprietary data and analytics to deliver insights that reduce volatility and improve performance.

Copyright © 2021 Aon Solutions UK Limited. All rights reserved. aon.com

Aon Solutions UK Limited is authorised and regulated by the Financial Conduct Authority.

Registered in England & Wales No. 4396810

Registered office: The Aon Centre | The Leadenhall Building | 122 Leadenhall Street | London | EC3V 4AN

This document and any enclosures or attachments are prepared on the understanding that they are solely for the benefit of the addressee(s).

Unless we provide express prior written consent no part of this document should be reproduced, distributed or communicated to anyone else and, in providing this document, we do not accept or assume any responsibility for any other purpose or to anyone other than the addressee(s) of this document. In this context, "we" includes any Aon Scheme Actuary appointed by you.

To protect the confidential and proprietary information included in this document, it may not be disclosed or provided to any third parties without the prior written consent of Aon Solutions UK Limited.

