### Cumbria County Council

# Cumbria LGPS Pensions Forum October 2015



### Housekeeping



**Toilets** 



Fire Alarms



Mobile Phones



Feedback



### Agenda (I)

09:30	Welcome and Coffee	
10.00 - 10.15	1. Terms of Reference	
	2. Election of Chair	Nicola
	3. Membership	Harrison
	4. Apologies for absence	New Chair
	5. Minutes (6 October 2014)	
10.15 -	6. Actuarial Valuation 2016	John Livesey
10.45		& Leanne
		Johnston
		(Mercers)



### Agenda (II)

10:45 - 10:55	7.	New policy on reporting breaches to The Pensions Regulator and updated Administration Strategy & Communications Policy	Alison Clark
10:55 – 11:25	8.	Pension Administration YPS 2014/15 Performance Results	Diane Lister
11:25 – 11:40	9.	Annual Report & Accounts 2014/15	Alison Clark & Debbie Purvis



### Agenda (III)

11:40 – 11:50	10. Up and coming changes	Fiona Miller
	11. Representation from employers	
	12. Date of Next Meeting - TBC November 2016	





2015 PENSIONS FORUM

14 OCTOBER 2015







#### CONTENTS



Actuarial valuation - outlook

• Actuarial valuation - timetable

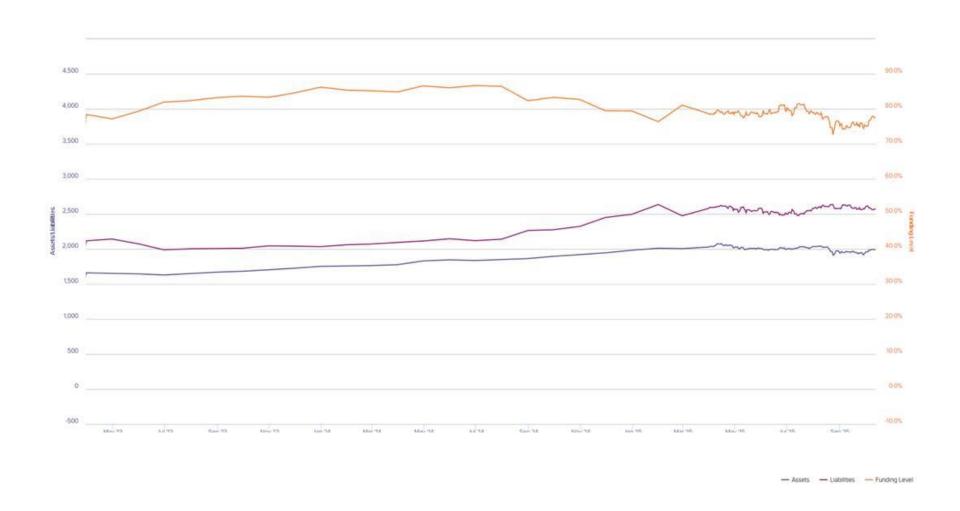
• IAS19 timetable

Exit Payments

Pensions Tax

### VALUATION OUTLOOK - PROGRESS SINCE 2013





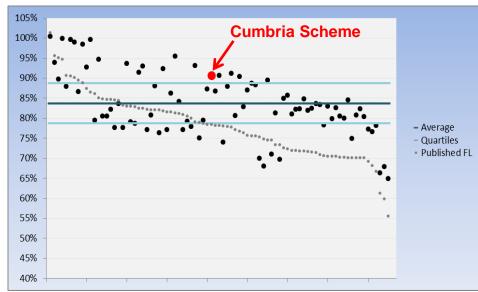
#### COMPARATIVE FUNDING LEVELS



#### DISCLOSED FUNDING LEVELS

#### 105% 100% 95% 90% 85% 80% Average 75% - Quartiles 70% 65% **Cumbria Scheme** 60% 55% 50% 45% 40%

#### STANDARDISED ASSUMPTIONS



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#### 2016 VALUATION - EXAMPLE TIMELINE







## MONITOR UP TO THE VALUATION AND BEYOND



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#### **IAS19 TIMESCALES**



### Early May Delivery

- Current approach
- Final processing only once full investment information known
- Too late for Councils from 2017

## Early April Delivery

- More estimation required
- Cannot guarantee timescales due to resourcing constraints

## March Delivery

- Earlier estimation of data
- Final market conditions unknown
- Much greater scope for material error of estimation
- Needs agreement with auditors

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### EXIT PAYMENTS AND £95,000 LIMIT



#### What We Know

- Overall Limit £95,000
- When it applies from 6 April 2016
- (Roughly) whom it applies to "Public sector bodies"

#### What We Don't Know

- Calculation methodology for early retirement cost of pension
- Whether cap bites first on early retirement cost or severance payment
- Precise details of employers caught (contractors?)
- Form of Regulations
- Precise effect on LGPS Funds
  - May affect early retirement processes
  - Will Funds know which employers are caught?



### SUMMER BUDGET 8 JULY 2015 HEADLINES



## Known impacts

- Lifetime Allowance (LTA) Will be reduced to £1 million from April 2016 and will be indexed in line with CPI from April 2018
- New LTA protection(s) will be introduced
- Annual Allowance (AA) Progressively lower below £40k if 'Adjusted Income' exceeds £150,000
- AA will be tapered as low as £10,000 if Adjusted Income is £210,000 or more
- Pension Input Periods will be aligned to the tax year over 2015/16

## Possible impacts

- Green Paper introduced a consultation on whether pensions tax relief should be reformed or whether the current system should be kept
- This consultation has now closed
- Watch this space for the Chancellor's Autumn statement.....

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# MAKE TOMORROW, TODAY

Cumbria County Council
New policy on reporting breaches
to The Pensions Regulator and
updated Administration Strategy
& Communications Policy



### Reporting legal breaches (I)

- ➤ All individuals with a role in the LGPS (including the employers) have a duty to report breaches of law.
- ➤ No reliance placed on waiting for others to report.
- Can be subject to civil penalty if fail to comply.
- Cumbria LGPS policy & process approved September 2015.



### Reporting legal breaches (II)

- ➤ Breaches can occur in a wide variety of situations, e.g. record keeping, internal controls etc.
- Reasonable cause not just a suspicion.
- Checks & investigation (bearing in mind 'tippingoff') refer to:
  - ➤ S.151 Officer: Julie Crellin
  - ➤ Deputy s.151 Officer (LGPS): Fiona Miller
  - ➤ Monitoring Officer: Dawn Roberts



### Reporting legal breaches (III)

- ➤ If breach then must report and/or record depending on significance.
- ➢ If 'materially significant' must report to the Pensions Regulator.
- 'Materially significant' consider separately & collectively the:
  - > cause of the breach (what made it happen);
  - effect of the breach (the consequence(s) of the breach);
  - reaction to the breach; and
  - wider implications of the breach.



## Administration Strategy & Communications Policy

- ➤ Reviewed following LGPS amendment Regulations 2015.
- Outcome the document has been updated as follows:
  - > Underlying principles are consistent.
  - Format amended & further detail about Administering authority & employer responsibilities included.



## Administration Strategy & Communications Policy – overview (I)

- Part A: sets out background, purpose & frequency of review.
- Part B: Administering authority (and YPS) undertakings:
  - Liaison & communication;
  - > Administration & compliance; and
  - > Performance targets.



## Administration Strategy & Communications Policy – overview (II)

- > Part C: Employer undertakings:
  - ➤ Liaison & communication;
  - > Performance levels;
  - ➤ Administration & compliance;
  - Online Communications & information sharing;
  - Circumstances for recovery of additional costs; and
  - > Other matters employer discretions policy



## Administration Strategy & Communications Policy – overview (III)

- ➤ Part D: Communications Policy:
  - Aims good information in plain English, transparency
     & engagement.
  - ➤ Sets out communications programme e.g. factsheets & newsletters, publication of key fund documents such as Annual Report.
  - ➤ Also sets out relevant scheme regulations and overriding legislation.









## Diane Lister Head of Your Pension Service



### Review of our Services

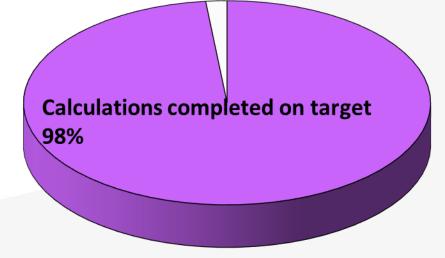
- Performance
- Customer Service
- The Online Experience
- What Next for Pensions Administration?

### **SLA Performance**



18 individual
 performance targets
 set out within a
 Service Level
 Agreement between
 Cumbria Pension
 Fund and Your
 Pension Service.

Calculations Completed: 7,621



### Performance



- Met Performance Standards
- More changes to CARE Scheme and new Freedom & Choice Legislation
- EPIC & Annual Benefit Statements
- CSE Re-Accreditation
- 34% increase in on-line registration

### **Customer Service**

- New Scheme Roadshows
- Annual Employer Visits
- Annual Employers Conference
- Employer Training & Awareness Sessions
- Annual Benefit Statement Surgeries
- Drop-in Sessions
- Dedicated Telephone Helpdesk
- Member Newsletters
- Employer Bulletins



## The Online Experience

pour ion service

- Annual Benefit Statements
- Newsletters
- Payslips & P60's
- Pension Forecasts
- Check Records
- Change Details
- Email alerts, newsletters, notices and more...

'more for members online and more for employers online'





- The End of Contracting-Out & GMP Reconciliation
- Public Sector Cost Cap on Compensation Payments
- The 2016 Pensions Increase Order

# Cumbria County Council Cumbria LGPS Annual Report & Accounts 2014/15



### Areas to be covered

- ➤ Cumbria LGPS specifics (a.k.a. how many? and how much?)
- ➤ Achievements & investment performance in 2014/15
- ➤ Annual Report & Accounts 2014/15

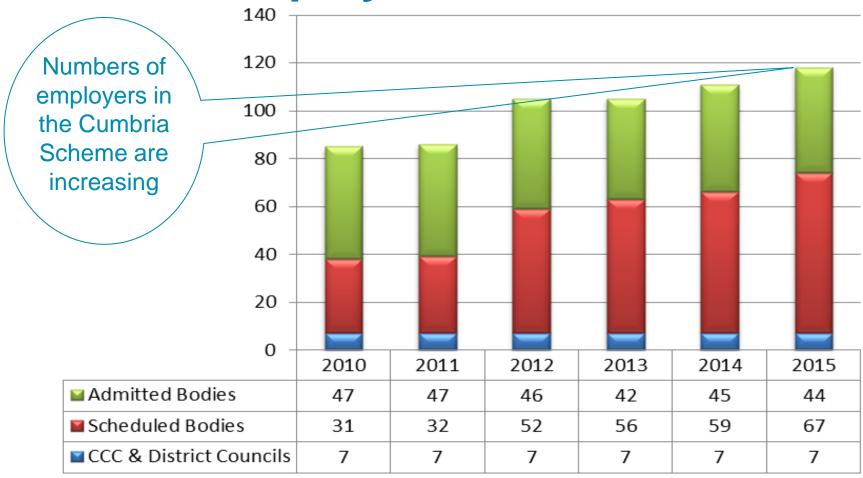


### **Cumbria LGPS – How many?**





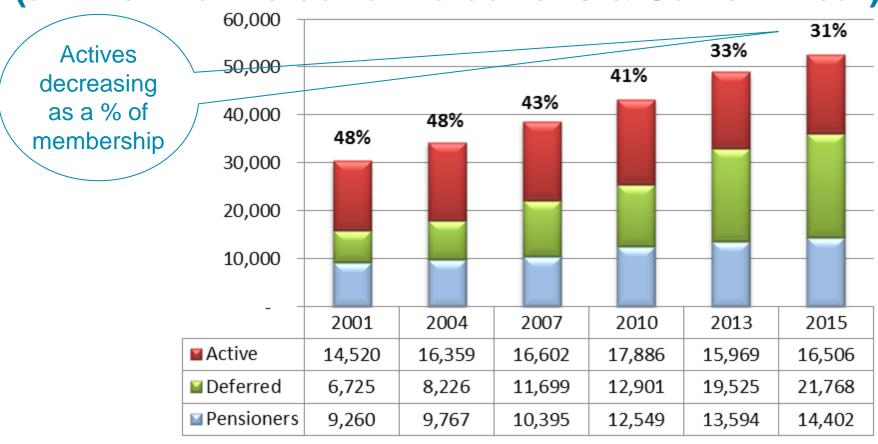
### **Employer numbers**





Serving the people of Cumbria

## Membership Numbers (at Triennial Actuarial Valuations & Current Year)







Membership of the Cumbria LGPS equates to 13.5% of the Adult Population of Cumbria

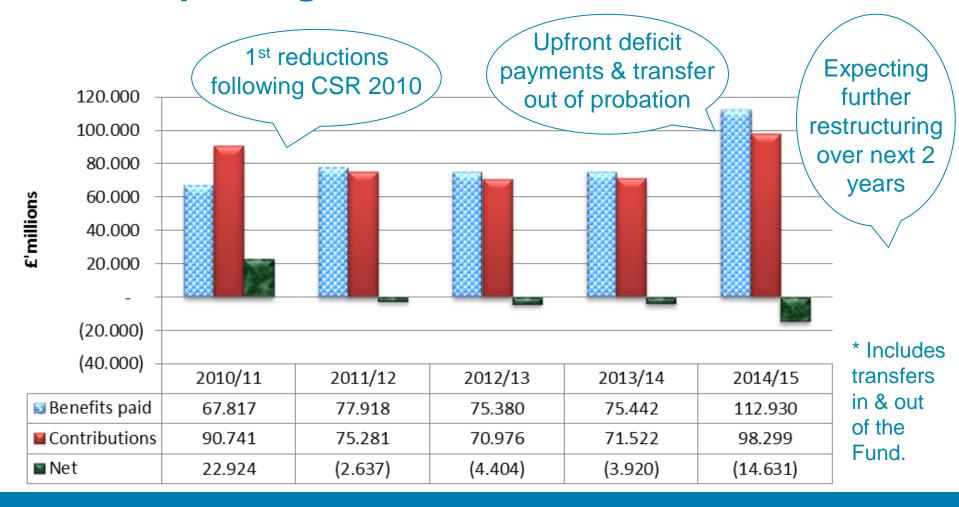


#### **Cumbria LGPS – How much?**



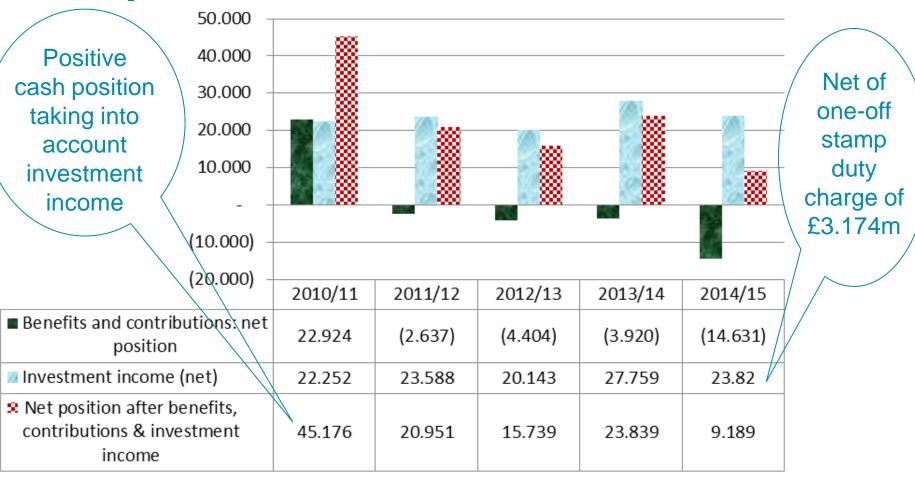


#### Benefits paid against contributions received\* £'m



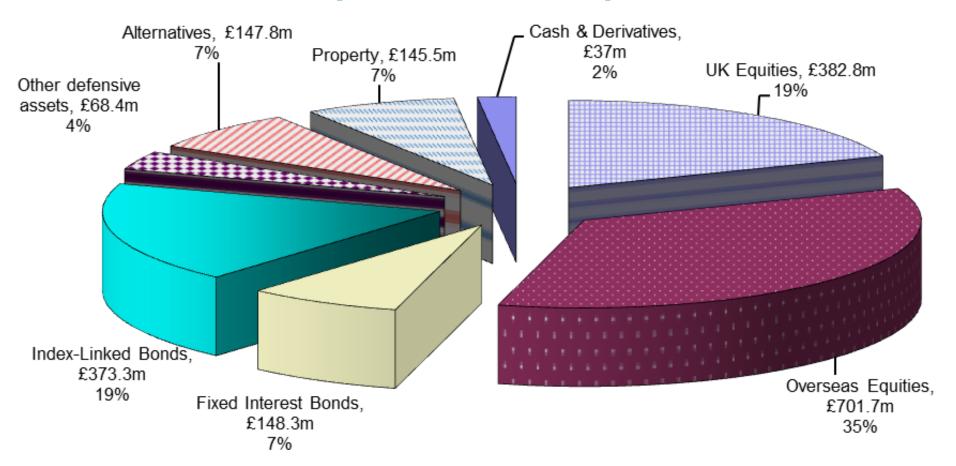


#### Net position after investment income £'m





#### Investments (March 2015) £2.005bn

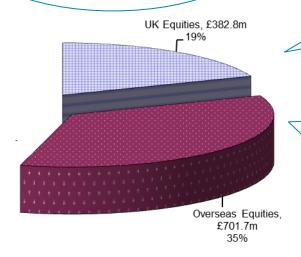




### **Investment Managers**

Legal & General —
Passive indextracking, equity and index-linked gilts

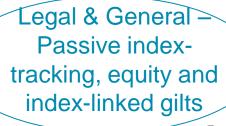




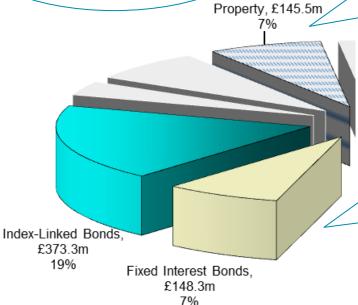
Combined Global Equity portfolio, particular focus on downside protection:
Nordea - Low Volatility - outperform MSCI AC World, target +2%
Loomis - High Conviction - outperform MSCI AC World, target +3%



### **Investment Managers p2**



Aberdeen - Direct property - good tenants, long-term leases, outperform RPI +3.65%



Standard Life - Corporate bonds – 'Buy and Maintain' i.e. long-term view, stability, avoid downgrades



### **Investment Managers p3**

Other defensive assets, £68.4m

Alternatives, £147.8m

Value	Manager	Asset Class	
£m			
34.8	M&G	Secure income property fund	
33.6	Aviva	Long-lease property fund	
84.0	JP Morgan	Infrastructure Fund – global: water, electricity, transport,	
		power generation	
34.0	BlackRock	Legacy Alternatives portfolio (private equity fund 2007)	
18.4	Partners	Infrastructure Fund – global: renewable power, energy,	
	Group	transport	
8.0	M&G	Real Estate Debt – global: offices, leisure/hotels, light	
		industrial	

Others: SL Capital secondary private equity, Healthcare Royalties



### **Investment Managers p4**

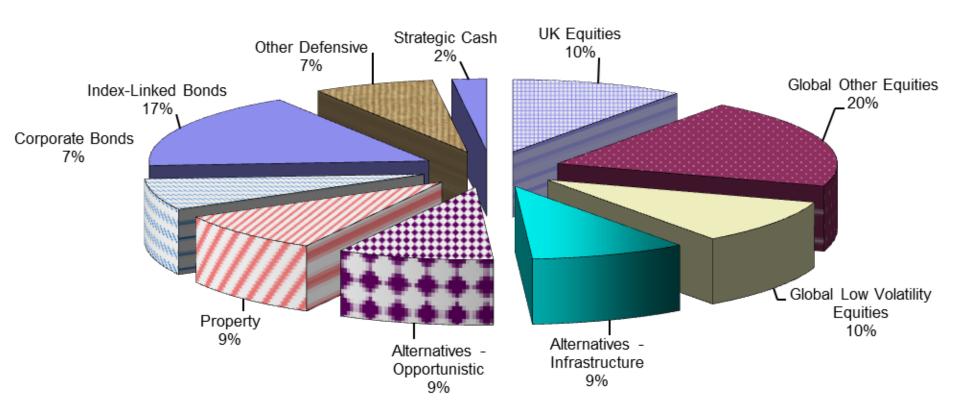
Theme: long-term secure/steady income – cashflow needs - rather than forcing to sell assets could be wrong time / poor value.

Investment income 2014/15 within accounts (£30m):

Note 9	Interest from fixed interest securities	6.7m	Standard Life corporate bond portfolio
	UK dividends	9.2m	Schroders UK equity portfolio (some N&L)
	Overseas dividends	6.9m	Nordea & Loomis segreg global portfolios
	Net rental income from investment properties	7.3m	Aberdeen direct property



#### **Target Investment Asset Allocation**





# Achievements & investment performance in 2014/15





# Achievements Against 2014/15 Business Plan included:

92.3% of investment strategy review outcomes implemented

Revised tiered
performance
reporting
framework
implemented

Worked with employers to support them in development of process to deliver CARE data

Retendered proxy voting service provider

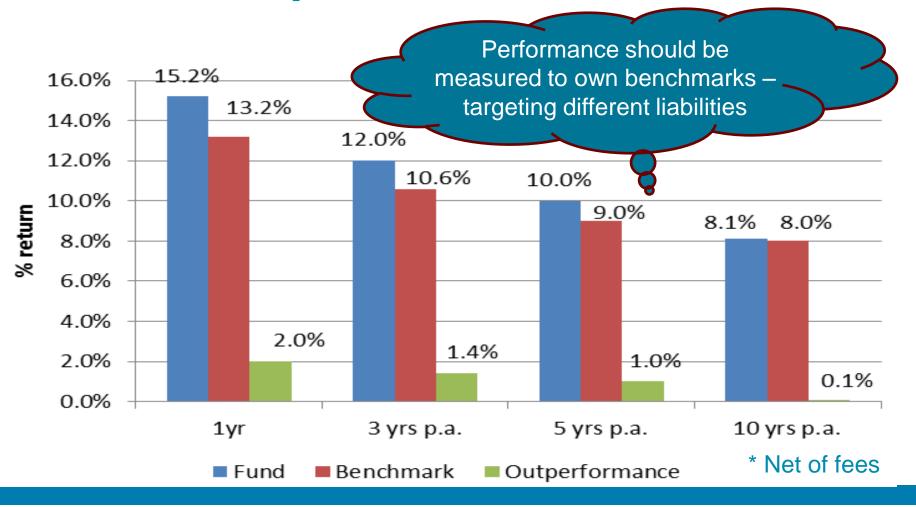
Annual Report & Accounts: on time with clean audit Scrutiny of fund manager fees: secured c.£0.690m of reductions & c. £0.187m one-off saving

Reviewed & subsequently extended actuarial services contract

Provided
effective
training to
members,
partners and
colleagues

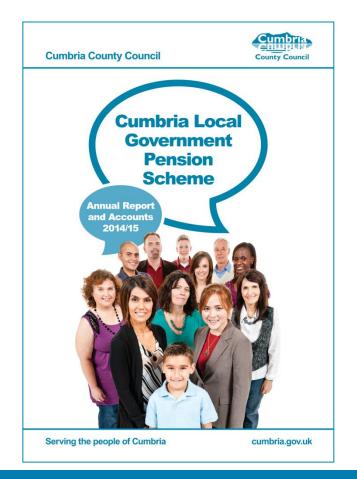


#### Fund Specific Performance\*





#### **Annual Report & Accounts 2014/15**



www.cumbria.gov.uk /Finance/



# CLGPS: Changes to reporting requirements

- No significant mandatory changes to LGPS Accounts since 2013/14.
  - Recommended change in disclosure of management costs.
- Annual Report (approved by the Pensions Committee) further expanded following the publication of revised (2014) CIPFA guidance:
  - Format reworked in line with revised CIPFA guidance.



#### **Audit headlines**

- Unqualified and unmodified opinion.
- No material errors.
- Prepared in advance of statutory deadline.
- One minor adjustment to enhance the reader's understanding of our accounting policy for contributions.



#### Preparation for 2015/16

In response to requests from those subject to local government requirements to meet earlier closedown deadlines:

- Ongoing discussions with Actuary and Audit with regards to early production of IAS 19 figures & use of estimates.
- Proposed new timetable requires greater use of estimates.
- Options consulted with major employers. Consensus view to be adopted.



#### In Summary

- > Another good investment year, fund value increased
  - √ 2014/15 investment return 15.3% (LGPS average 13.2%)\*
  - √ 10 year investment return 8.2% (LGPS average 7.9%)\*

\* Gross of fees

- > Significant key achievements include:
  - ✓ Scrutiny of fund manager fees: secured c.£0.690m of reductions & c. £0.187m one-off saving
  - ✓ 92.3% of investment strategy review outcomes implemented (as at 31<sup>st</sup> March 2015)
  - ✓ Annual Report on Accounts on time with clean audit



#### **The Cumbria Team**

Fiona Miller – Senior Manager: Pensions & Financial Services (Deputy S151 LGPS)

Alison Clark – Group Manager

<u>Investments:</u> <u>Member & Employer liaison</u>:

Debbie Purvis Julie Dole

Gill Welbourn Allison McGuinness

Sue McGill Janet Bozic, Sandie Lawrence

**YPS** 



#### **Further information**

Email the Cumbria pensions team:

pensions@cumbria.gov.uk

**Cumbria Fund information:** 

www.cumbria.gov.uk/Finance/finance/cumbrialgps.asp

Employer / Member Information YPS: <a href="https://www.yourpensionservice.org.uk/">www.yourpensionservice.org.uk/</a>

General LGPS information: <a href="https://www.lgps2014.org">www.lgps2014.org</a>







#### **Cumbria LGPS**

# Considerations for Pooling of Investment Assets Across the LGPS

**Fiona Miller** 



# 8<sup>th</sup> July 2015 Chancellor's Summer Budget Statement

"pool investments to significantly reduce costs, while maintaining overall investment performance"

"Backstop legislation which will ensure that those administering authorities that do not come forward with sufficiently ambitious proposals are required to pool investments"



#### **Further Announcements**

- ➤ Chancellor announced further information at the Conservative Party Conference.
  - Regional Sovereign Wealth Funds
  - > Infrastructure



### What Is Asset Pooling?

The joining of assets into larger "pools" either:-

➤ formally through a new company & / or FCA registered vehicle (e.g. Lancashire / LPFA; London CIV),

And / Or

informally through purchasing arrangements (e.g. LGPS frameworks)



# Why Does the Government Want the LGPS to Pool?

- > Reduce costs;
- > Improve investment governance;
- Direct access to certain investment classes.



# Investment Collaboration Now in LGPS

**VV** 

- Experience Sharing
- Joint Procurement

**VV** 

- Informal Asset Pools
- Joint Internal Teams

VX

- Formal Asset Pools(CIV's)
- Fund Mergers

Government
- All good,
may be part
of solution
BUT
not enough!



# In Summary Where Government Are Now

- > Fund merger /
- Mandating passive
- Local decisions on manager choice
- Large scale pooling investments
  - ➤ All Funds / Most assets
- Cost savings / retain performance
- > Local decisions on asset allocation



#### The Question Is?

- ➤ From Government How (not if) the 89 Funds amalgamate assets to deliver pools of sufficient scale, cost savings and governance improvements?
- ➤ For Cumbria do we choose our partners & pooling structures (be an early mover) or wait & have them mandated?



#### **Fund Proposals Must Deliver**

- > Pools with *ability* to achieve *scale*
- > **Speed** of delivery
- Significant savings (£X00,million pa)
- > Expected savings to be quantified & evidenced
- > Savings able to be *monitored* nationally
- > Explanation of **governance** structures
- > A fall back or *default for non participants*
- > A clear picture of *how initiatives fit together*
- > Solution on *infrastructure*.



#### **Assessment Criteria**

- Informal consultation on criteria happening now (working parties, etc.)
- > will be mandated within investment regs
- likely to be around:-
  - ➤ Initial size / speed & future scalability
  - Cost significant savings but no target set
  - ➤ Governance
  - >Infrastructure



#### **Government's Backstop Position**

Currently decision in hands of LGPS to come together with "a few, joined-up scalable options"

What if no suitable answer comes forward from Funds, backstop is:-

- ➤ 5 Regional Pools (fit LA boundaries), plus additional pool for infrastructure (£40bn each).
- More to passive management cheaper.



### Pooling - Benefits if Implemented Well

- > Investment discounts / fee savings.
- > Access to different products / direct investments.
- > Improved risk & governance structures.
- Internal management (fee savings with less volatile returns).
- Efficient implementation e.g. tax & transition management.
- > Reduced external consultancy costs.
- > Improved resilience, reduces "key woman risk"



#### **Outline Timeline.**

Government to informally consult on "common criteria".	August – October 2015
Consultation (including backstop regulation & criteria issued).	November 2015
COMMITTEE – Review & agree a pooling proposal & consultation response outline.	December 2015
Consultation response period.	February 2016
Chancellor's Spring Budget Statement 2016	Spring (March)2016
Revised investment regulations & backstop legislation.	March 2016
Detailed proposals from Funds for review against criteria included costing & risk assessments	April – Sept 2016
COMMITTEE / COUNCIL – delegate investment function,	
Creation of asset pools (phased in over three years).	To April 2019
Transition of assets for those funds not meeting the 'common criteria'.	Unknown



#### **In Summary**

- ➤ Pooling retains strategic asset allocation; delegates tactical implementation.
- Pooling has merits.
- ➤ We don't know if what we / other Funds propose will be "sufficiently ambitious"; but doing nothing means being forced to pool.
- ➤ Better to be early mover?



### **In Summary**

- > Being an early mover requires-
  - Finding like-minded strategic partners;
  - ➤efficient implementation &
  - ➤optimal future structure.
- Geography not important
- ➤ Joining an existing arrangement may not be optimal.





### **Any Questions** on Proposed Way Forward?





