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Cumbria County Council

Cumbria LGPS

Pensions Forum


October 2014




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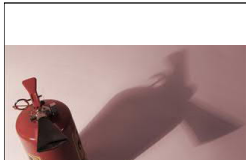
Housekeeping




Toilets



Mobile Phones



Fire Alarms



Feedback

Agenda (I)

09:30	Welcome and Coffee	
10.00 - 10.15	1. Terms of Reference 2. Election of Chair 3. Apologies for absence 4. Minutes of previous Forum (18 November 2013)	Sian Horsley / New Chair
10.15 - 10.45	5. Annual Report & Accounts 2013/14 including Funding Strategy Statement 2014 6. Up and coming changes	Alison Clark & Debbie Purvis Fiona Miller



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Agenda (II)

10:45 - 11:05	7. Pension Administration YPS 2013/14 Performance Results	Julie Dole
11.05 - 11.50	8. Actuarial Valuation – Mercers	John Livesey
	9. Representation from employers	
	10. Date of Next Meeting - 6 th October 2015	



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**Cumbria County Council
Cumbria LGPS Annual
Report & Accounts &
Funding Strategy Statement
2013/14**

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Contents

- Cumbria LGPS specifics (a.k.a. how many? and how much?)
- Achievements & investment performance in 2013/14
- Annual Report, Accounts & Funding Strategy Statement 2014



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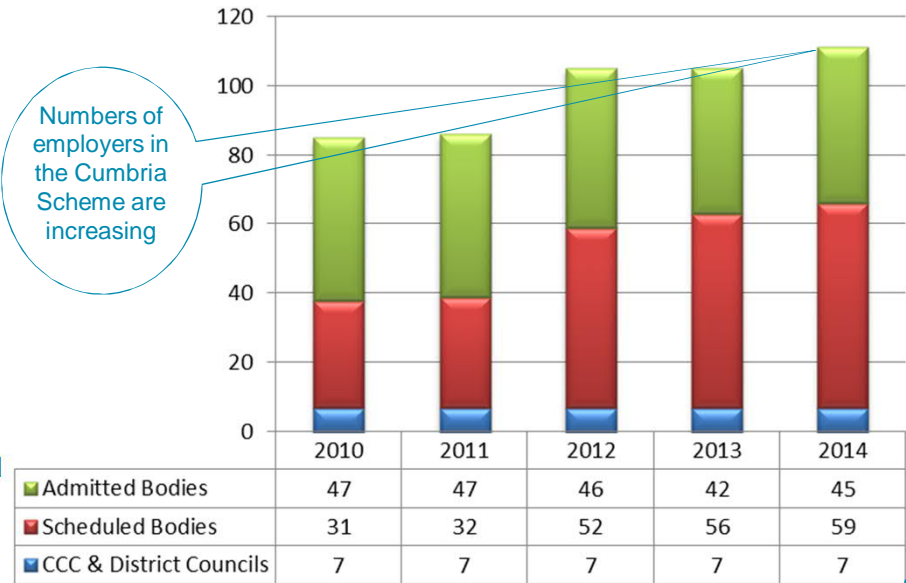
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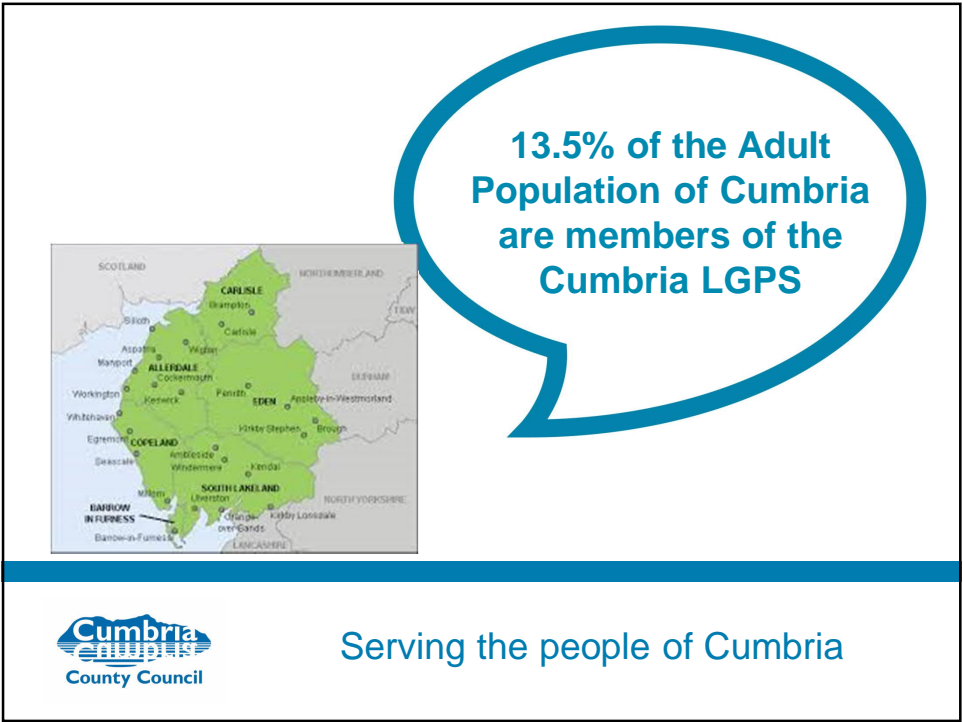
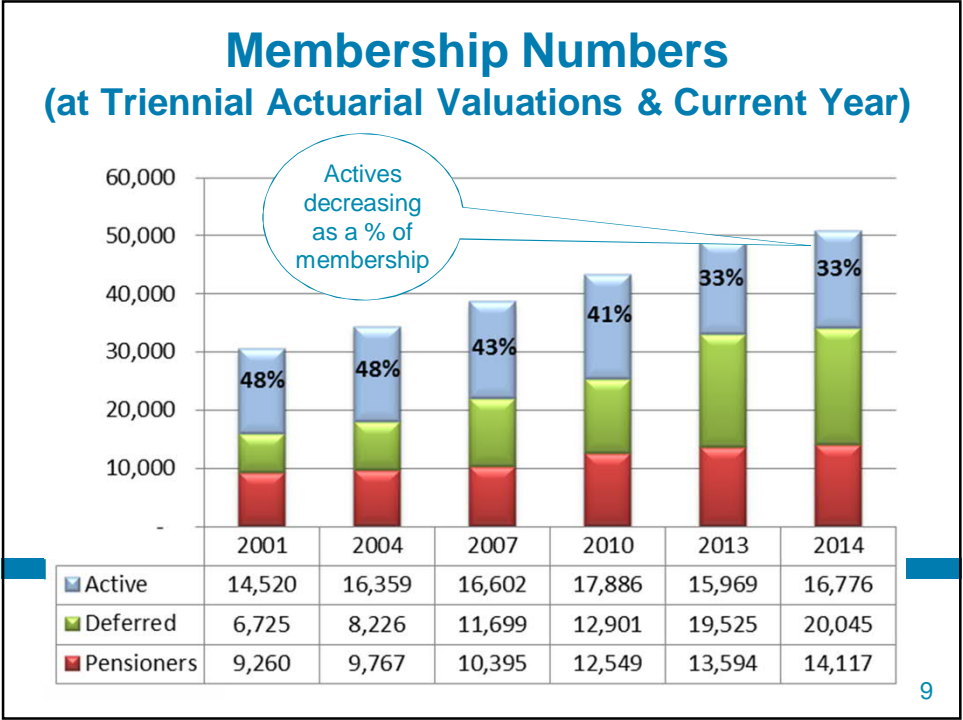
Cumbria LGPS – How many?



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Employer numbers





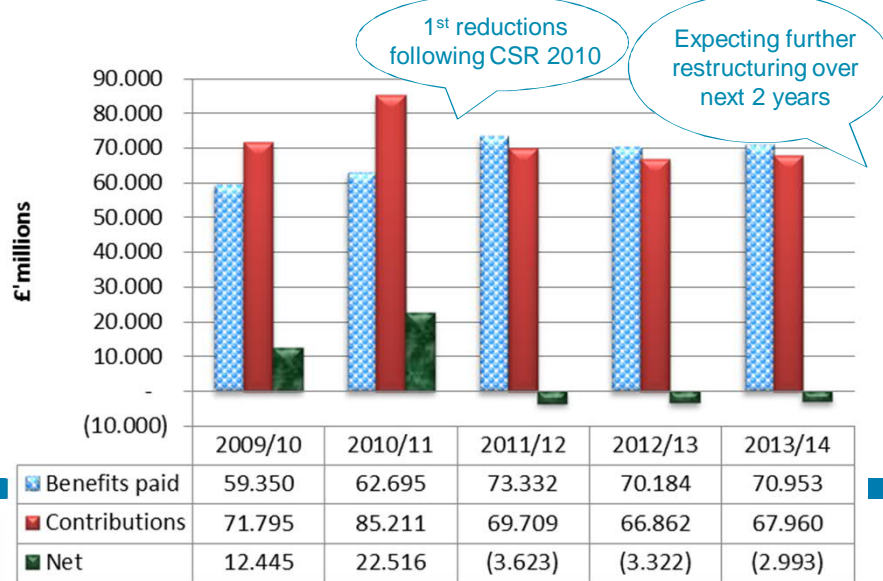
Cumbria LGPS – How much?



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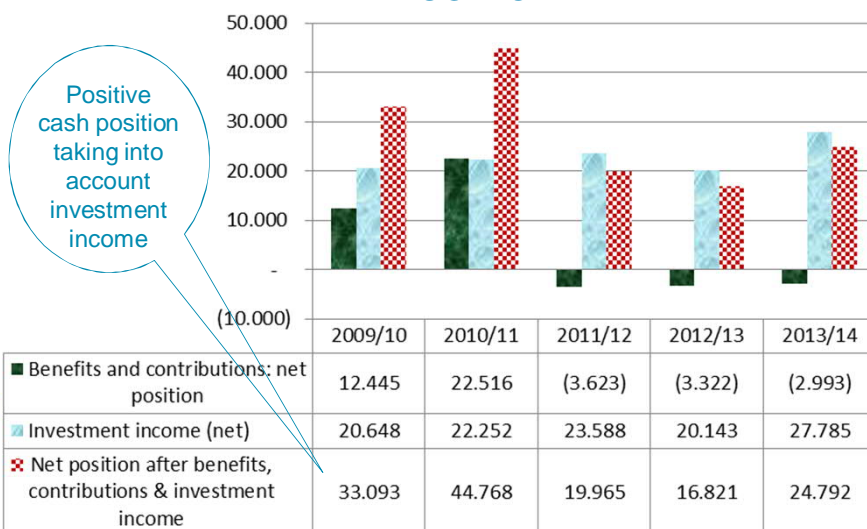
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Benefits paid against contributions received



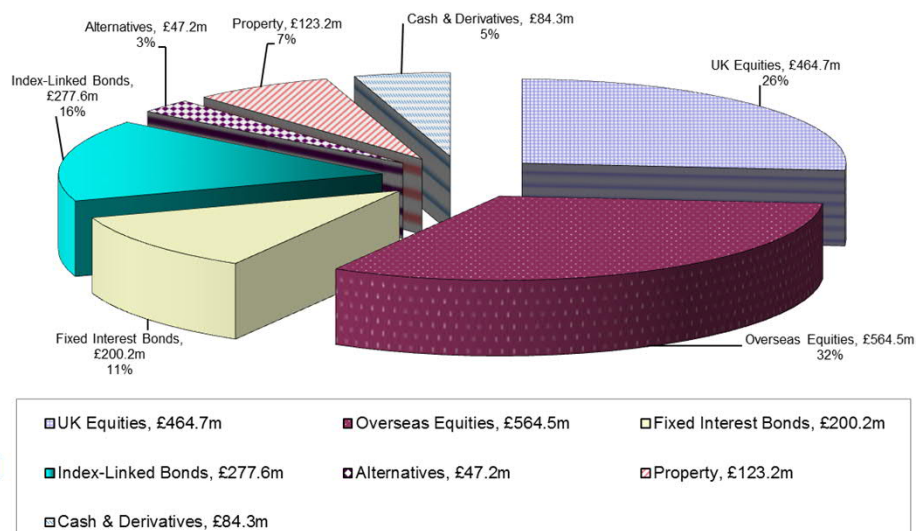
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Net position after benefits paid, contributions received and investment income



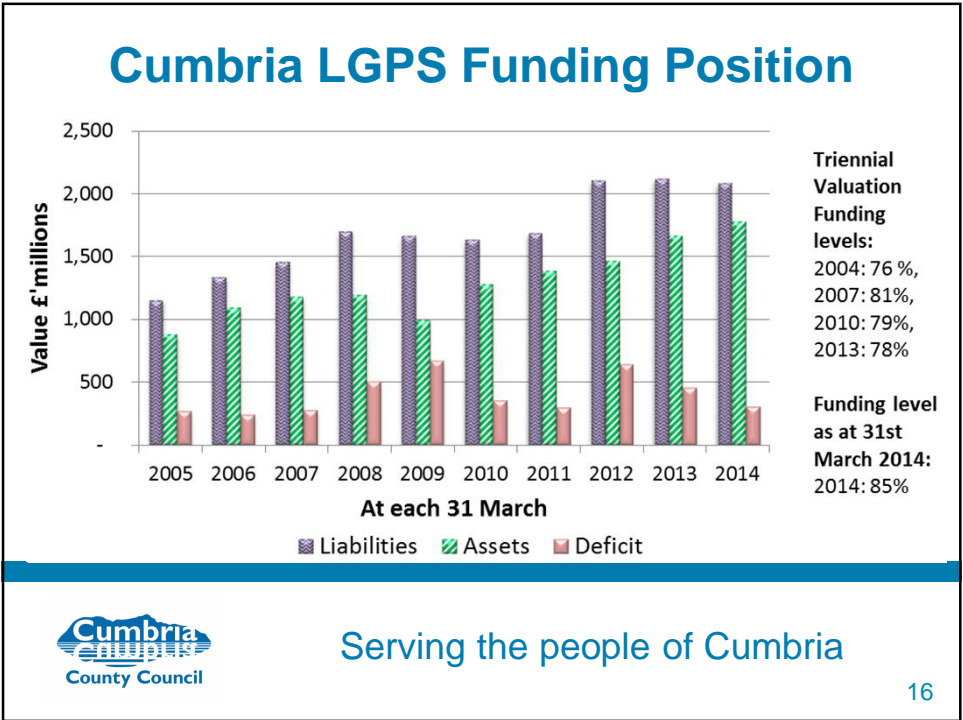
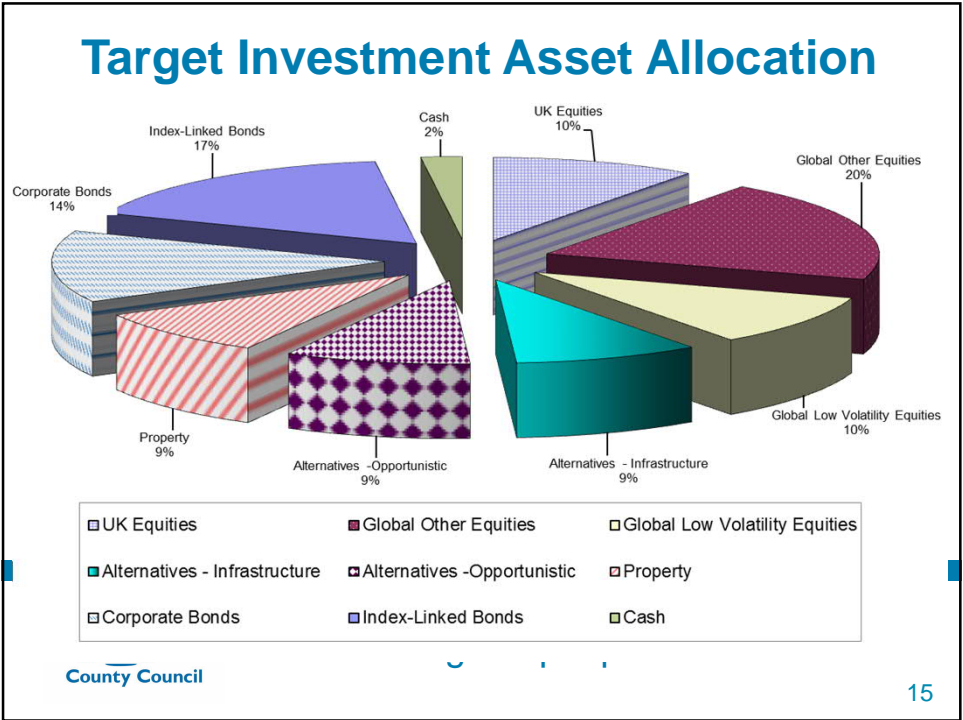
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Investments (March 2014) £1.762bn



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Achievements & investment performance in 2013/14



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Achievements Against 2013/14 Business Plan

60% of investment strategy review outcomes implemented

Auditor praise on quality of Annual Report & Accounts

Investment Sub Group established

Completed preparation (systems and communications) for 2014 Scheme April 2014

Enhancements to the administration system including further roll out of online self-service

Review of AVC provision for the Fund

Completion of the 2013 Triennial valuation

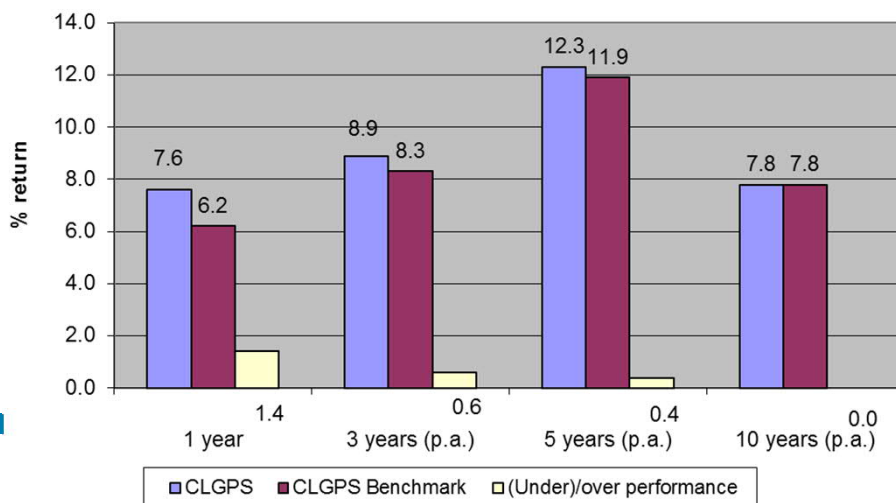
Provided effective training to members, partners and colleagues



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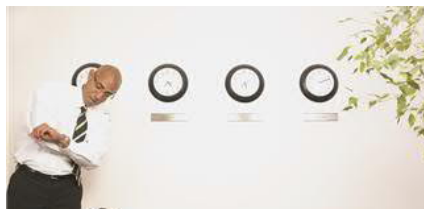
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Performance against Cumbria Scheme Specific Benchmark



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Annual Report, Accounts and Funding Strategy Statement 2013/14



Overview

- No significant changes to LGPS Accounts since 2012/13.
- Annual Report expanded following the publication of updated CIPFA guidance.
- The Auditor's report and the Statement of Accounts are available on the Council's website:
<http://www.cumbria.gov.uk/Finance/finance/accounts2013.asp>



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Audit headlines

- Unqualified and unmodified opinion.
- No material errors.
- Prepared well in advance of statutory deadline.
 - Working papers were of a high standard.
- Some minor amendments required to disclosure notes.
 - These have no impact on the figures shown in the primary statements



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Funding Strategy Statement (FSS)

- Required by regulations.
- Purpose:
 - » to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;
 - » to support the regulatory requirement to maintain as nearly constant employer contribution rates as possible; and
 - » to take a prudent longer-term view of funding liabilities.
- No changes since last year.



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In Summary

- Another good investment year, fund value increased
 - ✓ 2013/14 investment return 7.6% (LGPS average 6.4%).
 - ✓ 10 year investment return 7.8% (LGPS average 7.8%).
- Significant key achievements include:
 - ✓ 2013 triennial valuation completed successfully
 - ✓ 2014 Scheme implemented
 - ✓ Continued enhancements to administration systems including the further roll out of self-service and online access to benefit statements and pensions projections.



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The Cumbria Team

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

Alison Clark – *Group Manager*

Investments:

Debbie Purvis

Gill Welbourn

Sue McGill

Member & Employer liaison:

Julie Dole

Allison McGuinness

Janet Bozic, Phil Whyte

YPS



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Further information

Email the Cumbria pensions team:

pensions@cumbria.gov.uk

Cumbria Fund information:

<http://www.cumbria.gov.uk/Finance/finance/cumbrialgps.asp>

Employer / Member Information YPS:


www.yourpensionservice.org.uk/

General LGPS information: www.lgps2014.org




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Cumbria County Council
Thanks for Listening
Any comments or
questions?




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Cumbria LGPS
Forum
Up & Coming Changes
6th October 2014



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Agenda

- What are the proposed changes?
- What's driving the change?
- What's the major issues for the LGPS versus other Public Sector Schemes?
- Current national & Cumbria LGPS governance structures
- Local pension Boards - what do we need to implement & by when?



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**What Are the
Proposed Changes
to the LGPS?**



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Proposed Changes 2015 Onwards

- New Internal Governance Structures
- Enhanced data comparability
- Cost Cap / Cost Sharing (2016 Valuation)
- External Oversight / Control (tPR / Treasury)
- Investment Management Changes (Yes)
/ Fund Mergers (At Present No)
/ CIV's (at present Voluntary Only)



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A collage of images illustrating factors driving changes to public sector pensions. It includes: two stick figures shaking hands; a large sack overflowing with gold coins; a 3D figure balancing on a seesaw; a large blue speech bubble containing the text 'What's Driving Changes to Public Sector Pensions?'; an umbrella with red letters 'R', 'I', 'S', 'K' on its ribs; a golden egg on a bed of white eggs; and a green road sign that says 'Governance' with 'Straight Ahead' and two upward arrows below it.

What's Driving Changes to Public Sector Pensions?



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What's Driving the Change

- Poor governance in some of the public sector schemes, this is “*one size fits all*” legislation
- Active role of scheme members
- Control by Treasury for funded scheme
- Oversight by the Pensions Regulator
- Introduction of cost cap / cost sharing Mechanism
- LGPS Investment Assets; Costs & Performance
- Lack of data comparability



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**Issues for the
LGPS versus other
Public Sector
Schemes?**



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What makes the LGPS Different?

- 78% Funded (All others 0% - Unfunded)
- Membership size
- Investment assets (national circa £180bn)
- 89 Local Schemes not 1 National Scheme
- Established regulatory local governance structure's
- Quantity and variety of employers
- Locally set employer contribution rates



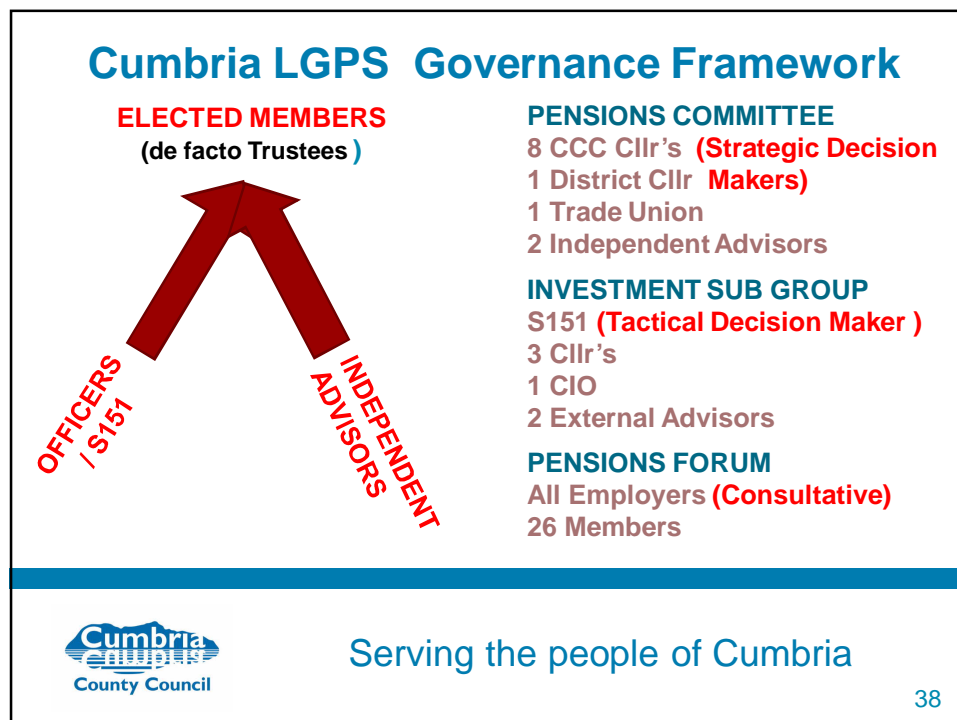
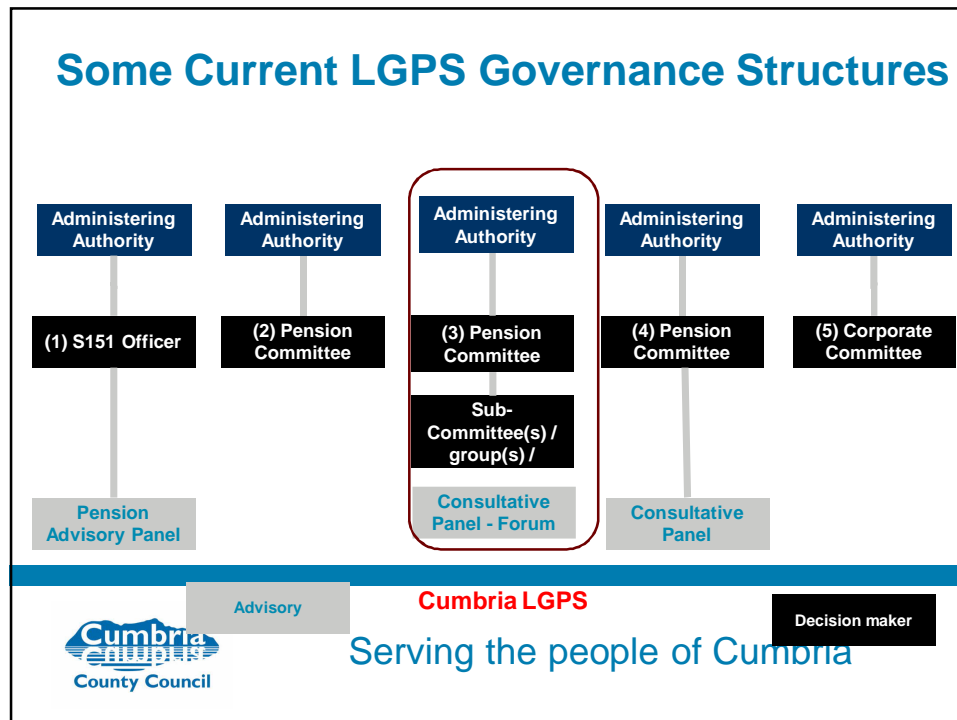
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**Current National
and Cumbria LGPS
- Governance
Structures**



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National Issues with Current LGPS Governance Structure

- Committee, designated by LGAct
 - No leeway for voting Scheme member representation
 - Little leeway for voting Scheme employer representation
- Variation in structure's & "quality" of governance
- Fulfilling Knowledge & Skills Requirements
- Investment Management Performance & Costs – Fees / Mergers



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**What Are the
Requirements following
the PSP Act 2013 &
The Awaited DCLG
Regulations?**



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New Roles Under PSPA 2013

The Act sets out four distinct roles to be performed within every Public Service Pension Scheme, these are:

- The **Responsible Authority** - DCLG (Clause 2)
- The **Scheme Manager** – Admin Auth (Clause 4)
- The **Pension Board** - Admin Auth (Clauses 5 and 6)
- The **National Scheme Advisory Board** (Clause 7)
- The **Pensions Regulator** (Schedule 4 PSP Act)



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Responsible Authority

- The person who makes regulations for the scheme,
- For the LGPS this is the Secretary of State for DCLG who is responsible for policy.
- **NEW** Clause 3(5) of the Bill provides that the consent of HM Treasury is required before any regulations can be made.



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Scheme Manager

- Responsible for managing or administering the scheme and any other statutory scheme connected with it.
- For unfunded Schemes = the Responsible Authority (i.e. = 1)
- For LGPS = 89 Administering Authorities as currently defined by LGPS regulations (which for Cumbria = CCC).



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(Local) Pension Board

- Responsible for “*assisting*” the scheme manager in securing:-
 - compliance with scheme regulations, other legislation covering governance and administration
 - any requirements of the Pensions Regulator.
 - economy and efficiency



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Regulation 106 - Establishment

- Each Scheme Manager to establish a LPB no later than 1st April 2015.
- DCLG confirmed:-
 - “establish” = approve the composition and constitution LPB (aim is for constitutional changes approved and LPB member selection to be underway).
 - Must be operational as soon as reasonably practicable after 1st April 2015.

All hinges on release final regulations

AMENDMENTS
to the Constitution



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Draft Regulations In Summary – Local Pensions Boards

- Established by 1st April 2015
- Role is to assist Scheme Manager in matters of governance & economy / efficiency
- Members must not have a conflict of interest
- Equal employer & member representatives (plus others)
- Members – individual knowledge and skills requirements / capacity.



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What Do We Need To Implement & By When?



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Timescales

- First Consultation 23rd June to 15th August
- Second Consultation expected imminently
- Final Regulations expected ????
- 1st April 2015 – PSPA deadline for Local Pension Board

Promised DCLG LGPS Regulation made and laid –
“The Autumn”



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Cumbria LGPS – National Best Practice Governance Recognition

- Training policy & implementation
- Investment governance; management & monitoring



Grant Thornton

Coming of age:
development of the LGPS

Improving governance in local government pension schemes
November 2013



What we are doing is good – but there is always room for improvement.

Question - how can we effectively use the LPB to help make us better?





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Headlines versus Facts

Data

Improvements welcomed.
But beware League Tables – Are all Valuations Equal?

No

Governance

LPB's Needed to Improve Scheme Governance & Wider Involvement?

For Some, for LGPS costly, Need to get Full Benefit from Them


Investments

Active / Passive Investment Management

£660m savings?

Cost to Cumbria £3-4m pa

Collaboration CIV's



Cumbria

Thanks for Listening

**Any Questions or
Comments?**



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Julie Wigg / Julie Dole
Partnerships Manager
Your Pension Service

Customer service

New LGPS 2014

Campaigns

- My Pension Online
 - Drop in sessions
- New scheme
 - 9 Roadshows hosted across Cumbria
 - > 700 members attended
 - Webcast over 3800 hits
 - Offered training to all employers – 4 venues
- Discretions



Customer service continued...

- ✓ 15 Annual employer visits
 - ✓ Hosted a Practitioners conference at CREA
 - ✓ Dedicated Pensions Helpdesk
 - Successfully answered over 90% over the year
 - Last quarter 96%
- CSE Accreditation & LGC Award for quality of service



Performance



- 36,000 online ABS produced for Active and Deferred members
- Email alert to any members who sign up to MPO
- Exceeded overall SLA of 90% - 97% achieved
>9,900 individual actions completed

e-Development



- EPIC system
 - secure solution to gathering regular information from payroll
 - less form filling
 - Data cleaning on a monthly basis
 - MPO
 - FRS17
- Employer Services



AGENDA

1

2013 Valuation Recap

2

2013 Valuation Update & Comparisons

3

LGPS Wider issues

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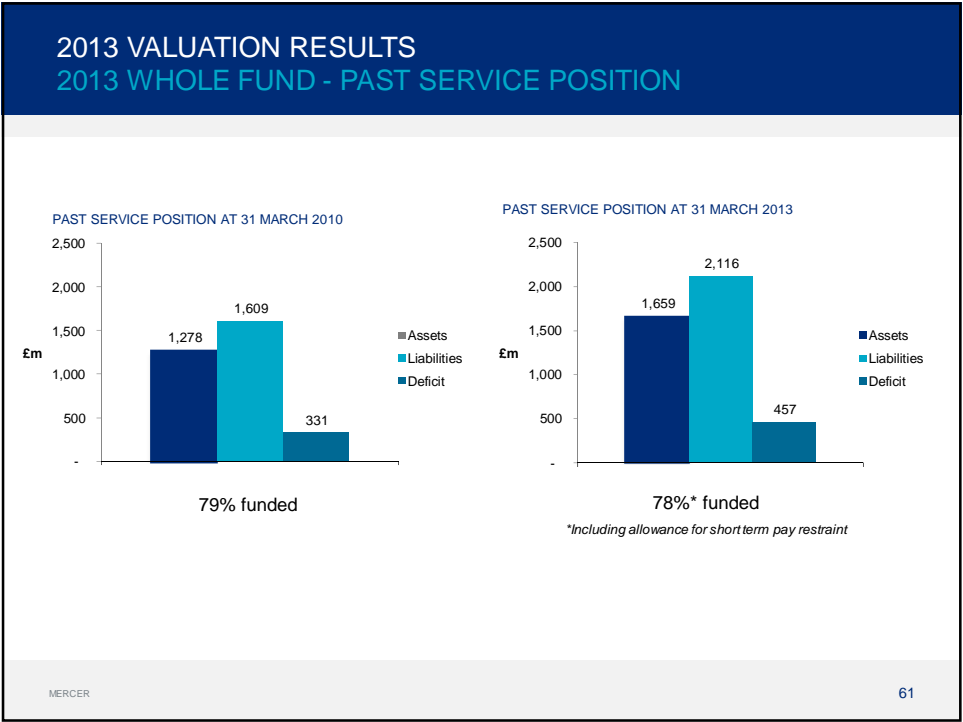


2013 VALUATION RESULTS

KEY ISSUES

AFFORDABILITY AND RISK MANAGEMENT	CHANGES TO THE LGPS BENEFIT STRUCTURE	FUNDING ASSUMPTIONS
<ul style="list-style-type: none">• continued budget pressures• protecting the Fund / members' benefits• accelerating maturity	<ul style="list-style-type: none">• savings or costs?	<ul style="list-style-type: none">• Low yield environment and expected investment returns• Pay growth / restraint• Demographic analyses

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2013 VALUATION RESULTS

DEFICIT RECOVERY

Deficit Recovery (19 years)	
Required Payment £m pa.	
(2010 results increasing at 4.75% pa., 2013 increasing at 4.1% pa.)	
31 March 2010	31 March 2013
19	25

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2013 VALUATION RESULTS

2013 WHOLE FUND – FUTURE SERVICE CONTRIBUTIONS



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STABILISATION

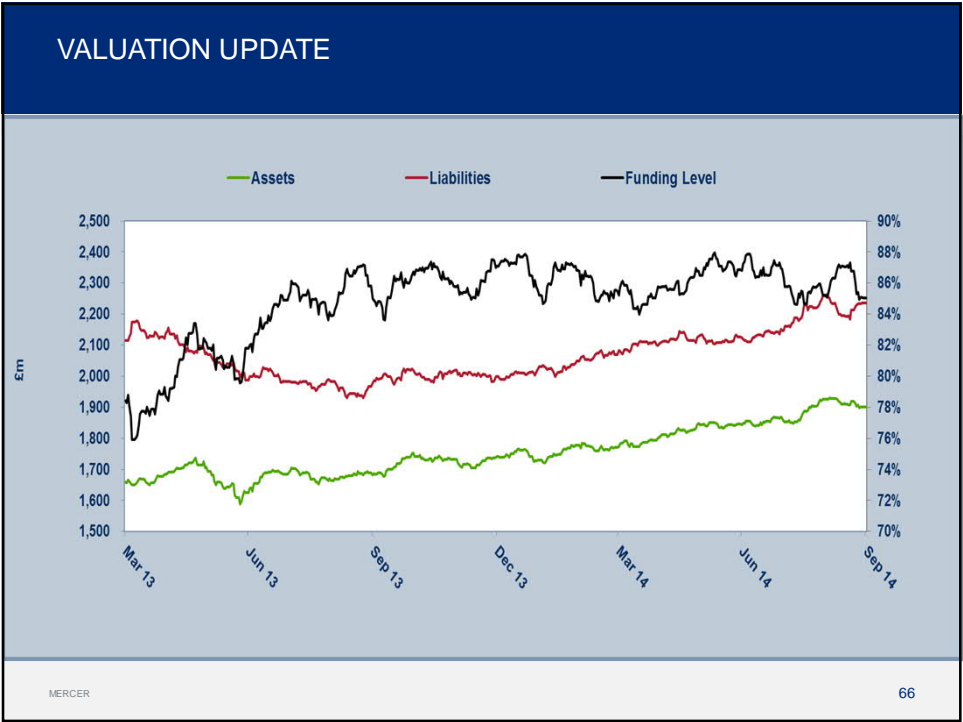
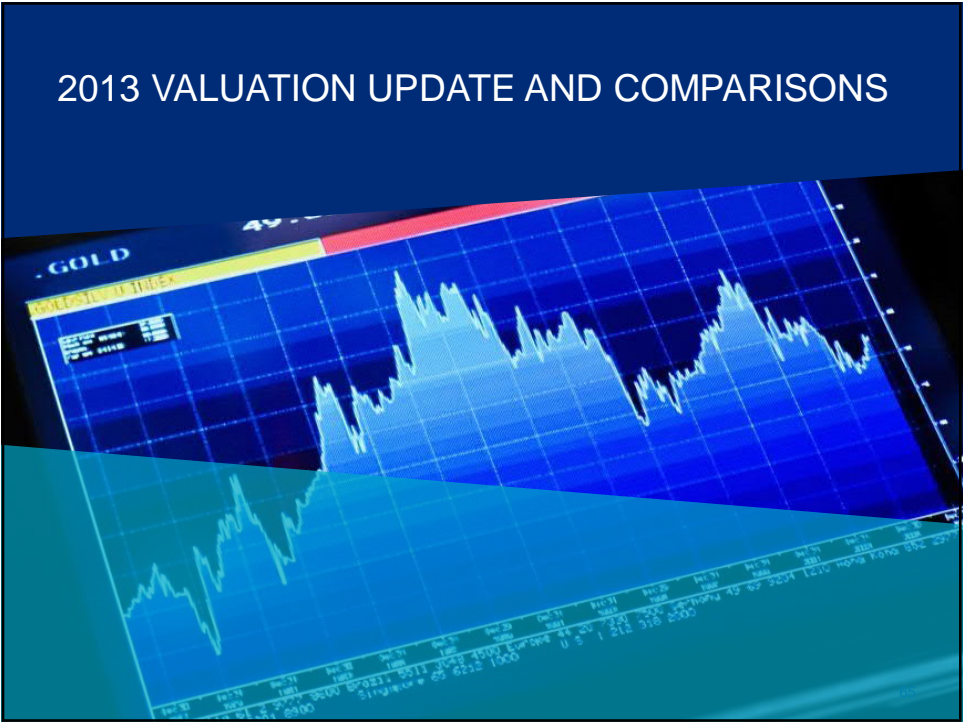
APPROACHES TO STABILISATION OF CONTRIBUTIONS

STABILISATION OF CONTRIBUTIONS

- Results declared without adjustment but contributions certified allow for stabilisation mechanisms
- Methods allowed for (dependent on covenant of employer) include:
 - Recognising known post valuation date information
 - Altering recovery periods
 - Allowing for bond yield reversion in deficit recovery plans
 - Phasing any increases in contributions
 - Allowing for 50:50 take up
- Employers also not allowed to reduce £ input vs. 2010 funding plan in general
- Employers generally faced an overall increase in contribution rate

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LGPS COMPARISONS
BEWARE THE “LEAGUE TABLES”

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LGPS COMPARISONS
PUBLISHED RESULTS

Funding Level - Published

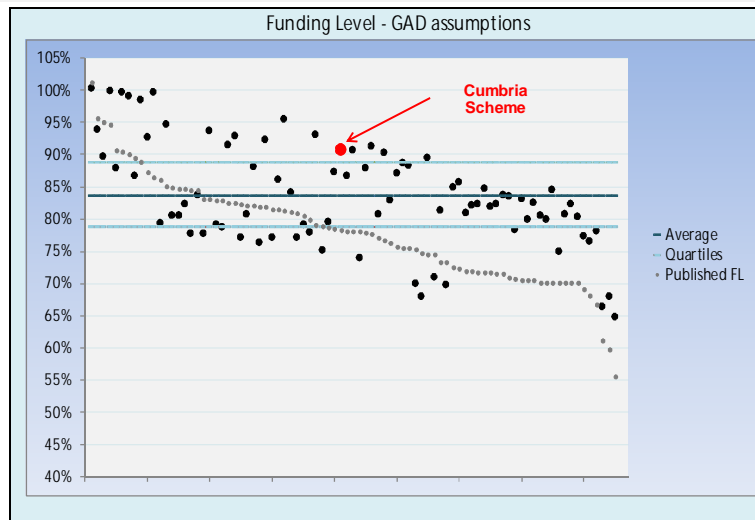
105%
100%
95%
90%
85%
80%
75%
70%
65%
60%
55%
50%
45%
40%

Cumbria Scheme

— Average
- - - Quartiles

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LGPS COMPARISONS CONSISTENT ASSUMPTIONS



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LGPS COMPARISONS KEY DIFFERENCES IN APPROACH

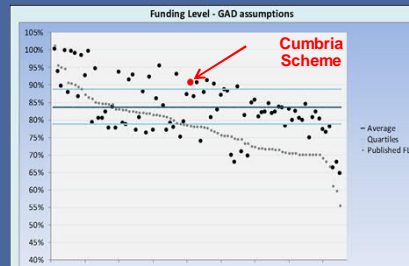
- “Market-related” vs “Economic value”
- Discount rate typically much higher using economic value method at 31/3/14
- Difference can easily be 10-15% of liabilities
- Stabilisation methods can reduce contributions impact

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LGPS COMPARISONS RISK MANAGEMENT

- All LGPS Funds exposed to markets
- Each 0.1% p.a. reduction in yields/assumed investment return increases liabilities by around 1½%
- Cumbria better placed than most to withstand impacts
- Investment strategy more risk averse than most



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LGPS – WIDER ISSUES



HEADLINES

- Deficit management – report going to Shadow Board
- Academies – ongoing discussions between DCLG/DfE
- Governance – final Regulations awaited
- Cost control – details largely known, final Regulations awaited

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COST CONTROL PRINCIPLES

- Future increases/decreases in cost shared between members/employers
- Unexpected increase causes member contributions to rise or benefits to fall (and vice versa)
- Action required if change is over 2% of pay – action possible below this level
- Affects future service costs only – existing deficits have no impact

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COST CONTROL KEY DRIVERS OF COST		
IMPACT		
HIGH	MEDIUM	LOW
<ul style="list-style-type: none"> Discount rate Long-term inflation assumption 	<ul style="list-style-type: none"> Longevity State Pension Age Long-term pay growth assumption Short-term pay experience Staff turnover 	<ul style="list-style-type: none"> Commutation Opt-outs/rejoiners 50:50 take-up Early retirement Ill-health retirement
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COST CONTROL KEY DRIVERS OF COST	
INCLUDED	EXCLUDED
<ul style="list-style-type: none"> Longevity State Pension Age Short-term pay experience Staff turnover Commutation Opt-outs/rejoiners 50:50 take-up Early retirement Ill-health retirement 	<ul style="list-style-type: none"> Discount rate Long-term inflation assumption Long-term pay growth assumption <p>Pre 2014 benefits in payment</p>
Parallel HMT/LGPS Approaches – Plenty of Scope for Confusion	
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AND FINALLY....
ANY QUESTIONS



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