

Cumbria County Council

**LGPS Performance &
Overview**

30th October 2018

Cumbria LGPS - Key Stats

- 57,000+ Scheme Members
- 127 Employers
- £2.6bn assets invested to fund future liabilities
- Out-performing investment benchmarks
- Top quartile LGPS Fund based on funding Level (i.e. assets ÷ liabilities)

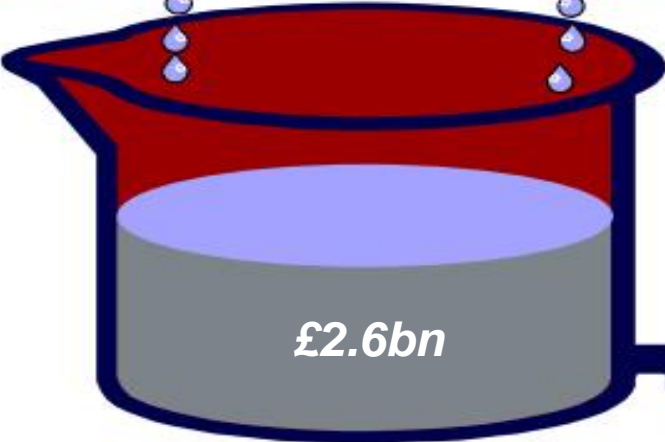


How does the LGPS Work?

*Employers &
Employees
Contributions*



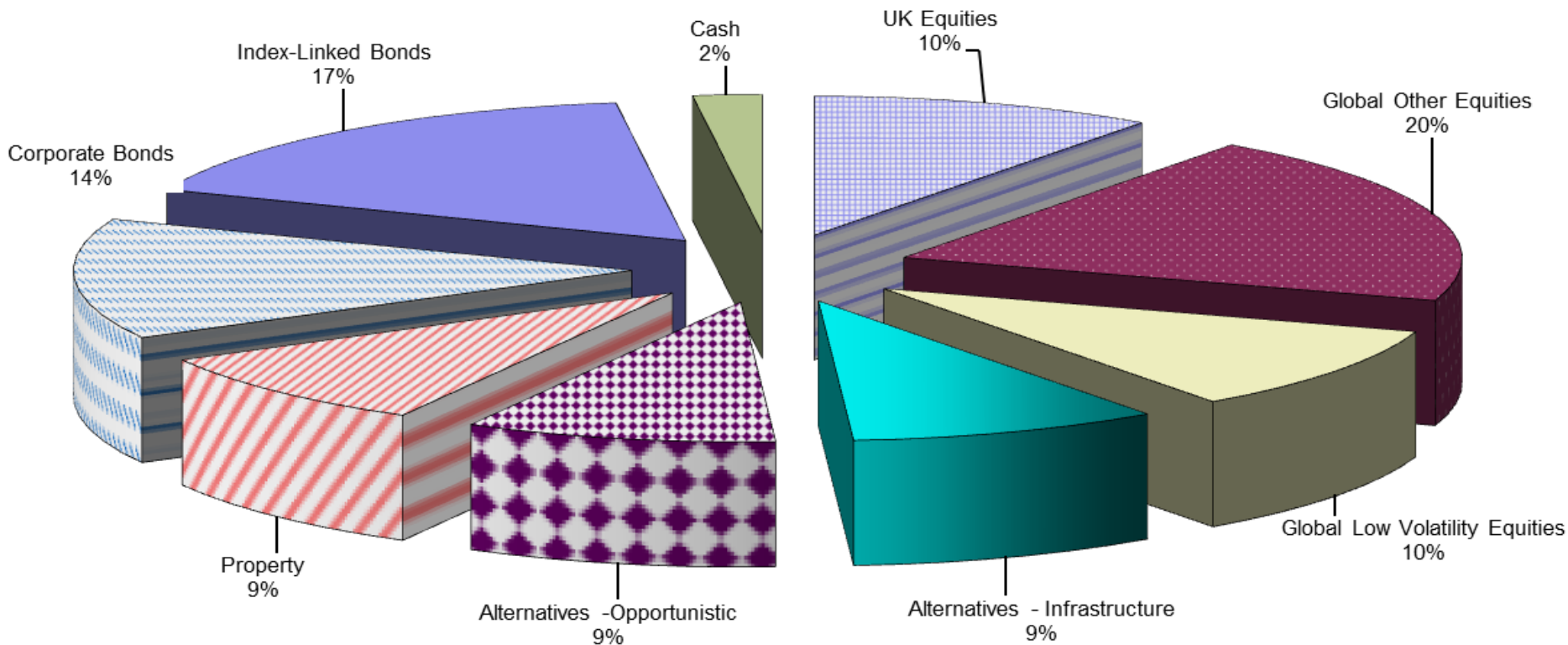
*Investment
Income*



Benefits



Investment Asset Allocation Strategy



- | | | |
|-------------------------------|------------------------------|--------------------------------|
| UK Equities | Global Other Equities | Global Low Volatility Equities |
| Alternatives - Infrastructure | Alternatives - Opportunistic | Property |
| Corporate Bonds | Index-Linked Bonds | Cash |

Market Performance



Managing Asset Performance

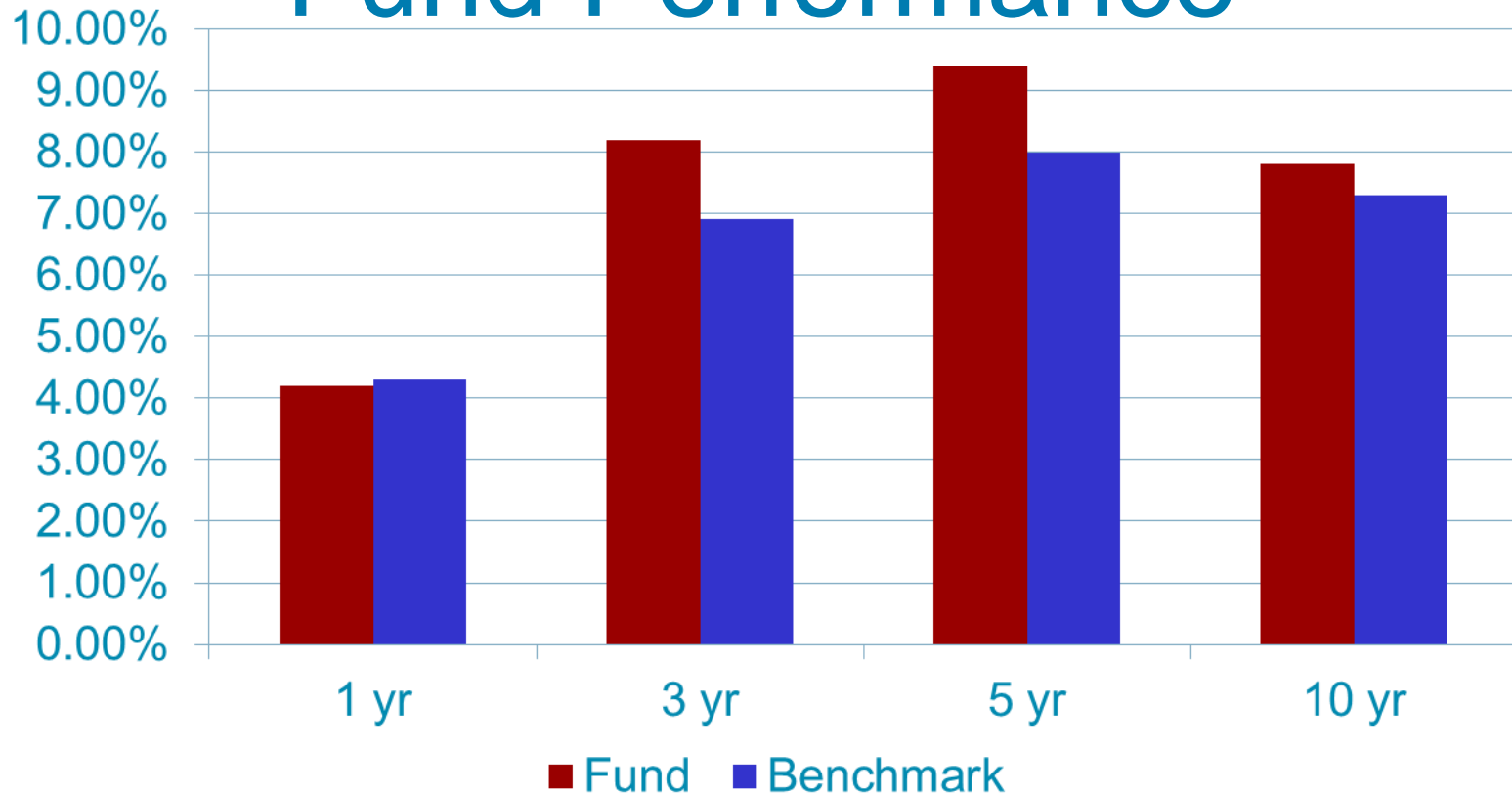
- Diverse portfolio
- Global investments
- Investment Manager performance reviews
- Scrutiny on new investments
- Equity Protection (Insurance product on equity values)

Pooling Developments

- Requirement to pool LGPS assets
- Cumbria LGPS is one of 12 partners within BCPP
- Agreement to transition 10% of portfolio into UK equity fund (c £260m) to BCPP
- No change to investment strategy
- No direct impact to employers or members

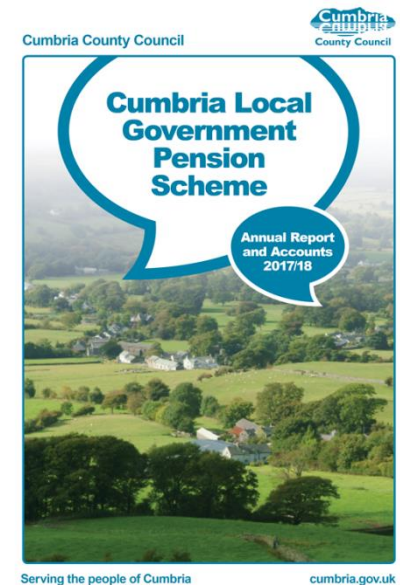


Fund Performance



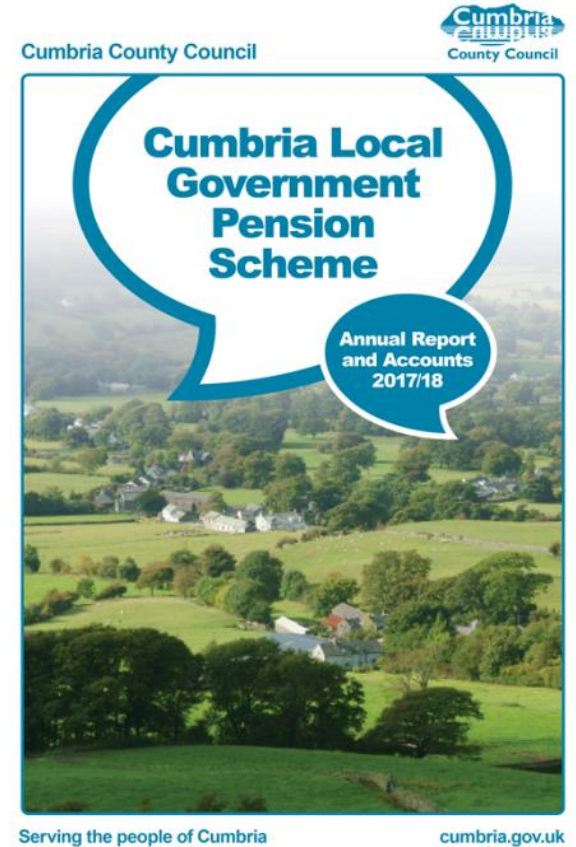
Accounts and Annual Report

- Unqualified opinion on the financial accounts of the Pension Fund
- Grant Thornton: *“The accounts have been produced to a very high standard... a good achievement in the context of a complex set of statements and the shorter closedown period”*
- No significant control weaknesses identified.



Accounts and Annual Report

- Available at:
- www.cumbria.gov.uk
- Or google “Cumbria LGPS”



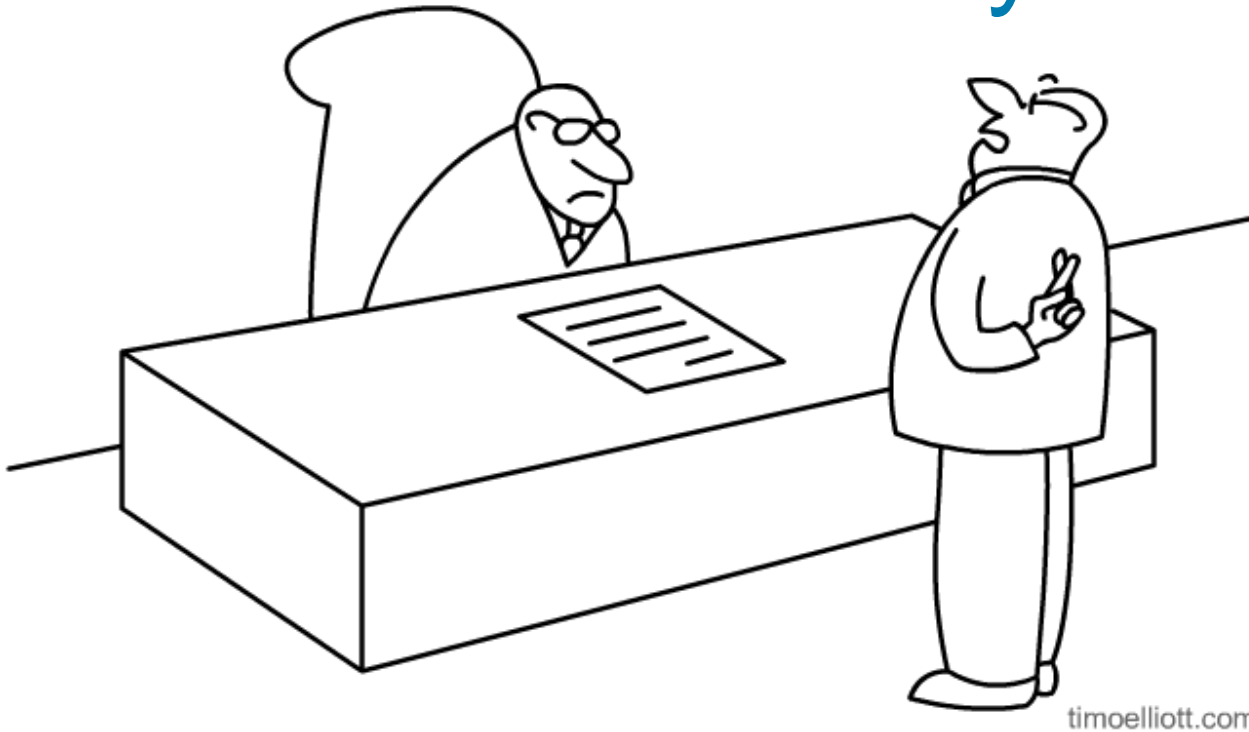
YPS Performance

- Issues with performance levels since April
- Move from geographical to skills based teams
- Robust challenge and close review by Fund
- YPS focussed attention on payments to scheme members
- Fund is closely monitoring recovery progress

YPS - Monitoring of Recovery

- Weekly / Monthly / Quarterly Meetings
- Prioritised payments to scheme members
- Clear engagement by senior management at YPS
- Attendance at Local Pension Board & Pensions Committee
- Forecast to return to pre-April performance levels by end of the year

Data Quality



timoelliott.com

"Yes sir, you can absolutely trust those numbers"

Data Quality

- GDPR requirement for accurate and up to date information for all scheme members
- Data improvement plan
- Pending leavers
- Member tracing exercise
- Financial impact for employers

Key Challenges Ahead

- YPS Performance
- Preparation for the 2019 valuation
- Data improvement
- Pension Regulator cohort review of the LGPS
- Amendments to scheme regulations
- Reviews of Academies and Tier 3 employers

Cumbria County Council

Any Questions?



Cumbria County Council
Data Quality – the role of
the Fund and Employers
Oct 2018

What's covered today?

- What is the Administration Strategy and Communications policy?
- Role of the Pension Regulator?
- Main employer responsibilities
- What is a breach of the Regulations or the Fund Policy?

What is the Policy all about?

ADMINISTRATION STRATEGY

- Liaison and communication methods with employers
- Performance levels – Admin Authority and employers
- Compliance with regulations by Admin Authority and employers
- Recovery methods of costs where there is unsatisfactory employer performance

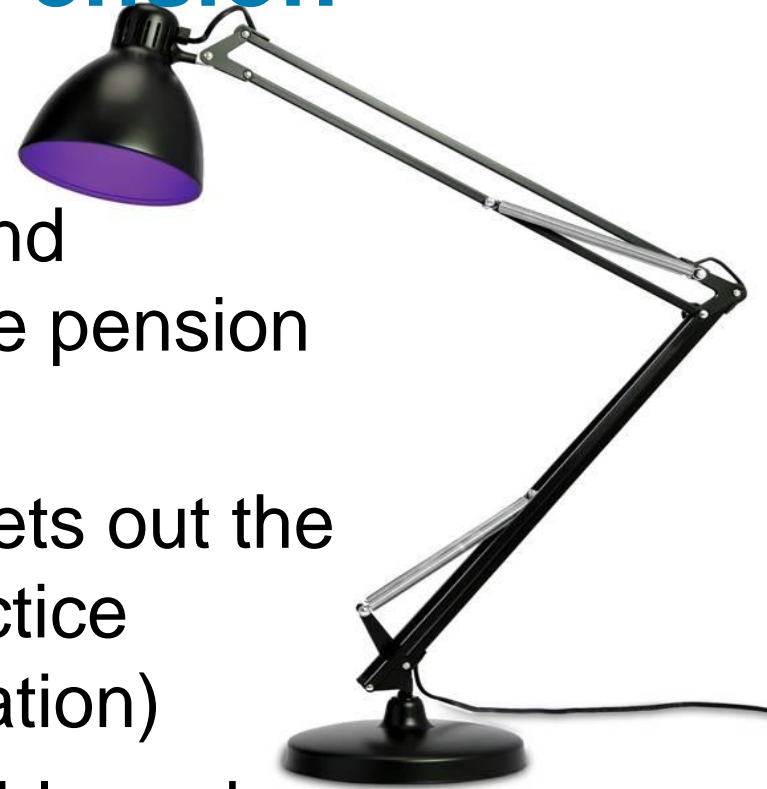
COMMUNICATIONS POLICY

- How information on Scheme is provided to members and employers
- Format, frequency and method of distributing this information
- Policy on promotion of the Scheme to prospective members and employers

The Policy is constantly reviewed

What is the Role of the Pension Regulator?

- To regulate the governance and administration of public service pension schemes, including the LGPS
- The tPr Code of Practice 14 sets out the standards of conduct and practice expected (including administration)
- The tPR aims to educate, enable and enforce



The Pension Regulator – Responsibilities of Employers

Types of Employer	Responsibilities
<p>Local government and other parts of the public sector, third sector, Academies, housing associations, colleges</p> <p>Private sector employers where staff are transferred from the public sector, eg on outsourcing contracts or eligible for access under individual scheme provisions.</p>	<ul style="list-style-type: none">• Meet employer duties related to automatic enrolment.• Pay contributions in line with requirements in scheme regulations.• Keep and provide data to scheme manager or administrator.• Report breaches to us where required.

The Pension Regulator Breaches of Regulations

Code of Practice no. 14, the Pension Regulator:

Employers and the Admin Authority (amongst others) are required to report breaches of the law to the Pension Regulator where they have reasonable cause to believe that:

- A legal duty which is relevant 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

Advice can initially be sought from the Admin Authority relating to the duty to report breaches.

Main Employer Responsibilities

**PAYMENTS TO
THE FUND**

**PROCESSING OF
DATA**

**EMPLOYER
DISCRETIONS AND
DECISIONS**

Employer responsibilities – Data Processing

Data, data, data, data, data..... (part 1)

Need to nominate a primary contact within your organisation for pension administration and authorise signatory/ies for all documents/instructions.

If you use third party payroll or HR provider please note [this does not delegate responsibility](#) for the performance of any required actions.

Regular Data Required	Frequency
Data Collection File (EPIC file) – to YPS	By 6 th of month following pay period
Monthly Remittance Advice – to Cumbria CC (Sharepoint)	By 19 th of month following pay period
Annual Contribution Return – P9A via Sharepoint	By mid April each year

Employer responsibilities

Data, data, data, data, data..... (part 2)

The monthly Data Collection File which you send to YPS by the 6th of the following month is **critical** in ensuring your employees records are accurate and up to date.

Your monthly EPIC file updates all of this member record data, and more:

New starters	Change of address	Change of hours	Change of Pensionable Pay
Employee contributions	Employer contributions	Contribution rate	Employee Additional Contributions
50/50 scheme contributions	Opt out Date	Change to contractual hours	Updates up to 62 data points each month

Employer responsibilities

Data, data, data, data, data..... (part 3)

- Employers need to respond to YPS queries on the Data Collection File within 5 working days

Other forms employers are responsible for, include:

- Employers need to provide all **new starters** with a member enrolment form and direct them to the Employee guide on the YPS website
- **Retirements** – Intention to Retire form
- **Leaver forms** – termination of contract, death in service, pending leaver exercise currently underway
- **Pension Pot adjustments** where errors have been identified by the employer

The forms can be completed as an eform within the employer section of the YPS website or printed out, completed and posted to YPS

Employer Responsibilities – Payments to the Fund

PAYMENTS TO THE FUND

Rechargeable Pension costs

- Additional pension costs for a few employers, (all old cases)
- Payable within 30 days

Pension Strain

- Actuarial strain costs of early retirement (non-ill health)
- Invoiced after retirement
- Payable within 30 days

Contributions:

- Employer - basic and lump sum deficit
- Employee - basic and additional

Payments to the Fund – Pension Contributions

Deadlines

Payment and Data must be received by:

**Admin Policy states -
19th of month following
deduction**

**Regulations state – 19th of
month following deduction
(22nd if paid electronically)**

SO IN PRACTICE WE MUST RECEIVE THE CONTRIBUTIONS BY THE 19th OF THE MONTH FOLLOWING DEDUCTION

OR **IT IS A BREACH** OF EITHER FUND POLICY AND/OR REGULATIONS

We will notify you each time you breach the Regulations or the Fund Admin Policy



Recovery of Additional Costs

- Underperformance of employers – additional costs incurred may be recovered from employers (Reg 70 LGPS 2013).
- Late Payment – interest may be recovered on late payment of contributions (Reg 71 LGPS 2013).
- New Employers – £250 is payable towards the administrative costs of admission to the Fund in addition to all actuarial fees incurred by the Fund. This includes Academies joining Multi Academy Trusts.

Employer Discretions and Decisions

- **Employer Discretions Policy*** – employers must ensure that policies are formulated, kept under review and publicised in accordance with the scheme regulations.
- **Employer Decisions** – need to be notified to the member within 10 working days and must include a statement in respect of their right of appeal

*Within the LGPS Pension Regulations employers are able to exercise discretion over some elements of the pension scheme which enable them to choose how or if they apply certain provisions.

What is the Fund doing in terms of data quality?

- Member Tracing Exercise
- Data Improvement Plan
- Pending Leavers Exercise
- Annual Practitioners Conference on 7th November at CREA, Penrith

Summary

- Data quality is your responsibility
- Good quality data = lower employer contribution rates
- Not providing timely and accurate data is a breach that may be reportable to the Pension Regulator
- Pension contributions must be paid by the 19th of the month

Where can you get further help and information?

- Employer section of the YPS website for the Employer guide and forms:

<https://www.yourpensionservice.org.uk/employers>

- YPS Helpdesk Tel: 0300 323 0260
- CLGPS documents, including Fund Policy document:

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

- The Pension Regulator:

<http://www.thepensionsregulator.gov.uk/>



HEALTH WEALTH CAREER

CUMBRIA LOCAL GOVERNMENT PENSION SCHEME

EMPLOYER FORUM 2018

30 OCTOBER 2018

John Livesey FIA

WHOLE FUND – RECAP OF 2016 VALUATION

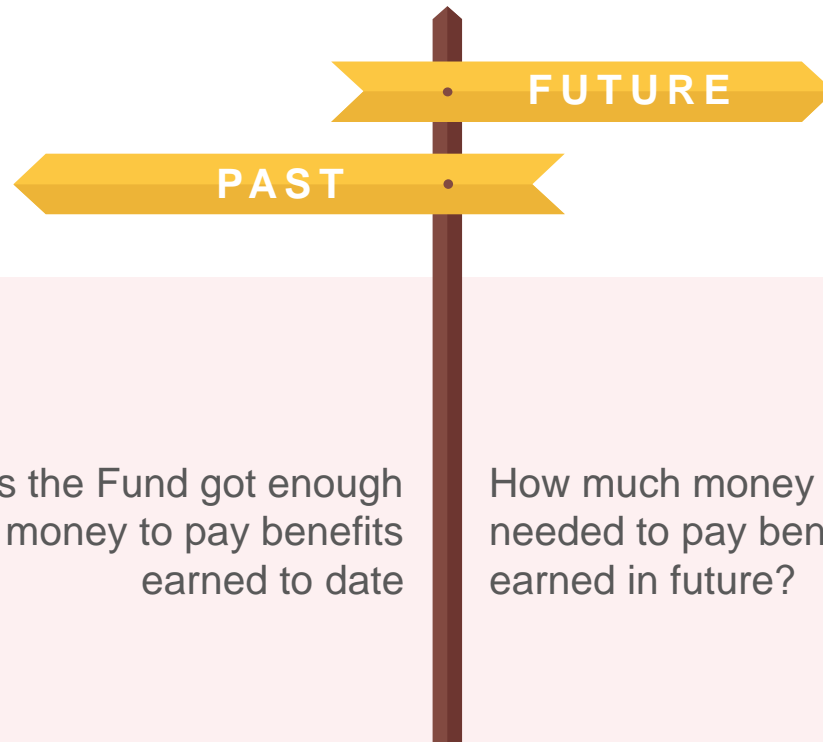


PURPOSE OF AN ACTUARIAL VALUATION

WHY DO A VALUATION?



Regulations say you have to...



Has the Fund got enough money to pay benefits earned to date

How much money is needed to pay benefits earned in future?

PURPOSE OF AN ACTUARIAL VALUATION

VALUATION OUTCOMES

PAST SERVICE BENEFITS

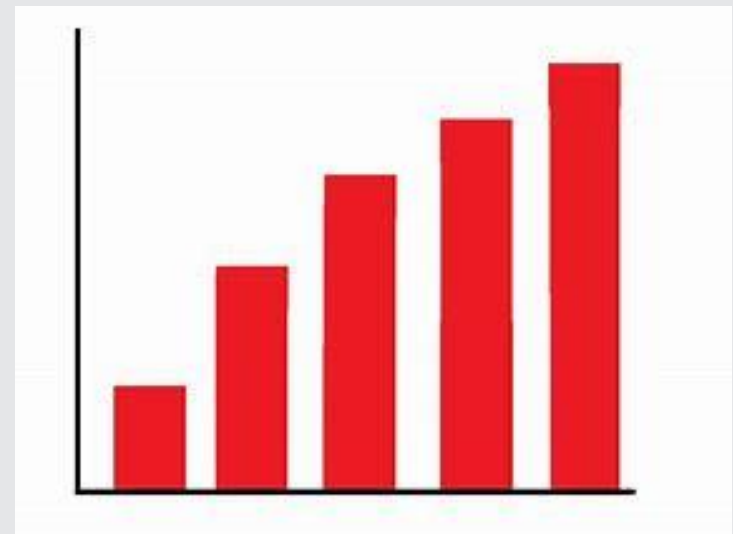


CONTRIBUTION IMPACT

Deficit spread over agreed "Recovery Period"

VARIES BY EMPLOYER

FUTURE SERVICE BENEFITS



CONTRIBUTION IMPACT

Cost of 1 year's service

"Future service contribution rate"

VARIES BY EMPLOYER

LIABILITY CALCULATIONS ASSUMPTIONS

FINANCIAL



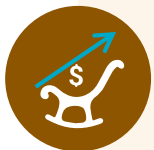
INFLATION



PAY INCREASES



CASH LUMP SUMS



**PENSION
INCREASES**

DEMOGRAPHIC



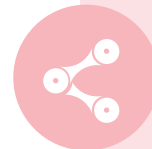
**LIFE
EXPECTANCY**



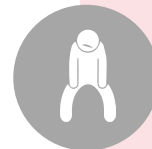
**MARITAL
STATUS**



**RETIREMENT
AGE**



LEAVERS



ILL-HEALTH

VALUATION AND FUNDING STRATEGY PRUDENCE



Optimistic assumptions
mean lower liability
values & contributions

assume 10% pa return
(discount rate) & you need
less money now



But you have a problem if
they don't happen

actual return only 5% pa -
massive hole & contribution
increases



So we are **PRUDENT**, so
less chance of a hole
developing at the wrong
time

assume 4% pa return - beat
this & contributions become
more stable

WHY DO WE DO THIS ?

Because we have to but really its to....

Protect members

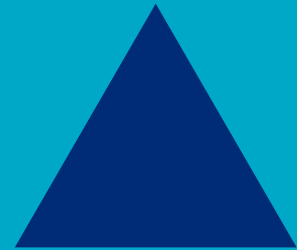
Protect current & future taxpayers

Ensure equity between employers

Protect the Fund

**Valuation is an ESTIMATE
BALANCE between COMPETING INTERESTS**

WHOLE FUND – RECAP OF 2016 VALUATION



RECAP OF 2016 VALUATION

KEY FUNDING STRATEGY PARAMETERS



Discount rates explicitly linked to real returns versus CPI
Past service = $\text{CPI} + 2.0\%$
Future service = $\text{CPI} + 2.75\%$



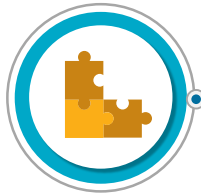
Short term pay growth – 2% p.a. for 4 years
Long term pay growth – $\text{CPI} + 1.5\%$ per annum



Demographic assumptions all based on scheme specific analysis
Mortality – includes some prudence in the future long term improvement rates
Removal of the 50/50 allowance for future costs



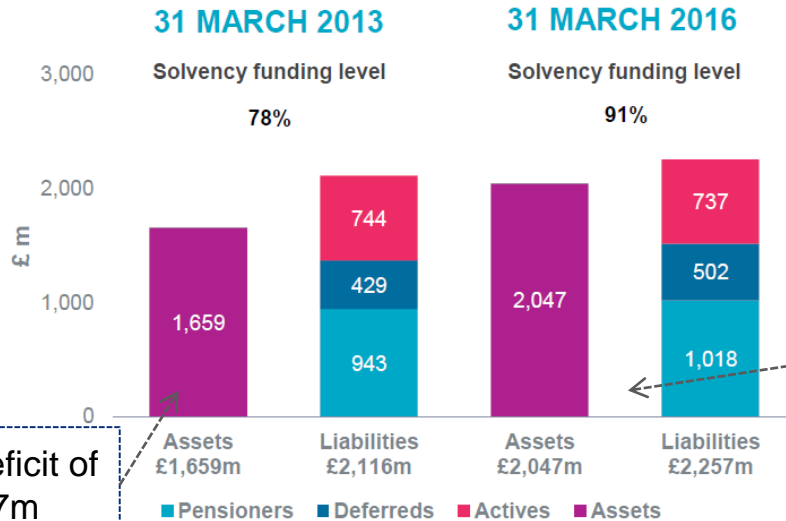
Reduced the deficit recovery period (subject to affordability)
Average of 15 years across the Fund



Employers were given the option to prepay contributions
and phase in any increases
No reductions in total contributions

RECAP OF 2016 VALUATION

FUND RESULTS AS AT 31 MARCH 2016



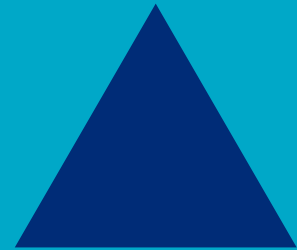
2013 Deficit of £457m

2016 Deficit of £210m
=> Deficit contributions of around 6.5% of pay overall

PRIMARY CONTRIBUTION RATE	31 March 2016
Normal Contribution rate for retirement and death benefits	21.0
Allowance for administrative expenses	0.6
Total normal contribution rate	21.6
Average member contribution rate	6.3
Primary contribution rate	15.3

Results varied significantly depending on employer circumstances

WHOLE FUND - WHAT HAS CHANGED SINCE 2016?



WHAT HAS HAPPENED SINCE 2016

KEY CONSIDERATIONS



Continuation of strong real investment returns

Equity markets have continued to drive higher than expected returns. Investment returns achieved of c24% since the last valuation to 31 March 2018.



Reduction in future expected returns

General change in expectations dependent on Fund profile, but reduction expected. Reflects a combination of updated investment strategy, market changes and updated views on return outlook.



Life expectancy trends

Latest national data from the Continuous Mortality Investigation (CMI) shows life expectancy improvements are slowing down meaning a possible reduction in liabilities. Will require more analysis for the Fund and the LGPS but consider impact of CMI 2017 data in isolation. **Final impact could be better for the Fund.**

WHAT HAS HAPPENED SINCE 2016

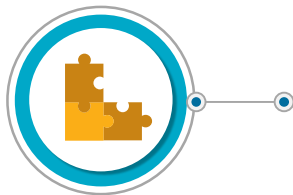
KEY CONSIDERATIONS



Public Sector Pay cap

The public sector pay cap was removed. Consider the impact of short term salary increasing by more than the 2% p.a. previously budgeted.

Future allowance would need to be agreed with each employer.



Data Quality

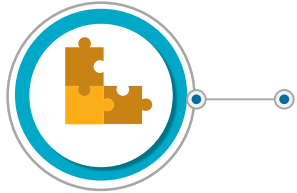
Focus on improving the quality of the Fund's data ahead of the 2019 valuation. Estimated liability impact currently being calculated for each individual employer. **Resolution of missing data could improve results.**

CONTRIBUTION OUTCOMES - CONSIDERATIONS



Materiality

As deficits reduce, deficit recovery contributions become a smaller part of the total contribution requirements. Recovery period takes on less significance.



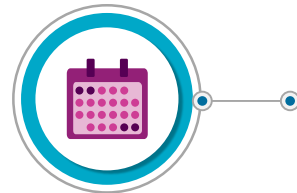
2019 Valuation?

Funding strategy and contributions (both for future and past service) will be reviewed and updated.



Budgeting / Affordability

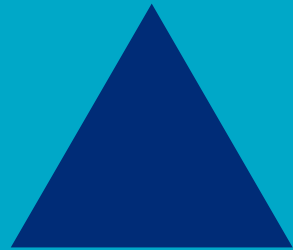
Employers and the Fund need to consider the implications for contribution rates as a whole, both immediate and longer-term.



Variability

Results for individual employers will vary significantly, depending on funding position, age profile and individual experience.

CURRENT ISSUES



AFFORDABILITY

UNFUNDED PUBLIC SECTOR SCHEMES



Increase of about 7% of pay reportedly on the way for Teachers' Scheme



Part improved benefits, part change in assumptions (mainly discount rate)



Starts September 2019 (?). Some will be funded (but how much, by whom and for how long...)



Likely to be similar issues for other schemes.



MERCER

MAKE TOMORROW, TODAY

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LGPS Update

Steven Moseley
30 October 2018

Contents

- Local Government Pension Scheme (Amendment) Regulations 2018
- 'Bits and Bobs'
- Questions

Amendment Regulations 2018

for you, for now, for the future

lgps

2014

LPP

Local Pensions Partnership

Background

- Consultation ran between 27 May 2016 and 19 August 2016.
- MHCLG responded to the consultation on 19 April 2018.
- On 19 April 2018, MHCLG laid the Local Government Pension Scheme (Amendment) Regulations 2018 before Parliament. The Regulations came into force on 14 May 2018. However, most of the changes had backdated effect to 1 April 2014.
- Some proposals not taken forward at this point (Fair deal, AVC Freedom and Choice).

APP change 1 - before

Step 1

- Pensionable pay received in relevant 3 month or, if not paid monthly, 12 week period.
- If such pensionable pay was reduced as a result of absence due to a strike or authorised absence, ignore that reduction.

Step 2

- Deduct any lump sums received.

Step 3

- Multiply to an annual figure.

Step 4

- Add on any "regular lump sums" received in last 12 months.

APP change 1 - after

Step 1

- Pensionable pay received in relevant 3 month or, if not paid monthly, 12 week period.
- If such pensionable pay was reduced as a result of absence due to a trade dispute or authorised absence, ignore that reduction.
- Employer has discretion to replace the pay with higher figure.

APP change 2 - before

Step 1

- Pensionable pay received in relevant 3 month or, if not paid monthly, 12 week period.
- If such pensionable pay was reduced as a result of absence due to a trade dispute or authorised absence, ignore that reduction.

Step 2

- Deduct any lump sums received.

Step 3

- Multiply to an annual figure.

Step 4

- Add on any “regular lump sums” received in last 12 months.

APP changes 2 – after

Returning officer pensionable fees

If 3 years or more

Returning officer fees
received in last 3 years/3

OR

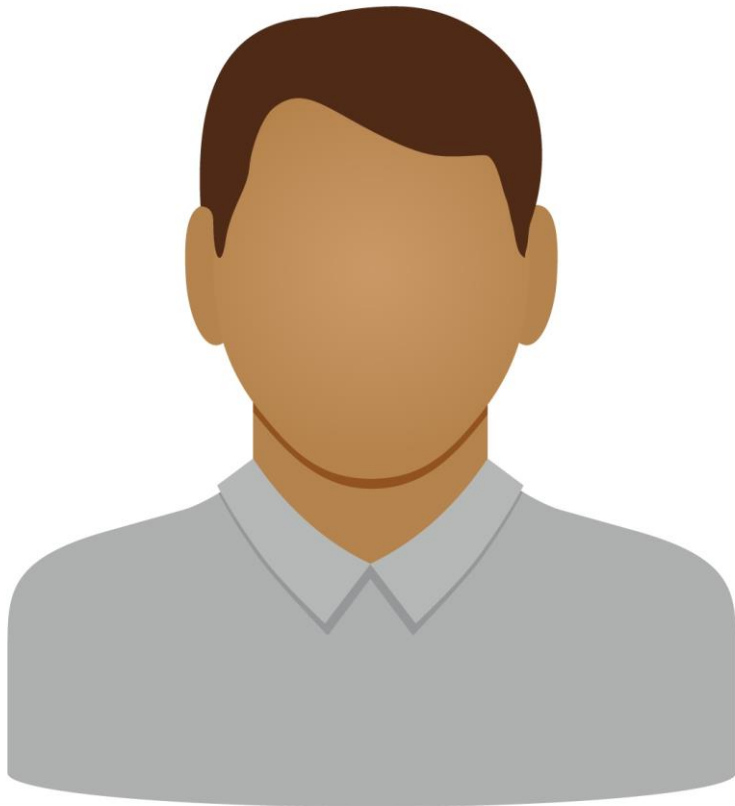
If less than 3 years

Returning officer fees
received/period of
membership

Plus

APP for other pensionable elements
(calculated as normal)

Early access



- Left after 31/03/14
- Has deferred benefits/suspended Tier 3 benefits which come into payment from SPA (or 65 if later) (can defer)
- Can draw reduced benefits between 55 – 60
- Can draw reduced benefits (probably) between 60 – SPA
- Employer has discretion in respect of reductions
- Can draw unreduced benefits from any age on ill health

Early access - before



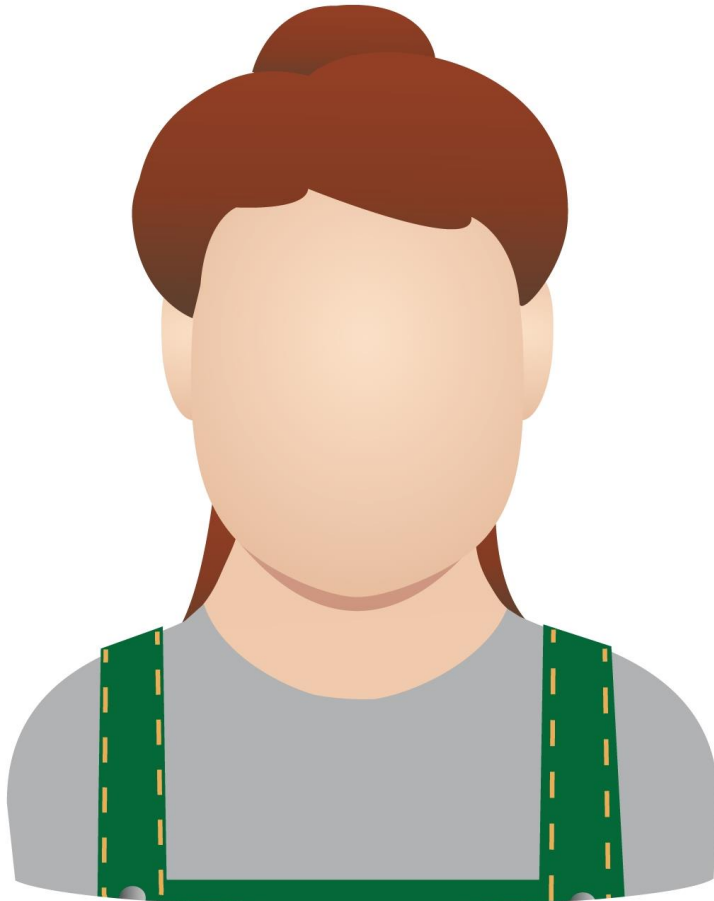
- Left before 1 April 1998
- Has deferred benefits which come into payment from his NRD
- Can draw unreduced benefits from 50 with employer's consent (compassionate grounds)
- Can draw unreduced benefits from any age on ill health
- Can draw reduced benefits between 60 and NRD

Early access – after



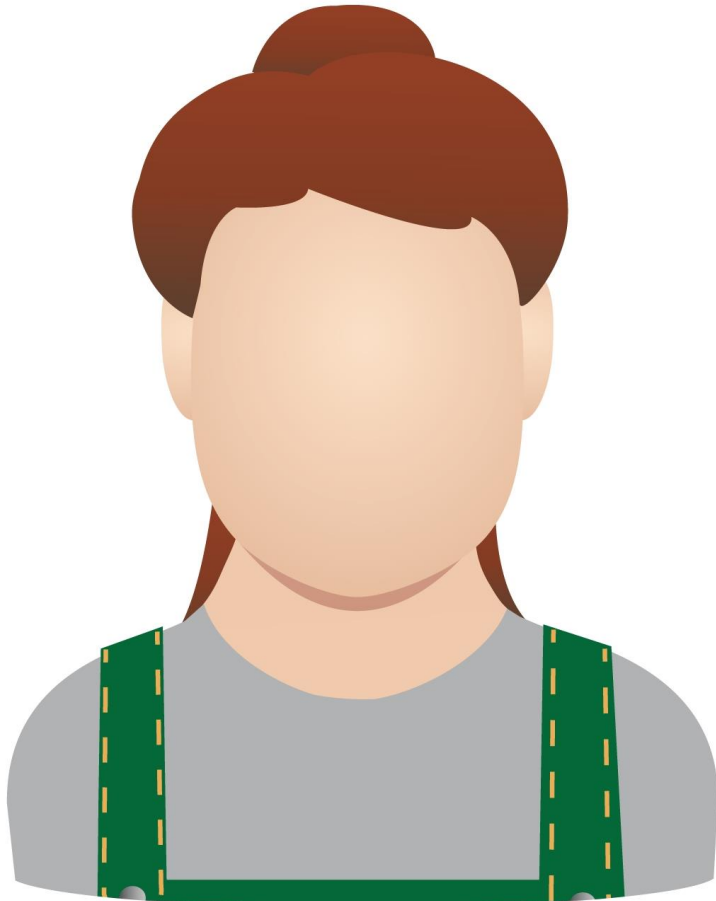
- Left before 1 April 1998
- Has deferred benefits which come into payment from his NRD
- Can draw unreduced benefits from 50 with employer's consent (compassionate grounds)
- Can draw unreduced benefits from any age on ill health
- Can draw reduced benefits between 55 and NRD

Early access - before



- Left between 1/4/98 and 31/03/08
- Has deferred benefits which come into payment from age 65 (can defer)
- Can draw reduced (probably) benefits between 50 – 60 with employer consent
- Can draw reduced benefits (probably) between 60 – 65
- Employer has discretion in respect of reductions
- Can draw unreduced benefits from any age on ill health

Early access - after



- Left between 1/4/98 and 31/03/08
- Has deferred benefits which come into payment from age 65 (can defer)
- Can draw reduced (probably) benefits between 50 – 55 with employer consent
- Can draw reduced benefits between 55 and 60
- Can draw reduced benefits (probably) between 60 – 65
- Employer has discretion in respect of reductions
- Can draw unreduced benefits from any age on ill health

Early access - before



- Left between 1/4/08 and 31/03/14
- Has deferred benefits/suspended tier 3 benefits which come into payment from age 65 (deferred members can defer)
- Can draw reduced (probably) benefits between 55 – 60 with employer consent
- Can draw reduced benefits (probably) between 60 – 65
- Employer has discretion in respect of reductions
- Can draw unreduced benefits from any age on ill health

Early access - after



- Left between 1/4/08 and 31/03/14
- Has deferred benefits/suspended Tier 3 benefits which come into payment from age 65 (deferred members can defer)
- Can draw reduced benefits between 55 – 60
- Can draw reduced benefits (probably) between 60 – 65
- Employer has discretion in respect of reductions
- Can draw unreduced benefits from any age on ill health

AVC changes - before

Old AVC Rules

Retirement Options

1. Lump sum
2. Top-up LGPS pension (not deferreds)
3. Additional membership (subject to conditions)
4. Annuity
5. Defer

Pay upon which AVCs deducted

Pre April 14 definition

Limit

50%

Death grant

Estate

Applicable to

AVCs entered into before 1 April 14 and councillors

New AVC Rules

Retirement Options

1. Lump sum
2. Top-up LGPS pension
4. Annuity
5. Can't defer (other than flex retirement)

Pay upon which AVCs deducted

Post March 14 definition

Limit

No limit

Death grant

Fund discretion

Applicable to

AVCs entered on or after 1 April 14

AVC changes - after

Old AVC Rules

Ret. Options

1. Lump sum
2. Top-up LGPS pension (not deferreds)
3. Additional membership (subject to conditions)
4. Annuity
5. Defer

Pay upon which AVCs deducted

Not applicable

Limit

Not applicable

Death grant

Estate

Applicable to

Member left before 1 April 14 and councillors

New AVC Rules

Ret. Options

1. Lump sum
2. Top-up LGPS pension
3. **Additional membership (subject to conditions)**
4. Annuity
5. Can't defer (other than flex ret)

Pay upon which AVCs deducted

Post March 14 definition

Limit

No limit

Death grant

Fund discretion

Applicable to

All others

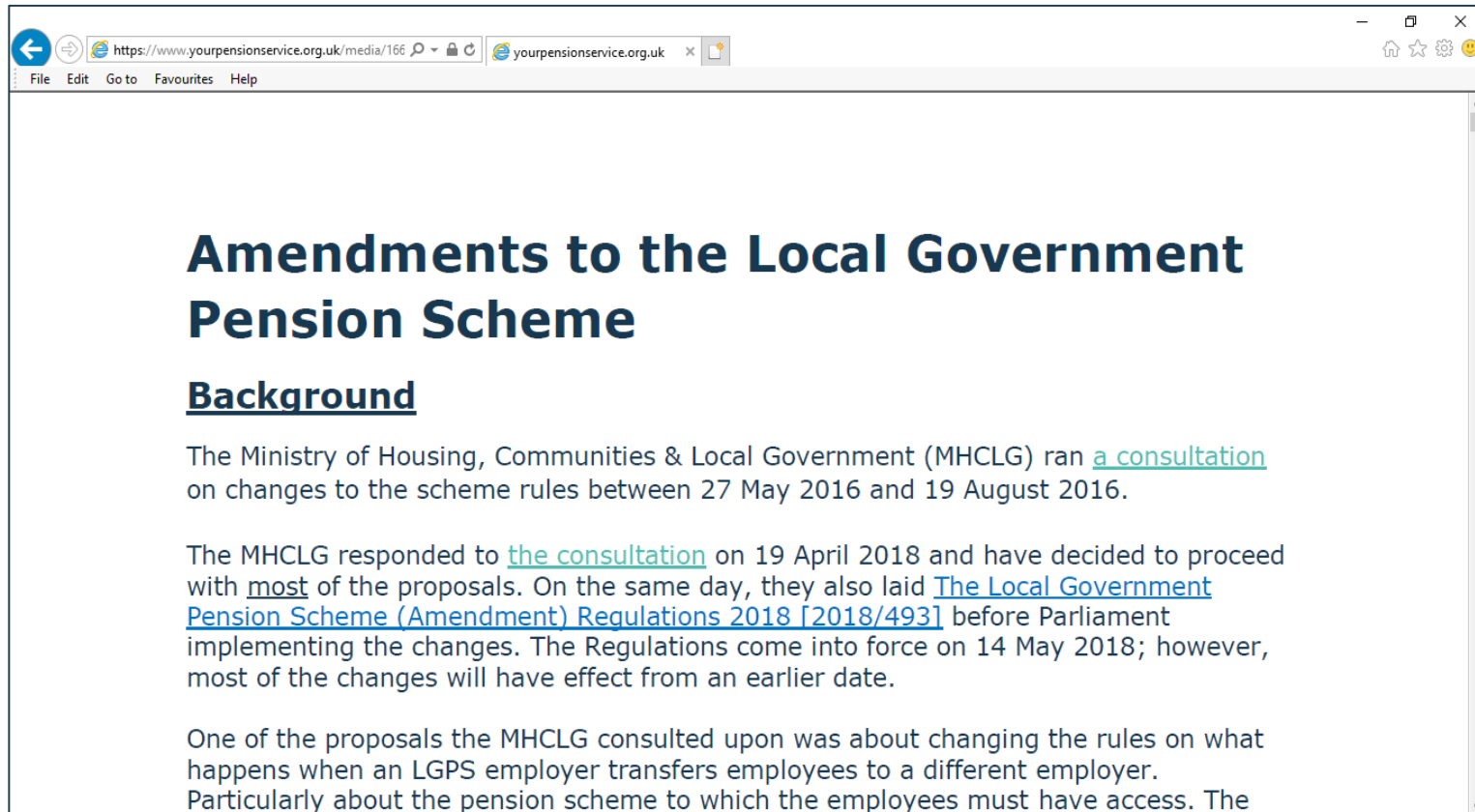
Employer actions

**Review
discretions**

**Amend APP
process and
review past cases**

**Ensure that you
are deducting
AVCs from
correct
pensionable pay**

More information



The screenshot shows a web browser window with the address bar displaying <https://www.yourpensionservice.org.uk/media/166>. The page content includes:

Amendments to the Local Government Pension Scheme

Background

The Ministry of Housing, Communities & Local Government (MHCLG) ran [a consultation](#) on changes to the scheme rules between 27 May 2016 and 19 August 2016.

The MHCLG responded to [the consultation](#) on 19 April 2018 and have decided to proceed with most of the proposals. On the same day, they also laid [The Local Government Pension Scheme \(Amendment\) Regulations 2018 \[2018/493\]](#) before Parliament implementing the changes. The Regulations come into force on 14 May 2018; however, most of the changes will have effect from an earlier date.

One of the proposals the MHCLG consulted upon was about changing the rules on what happens when an LGPS employer transfers employees to a different employer. Particularly about the pension scheme to which the employees must have access. The

<https://www.yourpensionservice.org.uk/employers>

Bits and Bobs



Bits and bobs

- Update on exit payment reforms.
- LTA (19/20) – expected to be £1,054,800.
- Annual Allowance (19/20) – expected to be £40,000.
- 2019 PI/CARE revaluation – expected to be 2.4%.

Possible 2019/20 banding table

Band	Range	Member contribution rate
1	Up to £14,400	5.5%
2	£14,401 to £22,500	5.8%
3	£22,501 to £36,500	6.5%
4	£36,501 to £46,200	6.8%
5	£46,201 to £64,600	8.5%
6	£64,601 to £91,500	9.9%
7	£91,501 to £107,700	10.5%
8	£107,701 to £161,500	11.4%
9	£161,501 or more	12.5%



Important information

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