

Summary of Pension Board members' discussion

Monday 9 September 2019, 10.00am, County Hall, Lewes

Present:

Ray Martin, Chair of the Pension Board
Cllr Carmen Appich, Member of the Pension Board
Stephen Osborn, Member of the Pension Board
Lynda Walker, Member of the Pension Board
Ian Gutsell, Chief Finance Officer
Michelle King, Interim Head of Pensions
Andrew Marson, Interim Lead Pensions Manager
Danny Simpson, Principal Auditor
Harvey Winder, Democratic Services Officer

1.1. The Chair of the Pension Board noted that, due to the fact that three members of the Board had given their apologies (Diana Pogson, Cllr Doug Oliver and Niki Polermo), the meeting of the Pension Board scheduled for 10am on 9 September was inquorate and could not go ahead.

1.2. The Chair agreed to consider the reports of the Board meeting informally with officers and those members of the Pension Board present.

1.3. A summary of the discussion between members of the Pension Board and officers is set out below.

1.4. The members present thanked Ola Owolabi for his work as Head of Pensions and wished him good luck in his new role.

Attended Training Events - Members' feedback

1.5. Lynda Walker (LW) updated the members present on a training session she had attended in London. She had the opportunity whilst there to speak with the Minister for Pensions and Financial Inclusion about the proposed £95k cap on redundancy for public sector workers. She had also requested that the slides and information provided on the day was circulated to the Board.

1.6. Michelle King (MK), Interim Head of Pensions, advised that all investment managers run free training for pension board or committee members as a way of demonstrating they have good governance arrangements in place. If members would like to have specific training on specific asset classes, such as infrastructure or private equity, this can be arranged with the appropriate investment manager. Investment managers may also provide evidence of their Environmental, Social and Governance (ESG) policies and provide tours of assets that pension funds may have invested in.

1.7. Cllr Carmen Appich (CA) asked whether other councillors who are interested in understanding how LGPS investments work could receive training. Ian Gutsell (IG), Chief Finance Officer, said that officers would consider whether this would be possible.

Pension Committee Agenda

1.8. MK explained that there had been an 8-week delay in Hymans Robertson (the appointed Actuary) completing its triennial valuation. This was due to ongoing concerns with the accuracy of data held on East Sussex Pension Fund (ESPF) members. MK said she planned to provide Hymans with data that included broad, non-material assumptions about the scheme members based on national models of scheme member demographics to fill in the current gaps. She believed that this should be sufficient for the actuary to complete its valuation by the target date ahead of the Employers' Forum on 29 November.

1.9. Stephen Osborn (SO) asked whether the quality of data held by ESPF on its members was satisfactory and sufficient for the scheme administrator to fulfil its role. Andrew Marson (AM) said that Hymans had queried data submitted to them on several occasions and the Pension Admin Team (PAT) were working to reduce the number of data errors, however, the errors in the main stemmed from a number of legacy issues. MK said that she had worked for eight local authorities and legacy errors were present in all of them, so this was not an unusual situation. She said it was important to submit the data to the Actuary with the assumptions about membership included to avoid delays whilst the PAT continues the work of improving the data in the background.

1.10. LW asked what level of accuracy the data provided to the actuary would have. MK explained that the data provided would be at least 95% accurate, which is why it is felt that the actuary can make a reasonably accurate assumption about the value of the fund and what the associated contribution rates employers will need to make over the next three years will be. This was important as high contribution rates can be damaging to some of the small employers in the Fund.

1.11. LW asked what support the PAT had available to complete the task, given the Fund was healthy enough financially to be able to recruit additional staff. IG said that three staff have been recruited to the PAT to assist during this busy period of data management. AM added that the PAT had already cleaned up a lot of data, but the Fund contained a significant legacy of poor data. He said that an evaluation of the data cleanse required on Altair would be completed by October and this would help identify where to prioritise future efforts. MK added that the pension staff needed to perform the task were difficult to recruit due to the public sector pay scales compared to the current salaries paid for skilled pension administrators. LW suggested that late data fees could be levied on employers who fail to provide data on time that could then be used to fund additional resources for the PAT.

1.12. The Chair asked for confirmation whether employers would know their contribution rates by the 29 November. IG confirmed the employers would know their new contribution rates in advance of the Employers' Forum.

Pension Administration Updates

1.13. The Chair asked how employers provide data to the Fund for the Annual Benefit Statement (ABS). AM said that the majority provided it electronically on a spreadsheet, which was sometimes an output of their own payroll system. It was not always presented in a consistent manner, but the PAT can work with it. A small number of employers still send in data on paper, but this was rare. AM also explained that the PAT were looking at whether employers could supply data electronically on a monthly basis through an interface provided by Altair.

1.14. The Chair agreed that the PAT had worked hard to produce over 98% of the ABS and that a small number of employers appeared to be to blame for the failure to provide ABS to 100% of active Fund members. He commented that the question for the future was how to get them to provide more accurate data in a timely manner. The Chair observed that the Board members could perform an important role in influencing employers here and it was unfortunate that officers had not approached them earlier in the year to ask for assistance.

1.15. IG said that the Chair of the Pension Committee is keen for the fund to engage with employers more and for them to understand their responsibilities for providing timely and accurate data to the Fund and the consequences if they did not do so

1.16. The Chair noted that 90% of the late returns were from five employers and wondered whether in future more should be done to 'name and shame', but not necessarily in the first instance, those who fail to provide data, as they are not currently penalised in any way.

1.17. SO asked whether more could be done by senior officials in the employer organisations to ensure the deadlines were met. AM agreed that it would be worth exploring as it is not clear these duties around providing data on employees to the Fund were widely understood amongst those in the organisation who may be able to ensure they are prioritised. SO said he was happy to assist with ensuring the University of Brighton met the deadline. LW said that she could contact employees she knew in some of the employers, particularly the schools and colleges.

1.18. LW added that restructures in many of the employers in recent years would probably have affected their organisational knowledge of dealing with their responsibilities as Fund members.

1.19. SO suggested personal visits by the PAT to the worst offenders may also help, rather than rely on email communications.

1.20. AM said that the outstanding queries that led to the missing of the ABS target were those that could still not be resolved after PAT had tried for several months. The quality of the data submitted by the April deadline had been much poorer and the PAT had done much to improve it. SO said it would help to see details of the initial submissions from employers to know who to prioritise in future and where the issues are occurring.

1.21. Members of the Board commented that issuing 98% of ABS seemed like a pretty good result. The Chair said that the breach was classified as amber, and so it was unclear whether there was a duty to report it to the Pensions Regulator (tPR) or not. However, individual Board members could still do so even if the Board as a whole decided not to. He observed that the tPR would be unlikely to sanction the Fund, due to the small number of missed statements, as long as there was an action plan in place to issue the outstanding statements in a reasonable period. The Chair also suggested that any report to the tPR could explain that the breach was the result of employers failing to comply with the administering authority.

1.22. The Chair said that a further report in November will be provided to the Board containing the action plan for providing outstanding ABS and details of whether the 258 employees should have received an ABS; as well as whether the discrepancy between the number of Active members listed in the Funds' Statement of Accounts (23,646) and the number who were believed to be eligible for an ABS (21,574) meant that additional members had not received an ABS.

1.23. CA asked why there was a discrepancy between the two figures. MK explained that this was due to the different dates during the year that the two numbers were compiled, with the higher figure being compiled on 31 March and the ABS issued on 31 August. Not all of the 23k would have needed an ABS, as some would have been new starters who had not yet been with their employer for a year, and others would have either left or frozen their membership of the Fund between the two dates.

1.24. CA asked why an ABS is not produced for deferred members listed as 'gone away'. AM explained that this was because these were deferred members whose previous known address is known to be wrong. Sending an ABS to this address would be a breach of GDPR on the grounds of knowingly sending data to an incorrect address. He said an exercise is being conducted this month to compare the addresses of these 11,000 gone away members details with other databases that may reveal their current address. This was in addition to an ongoing process of trying to track down deferred members as they approach retirement age. He added that next year will be the final year a paper ABS is provided and over time the number of 'gone aways' would reduce as more people use the online ABS system.

1.25. The Chair clarified that there is no obligation to provide an ABS to deferred members and many pension schemes do not provide one for their deferred members, and others only do so every five years. In this sense, the Fund was offering an enhanced service to deferred members. He also believed that it was not a particular issue, as these people would seek out the ESPF once their pensions were due. Furthermore, their entitlement would only need to be adjusted for inflation and not for additional contributions.

1.26. CA asked whether many of the deferred members would have died. The Chair said it was unlikely as a deferred member's estate or family will usually get in contact, and it was much more likely these were members who have moved address and not informed PAT.

1.27. The Chair asked why there were a high number of employer estimates provided by the PAT during April and May. AM explained that these are requested in high numbers during restructures. The PAT will provide them, but it can have a knock-on effect on other services they provide.

1.28. LW asked whether there was an easier way of providing them. AM said that in the long-term employers will be able to do it online.

1.29. The Chair noted that the Guaranteed Minimum Pension (GMP) Reconciliation tolerance of a difference of £2 per week would mean the Government is allowing a discrepancy of a pension up to £104 per annum to remain which could have a value of up to £3,000 or so over the retirement of a member. AM said that this was the de facto tolerance rate in both public and private pension schemes, not just the LGPS.

Pension Fund Policies and Strategies - Governance Compliance Statement

1.30. The Board members suggested some changes to the Governance Compliance Statement, including a few grammar and spelling mistakes, as well as amending the ACCESS diagram on paragraph 31 to make it easier to understand by focussing on the ACCESS pool and not so much on outside organisations.

1.31. The Board members asked that the briefings from the bi-monthly meeting of the Fund's Treasurer and East Sussex Financial Officers Association be circulated to the Board.

1.32. The Board members also asked that, given that today's meeting was inquorate, a report to the Governance Committee should be made to reduce the quorum of the Board to three voting members including at least one employee or employer representative.

Pension Fund Policies and Strategies - Statement of Investment Beliefs

1.33. The Board members agreed that the belief relating to ESG issues seemed appropriate.

1.34. The Board members suggested for the Pension Committee to consider, in addition to a few grammar and spelling mistakes, some changes to the Statement of Investment Beliefs be made:

- Reflect under the belief "fees and costs matter" that indirect costs such as market impact can be significant and should also be considered
- Include under the belief "Passive Management has a role to play under the Fund's structure" include that for certain asset classes it is hard to find active managers who will outperform the market and that in these situations passive managers should be used.
- Add to the work programme of the Pension Committee the future meeting dates when carbon measurement report will be considered, to ensure that it is actively monitored.

Pension Fund Policies and Strategies – Communications Policy

1.35. The Board members agreed to postpone this discussion until the next meeting. They also recommended that the draft is worked on in consultation with the Chair prior to the next meeting and circulated to the Board for comment prior to the publication of the agenda.

Local Government Pension Scheme (LGPS) Regulatory Update

1.36. Board members supported the Fund's position on adding an interim actuarial valuation of the Fund in the event that triennial valuations are made every four years. They also agreed with the comments made to the Ministry of Housing, Communities and Local Government (MHCLG) consultation on the lack of risk sharing when employers in surplus opt to leave a LGPS, and the decision to put exit credits on hold until this is resolved.

1.37. LW asked whether there has been an update on the McCloud judgement. IG said that the Government has not been allowed to appeal the judgement, so the Scheme Advisory Board, Treasury and MHCLG are in discussions about what to do next. The impact had been to delay 210 of the 400 local authorities' final accounts due to uncertainty with their potential liabilities.

General update

1.38. MK explained that it was not clear why the outturn for pension employer and employee contributions had been so much higher, or why pensions lump sums paid were so much lower. Additional detail will be provided for future meetings if this trend continues. The Chair observed that as employer and employee figures had increased at the same ratio that it was likely it was because more staff were being employed than expected.

1.39. The following changes were made to the Board's agenda:

Addition of:

- A report on the ABS breach, including discussion of how the Board wishes to monitor the next ABS process
- A report on the Draft Communications Policy

Removal of:

- Cessation Policy (annual report)
- Pension Fund Policies – Discretionary Policy Statement
- Pensions Administration Strategy Statement (Annual Review)

The merger of the Funding Strategy Statement and Review of Triennial Valuation Process

The amendment of the Review Pension Administration processes and SLAs to only include benchmarking of KPIs within the Orbis cohort of pension funds.

Pension Fund Risk register

1.40. CA asked what the new risk on sub-fund implementation meant. MK explained that this related to ongoing discussions around creating sub-funds in ACCESS and whether Northern Trust, the custodian, would be able to transfer assets to sub-funds in a frictionless manner to avoid individual LGPS incurring transaction costs.

Work programme

1.41. Board members noted the work programme.

Local Government Pension Scheme (LGPS) Pooling - ACCESS update

1.42. The Board members noted the exempt LGPS ACCESS update.