Haringey Council

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| **Report for:** | Pensions Committee 23rd June 2014 | **Item number** | |

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| **Title:** | Pension Fund – Review of Prior Year Activity |

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| **Report authorised by :** | Assistant Director – Finance (CFO) |

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| **Lead Officer:** | George Bruce, Head of Finance – Treasury & Pensions<br>George.bruce@haringey.gov.uk<br>020 8489 8621 |

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| **Ward(s) affected:** N/A | **Report for** Non Key Decision |

## 1. Describe the issue under consideration

1.1 The purpose of the paper is to summarise the pension's activity undertaken by the Corporate Committee in 2013/14 and highlight outstanding issues brought forward to the current year.

## 2. Cabinet Member Introduction

2.1 Not applicable.

## 3. Recommendations

3.1 The Committee is invited to note the pensions issues discussed in the last twelve months and in particular those items carried forward into next years work plan.

## 4. Other options considered

4.1 None.

## 5. Background information

5.1 The Pensions Committee has assumed responsibilities previously allocated to the Corporate Committee. With the change in committee membership there is likely to be a knowledge gap on pension matters recently discussed by the Corporate Committee. This note briefly summarises activity in the last twelve months, highlighting outcomes and actions carried forward.

## 6. Comments of the Chief Finance Officer & financial implications

6.1 The report highlights the major pension fund developments over the last twelve months and those aspects carried forward. There are no specific financial considerations.

## 7. Assistant Director of Corporate Governance comments and Legal Implications

7.1 The Council as administering authority for the Haringey Pension Fund has the power to invest fund monies as set out in Local Government Pension Scheme (Management and Investment Funds) Regulations 2009.

7.2 There are no legal issues within the paper.

## 8. Equalities and Community Cohesion Comments

8.1 Not applicable.

## 9. Head of Procurement Comments

9.1 Not applicable.

## 10. Policy Implications

10.1 None.

## 11. Use of Appendices

Appendix 1: Strategic Asset Allocation

## 12 Local Government (Access to Information) Act 1985

12.1 Not applicable.

Haringey Council

## 13. Employer Issues

Actuarial Valuation

13.1 The Council's actuary, Hymans Robertson, completed the tri-annual actuarial valuation of the fund as at 31st March 2013. The purpose of the valuation is to determine the level of employer contributions payable in the three years from 1st April 2014.

13.2 The Actuary determined that at the whole scheme level the fund had an excess of liabilities (future pension promises) over assets of £370 million, representing a funding level of 70%. Contribution levels are determined separately for each individual employer. For example, the Council's rate will increase by 2% from 22.9% to 24.9% in the three years to 31st March 2017. The deficit will be addressed through anticipated investment returns and deficit contributions from employers.

13.3 The pension administration team monitor that employers' pay the new contribution rates.

13.4 The Actuary has estimated the funding level and deficit as at 30th April 2014 and this has improved with an estimated deficit of £328 million (73.4%funding level) as a consequence of rising equity markets.

13.5 The funding strategy statement was updated to reflect the revised assumptions used in the valuation and following consultation with employers. This document is normally updated every three years.

Changes in Employer Make up

13.6 There was an increase of 2 to 43 in the number of employers contributing to the fund during the year. The scheme has 20,094 members (6,168 active, 7,212 deferred and 6,714 pensioners).

## 14. Member Issues

14.1 The benefit structure for future service changed from a final salary scheme to a career average scheme from 1st April 2014. Across all LGPS funds career average based pensions are expected to be a less costly (therefore less generous) benefit structure, although the position for each member will depend on age and salary progression. Similarly, most, but not all employers will save as a consequence of the new benefit structure. The benefit structure changes have significant implications for the record keeping obligations of the Council and will complicate the calculation of benefits. Associated changes include the introduction of a reduced pension entitlement in exchange for lower member contributions (50/50 option).

Haringey Council

14.2 Member contributions for high earners have also increased from April 2014.

14.3 The Council's date to implement auto-enrolment was March 2013. These rules require that all employees who have not previously joined the pension scheme must be brought in but then have the opportunity to opt out. The process is repeated every three years for any non joiners. The Council (as an employer) opted to defer the introduction of auto-enrolment for existing staff until June 2017 under transition provisions. However, all new recruits and any member of staff who has a change of role, is immediately subject to auto-enrolment. Again, this is a significant administrative challenge.

**15. Investment Strategy and Fund Managers**

15.1 In conjunction with the actuarial valuation, the Corporate Committee reviewed the allocations to individual asset classes (equities, bonds etc). The purpose of the review was to identify a balance of assets that was likely to generate sufficient returns to address the funding level deficit (see 13.2) and avoid unnecessary risk that the funding level would deteriorate.

15.2 The revised strategy is summarised in appendix 1. The allocation to equities was initially reduced by 10% and with the creation of new allocations to infrastructure debt and multi-sector credit.

15.3 The Corporate Committee agreed to appoint two new fund managers, each to be awarded mandates valued at £45 million. These are:

Allianz – infrastructure debt.
CQS – multi sector credit

15.4 Discussions are underway with both managers on the legal documents to be signed and it is anticipated that this will be finalised by the end of June. The CQS mandate will be funded soon after signature but Allianz will take 12-18 months to be fully invested as Allianz seeks suitable investment opportunities.

15.5 The Corporate Committee also discussed a reduction in the index linked portfolio from 15% to 10% through a move to a leveraged index linked fund. This would allow a doubling of the CQS mandate from £45 million to £90 million. Concerns on the structure of the leveraged fund resulted in this decision being deferred and it will be brought forward in 2014-15.

Haringey Council

15.6 The other main change to the investment portfolio was to increase the investment in the property portfolio by £35 million. The target allocation to property remained 10%, but the actual allocation has fallen to under 7%. The Corporate Committee decided to revert to the benchmark allocation to be funded by a reduction in the actual (not the strategic) allocation to equities.

15.7 So far an additional £17 million has been invested in property. Cash is made available to the manager, CBRE, as they identify suitable opportunities, which is expected to take a further 3-6 months.

15.8 The Statement of Investment Principles has been updated to reflect the above changes in investment policy.

**16. Collective Investment Vehicle**

16.1 The Government initiated a debate on the structure of the local government pension schemes suggesting that there were too many funds and that amalgamation would save costs, lead to wider investment opportunities and possibly improve returns through better governance. In response to these proposals, London Council's through the Leaders Committee and Society of London Treasurers agreed to set up a vehicle for collective investment management. Haringey supported this initiative by contributing £25,000 towards the set up / investigation costs and purchasing £1 share capital. Almost all London council's have similarly agreed to initially support the establishment of the Collective Investment vehicle (CIV). It is anticipated that the establishment formalities will be completed Q1, 2015 at which point Haringey will have the opportunity to invest some of its fund through the CIV on a voluntary basis.

16.2 The government has reflected on the responses for the call for evidence on LGPS structures and has issued a consultation document, which is a separate paper on the agenda.

Haringey Council

Appendix 1

## Strategic Asset Allocation

| Asset class | Benchmark % | | Range % |
|---|---|---|---|
| UK Equities | | 15 | 12-18% |
| Overseas Equities | | 45 | 40-50% |
| North America | 21.7 | | |
| Europe ex UK | 7.4 | | |
| Pacific ex Japan | 3.4 | | |
| Japan | 3.5 | | |
| Emerging Markets | 9 | | |
| UK Index linked gilts | | 15 | 12-18% |
| Property | | 10 | 6-12% |
| Multi Sector Credit | | 5 | 4-6% |
| Infrastructure Debt | | 5 | 4-6% |
| Private Equity | | 5 | 4-6% |
| Cash | | 0 | 0-10% |