

Cumbria County Council

**Cumbria LGPS
Pensions Forum**

11th November 2021

Cumbria County Council

Welcome

Ali Clark Senior
Manager – Pensions
(deputy s151 Officer)

Housekeeping



Toilets



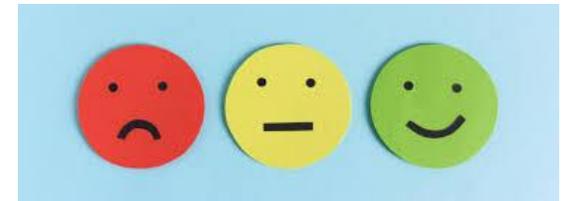
Mobile Phones



Fire Alarms



Two minute silence



Feedback

Agenda

09:45	<i>Registration & refreshments</i>	
10:00	Informal Welcome	Ali Clark
10.05	1. Election of Chair	Anthony Farrar
10.10	2. Terms of Reference 3. Membership 4. Apologies for absence 5. Minutes of previous Forum (21 November 2019)	Chair
10.15	6. Pensions Investment Overview and Performance	Ali Clark
10:30	7. Pensions Administration Overview	Pete George
10:45	8. Triennial Actuarial Valuation 2022	Mercer Ltd
11:15	9. LGPS Administration – update	Ally McGuinness
11:35	10. Date of next meeting and close	Chair

Cumbria County Council
Election of Chair

Anthony
Farrar –
Democratic
Services

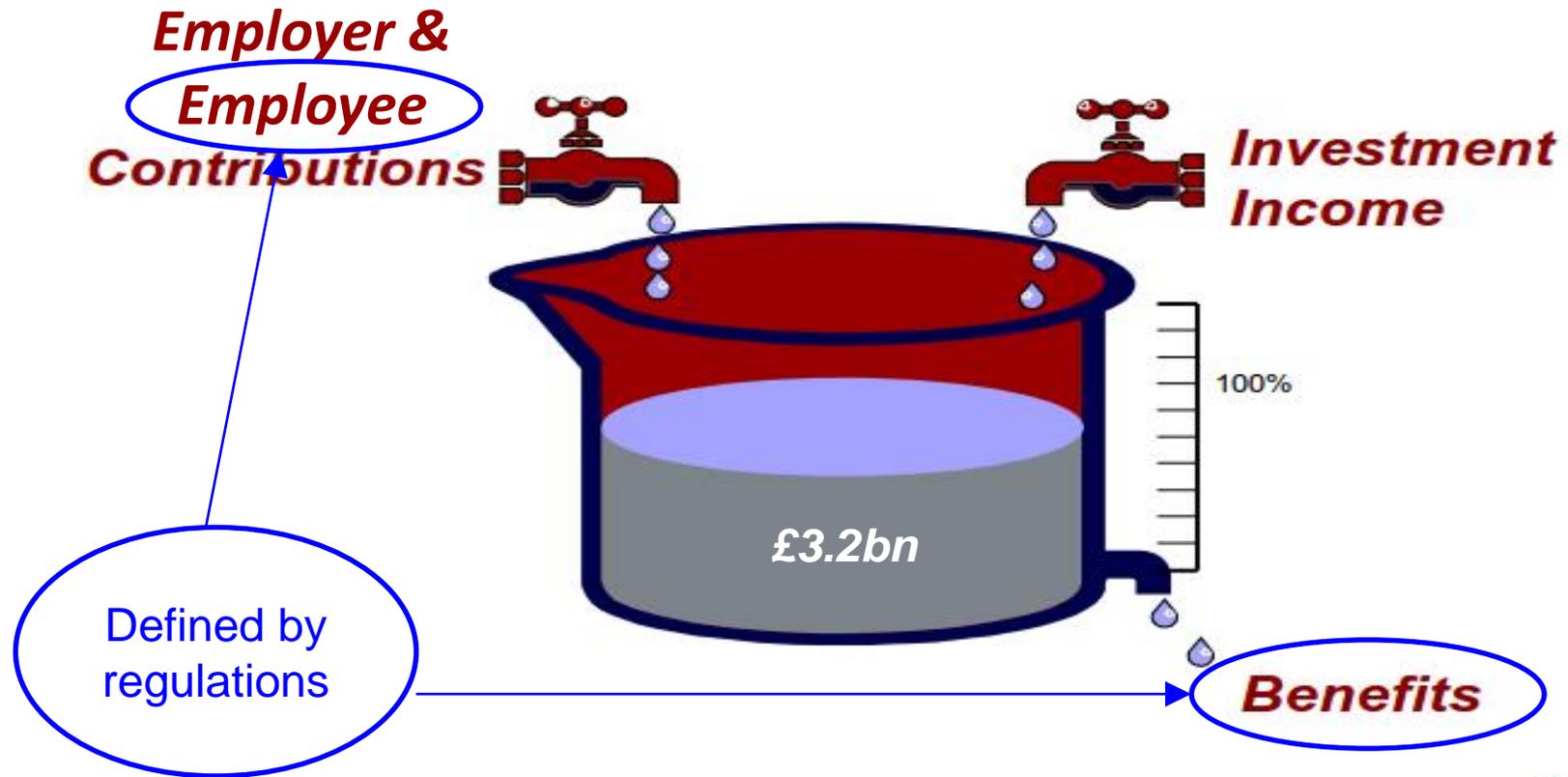
Cumbria County Council

- 2. Terms of Reference**
- 3. Membership**
- 4. Apologies for Absence**
- 5. Minutes of previous meeting**

Cumbria County Council
**Pensions Investment
Overview & Performance**

Ali Clark –
Senior
Manager

Reminder - how does the LGPS work?



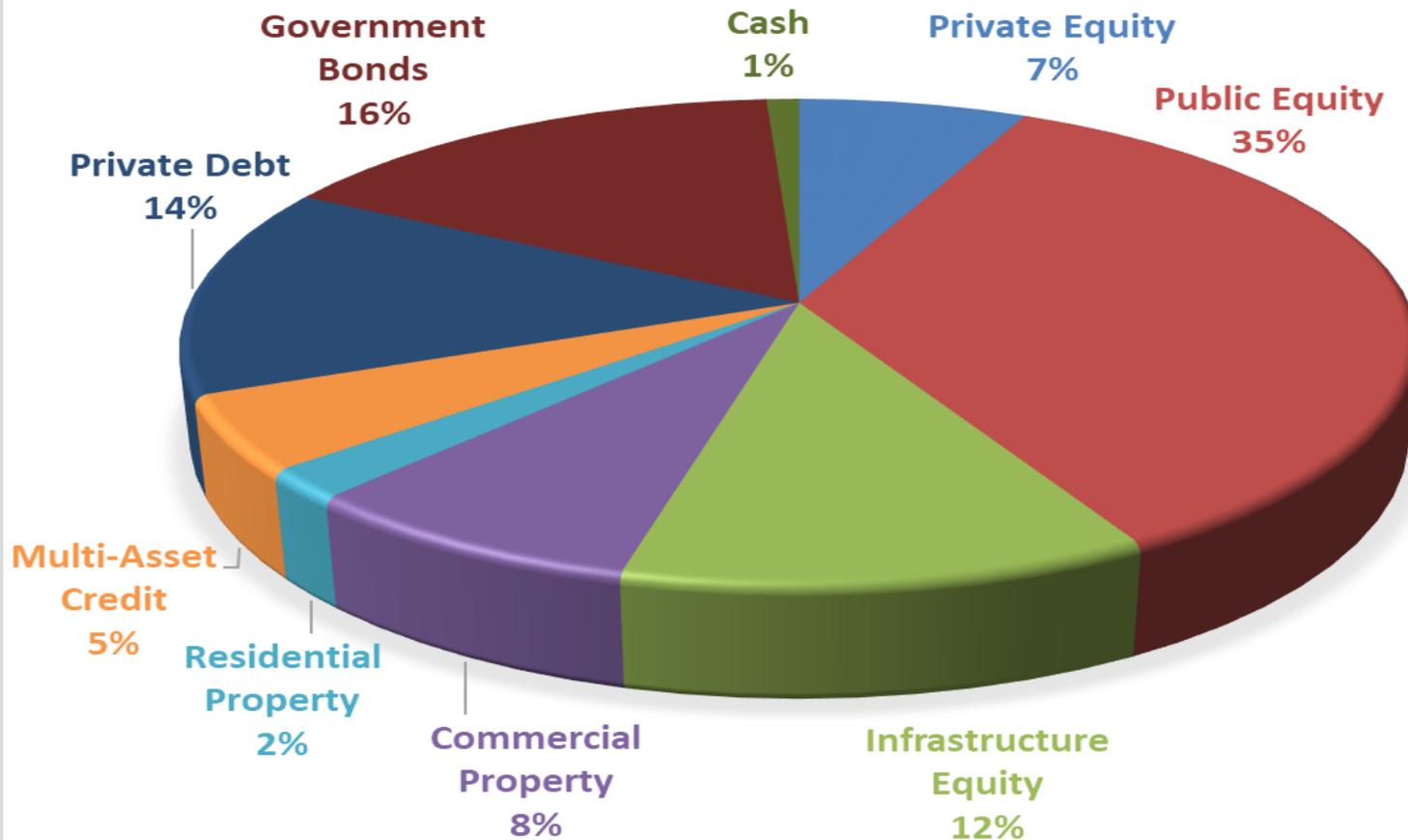
Investment Performance - context



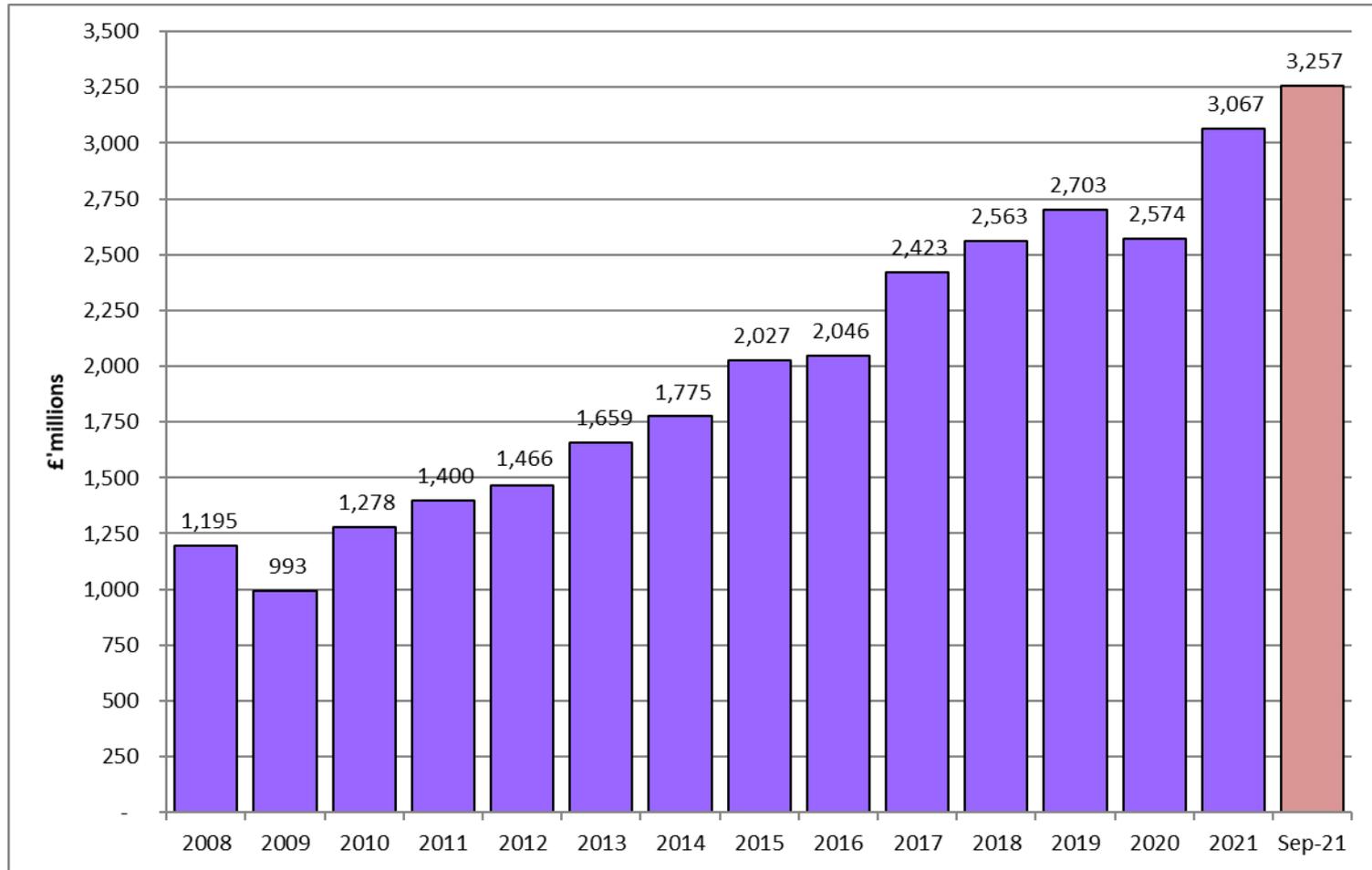
Managing Investment Risk

- Diverse portfolio
- Global investments
- Prior to investing: scrutiny of new investment funds and managers (“due diligence”)
 - Key financial risks considered include material Environmental, Social and Governance (ESG) risks such as climate change.
- Post investing: Investment Manager performance monitoring

Target Investment Strategy

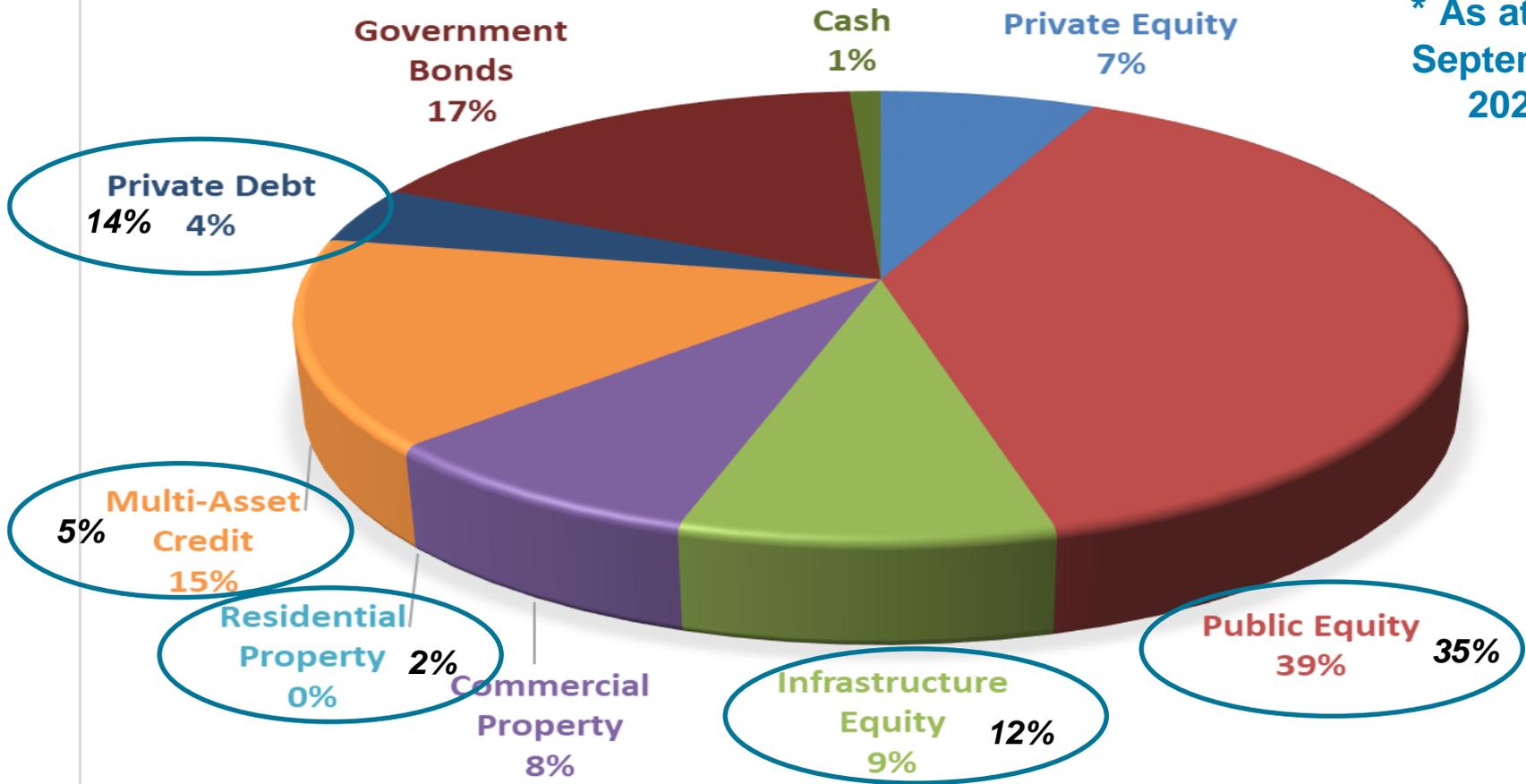


Value of the Fund's Assets

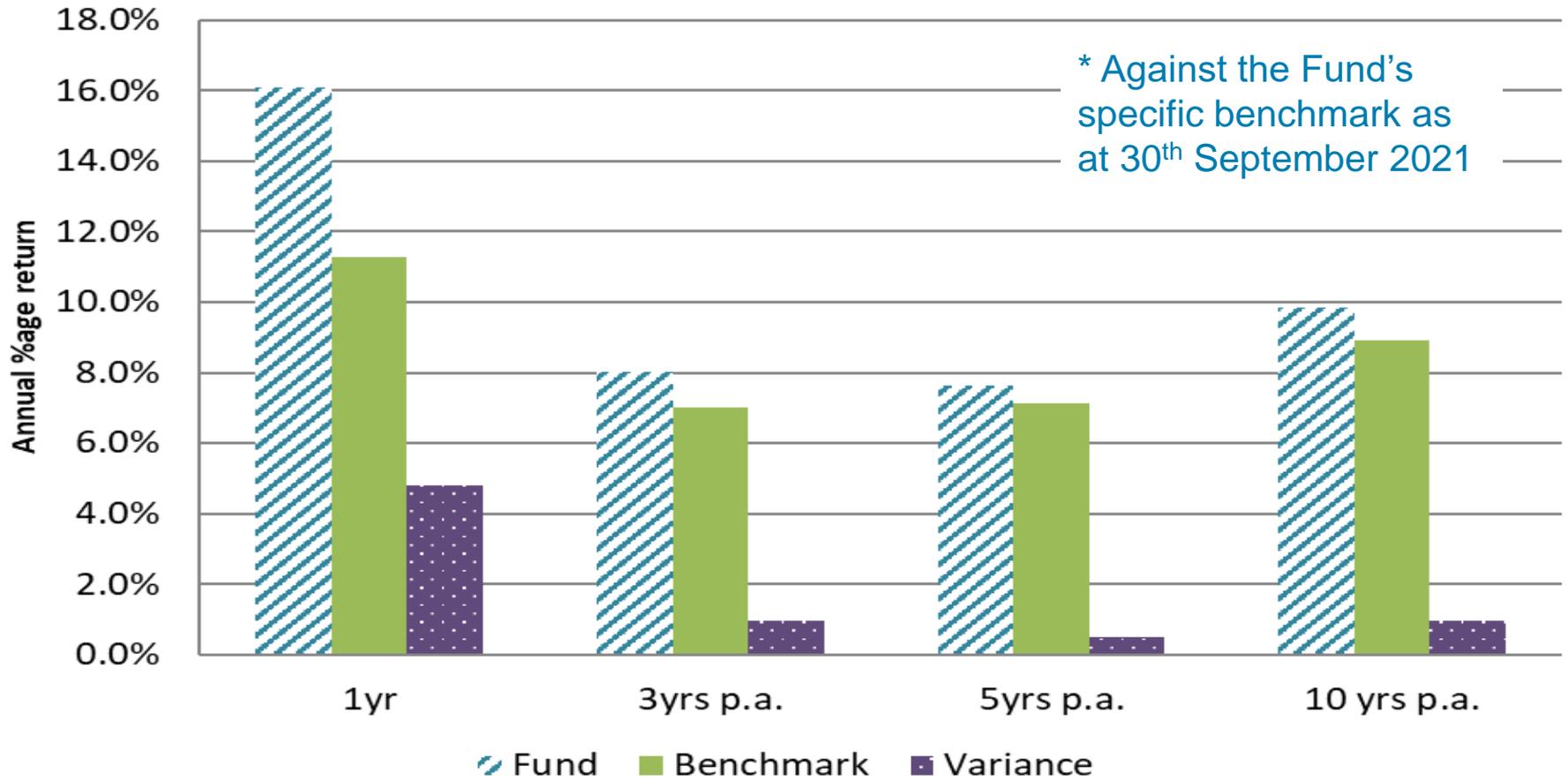


Actual asset allocation*

* As at 30th September 2021



Annual Fund Investment Performance*



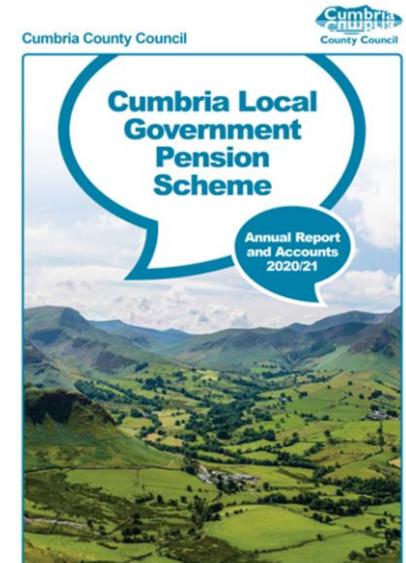
LGPS investment pooling: Border to Coast Pensions Partnership Ltd (BCPP)

- Cumbria LGPS is one of 11 partners within BCPP.
- Fund is influencing development of investment opportunities in the company.
- Currently transitioning assets to BCPP:
 - Currently c. 34% of the Fund invested with BCPP and a further c.17% committed.
- No change to investment strategy.
- No direct impact to employers or members.



Accounts and Annual Report

- Unqualified opinion on the financial accounts of the Pension Fund & no audit recommendations.
- Grant Thornton: *“The Accounts have been produced to a very high standard and the finance team have produced good working papers and have been responsive to our audit queries.”*
- Available at: www.cumbria.gov.uk



Managing the Fund's investments - key challenges ahead

- Scheme Governance & Reporting
 - Good Governance Project
 - Stewardship Code and Responsible Investment
 - Pensions Regulator Code revisions
- 2022 Valuation
- Implementation of the Investment Strategy

Cumbria County Council
Any Questions?



Cumbria County Council
**Pensions Administration
Performance**

Pete George
Group Finance Manager

Fund Administration Overview

- Pensions administration is managed by Local Pensions Partnership
- Previously operated under the name of “Your Pension Service”
- Now operating as “Local Pensions Partnership – Administration” (LPPA)
- No changes to personnel
- New website: www.lppapensions.co.uk

Fund Administration Overview

At September 2021:

- 58,794 Scheme Member records
 - 19,234 Active Members*
 - 21,689 Deferred Members
 - 17,871 Pensioners
- 124 Employers
- Fund Assets totalling £3.25bn



Pensions Administration 2020/21 Performance

- Payment of c. 18,000 pensions each month
- 1,463 scheme members put into pension
- Over 14,500 contacts with LPPA - 99.38% of cases dealt within SLA performance target.
- Approx 8,500 calls to the LPPA help desk
- Covid-19 challenges
- 30-40% more deaths than expected

Pensions Administration 2020/21 Performance

- Improvements to member and employer communications
- Remote on-line employer training & workshops
- Over 20 virtual visits to employers for one to one training
- Over 130 scheme members attended scheme essentials training

Pensions Administration Performance

- Annual Benefits issued to staff ahead of August deadline
- Death grant nominations - 41% of active members
- My Pension On-line sign up - 42% of active members
- Active, Deferred and Pensioner annual newsletters issued
- New LPPA website and videos

Data, data, data

Reporting to Pensions Regulator

- Common Data - 97.8% complete
 - Name
 - NI Number
 - Address
 - Date of Birth
 - Sex
 - Date pension started
 - Contributions
 - Last Event Status
 - Expected retirement date
- Conditional Data - 94.2% complete
 - Deferred Benefits
 - Divorce Records
 - AVCs
 - Employer Details
 - Salary
 - Annual Allowances
 - Dependents
 - Transfers in
 - Aggregations

It's all about data

Why do we need good quality data?

- To provide a high quality, accurate pension scheme for our scheme members
- To reduce administration time
- To minimise costs for employers
- To comply with our legal and Regulatory obligations



Employer responsibilities

Regular Data Required	Deadline
Data Collection File (EPIC file) - to LPPA	By 6 th of month following pay period
Monthly Remittance Advice - to Cumbria CC (Sharepoint)	By 19 th of month following pay period
Regular Payments Required	
Employer and Employee Pensions Contributions	By 19 th of month following pay period
Deficit Pension Contributions	One payment on 1 April or in 12 monthly installments, (first payment by 30 April)

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

It's all about data

Remember:

- Data quality is your responsibility
- Good quality data = lower employer contribution rates
- Not providing timely and accurate data is a breach that will be report to the Local Pension Board and may be reportable to the Pension Regulator
- Pension contributions must be paid by the 19th of the month and EPIC data files must be submitted by the 6th of the month

Any questions / comments or suggestions?



LPP

Local Pensions Partnership
Administration

- Then please contact us at: pensions@cumbria.gov.uk
- Or for helpful employer FAQs and LPPA contact details, please see: www.lppapensions.co.uk/contact/



Cumbria Local Government Pension Scheme

Employer Forum

Mark Wilson FIA



welcome to brighter

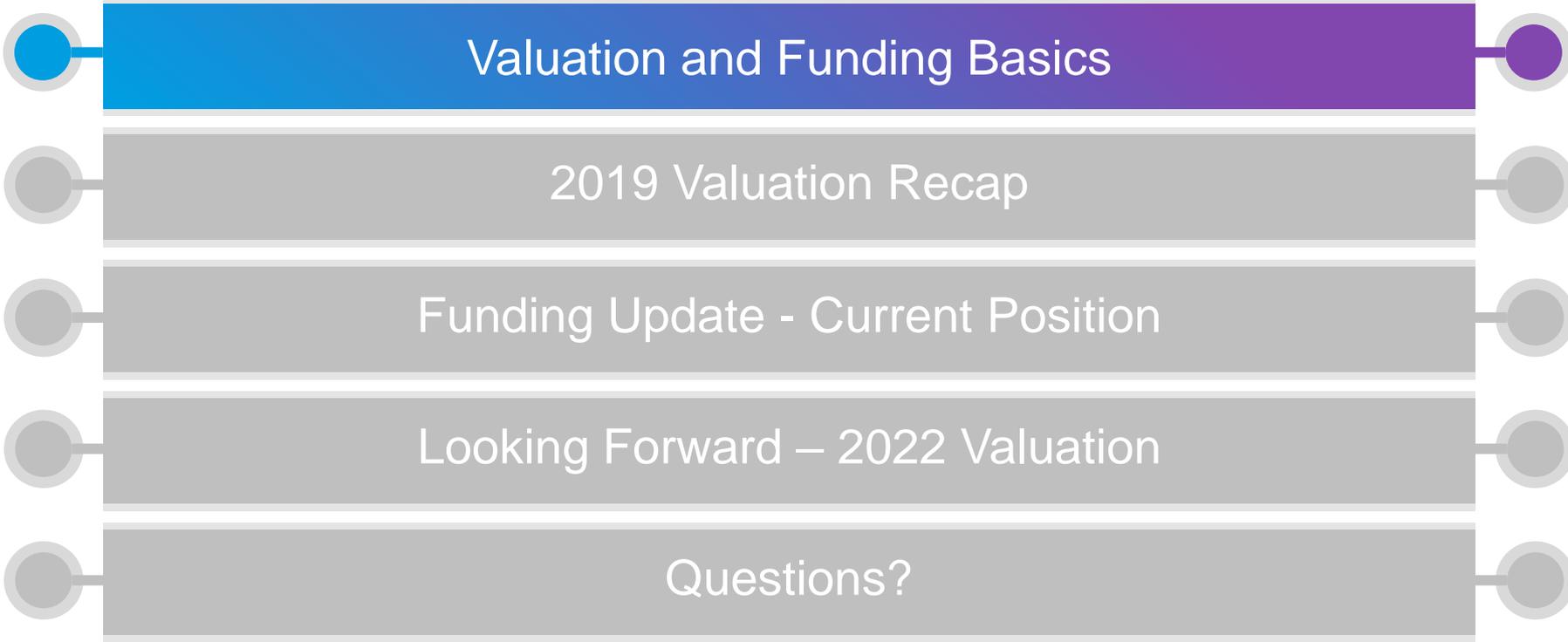
Valuation and Funding Basics

2019 Valuation Recap

Funding Update - Current Position

Looking Forward – 2022 Valuation

Questions?



Valuation and Funding Basics

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Valuation and Funding Basics

Why do a valuation (1)?



LGPS Regulations

Reg. 62(6)(b)

“The actuary must have regard to the desirability of maintaining as nearly **constant a primary rate** as possible”.

Reg. 62(6)(d)

“The actuary must have regard to the requirement to **secure the solvency of the pension fund** and the **long term cost efficiency** of the Scheme...”

Public Service Pensions Act 2013

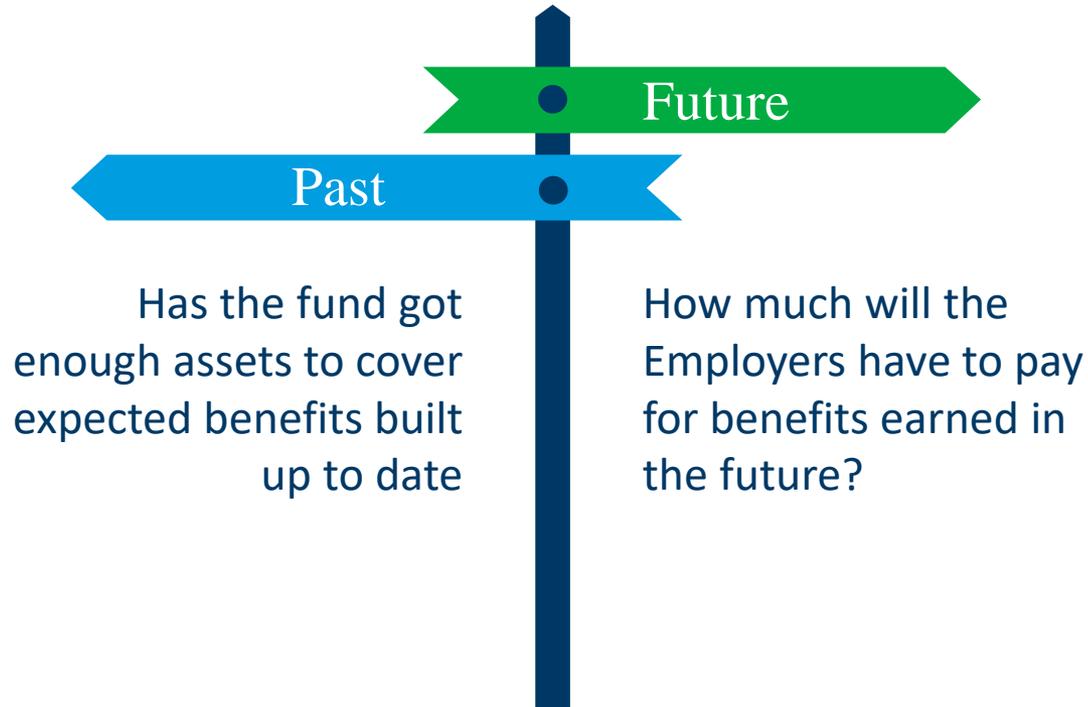
Section 13(4)(c)

“A person appointed... is to report on whether... the rate of employer contributions is set... at an appropriate level to ensure

- (a) the **solvency of the pension fund**, and
- (b) the **long-term cost efficiency** of the Scheme...”

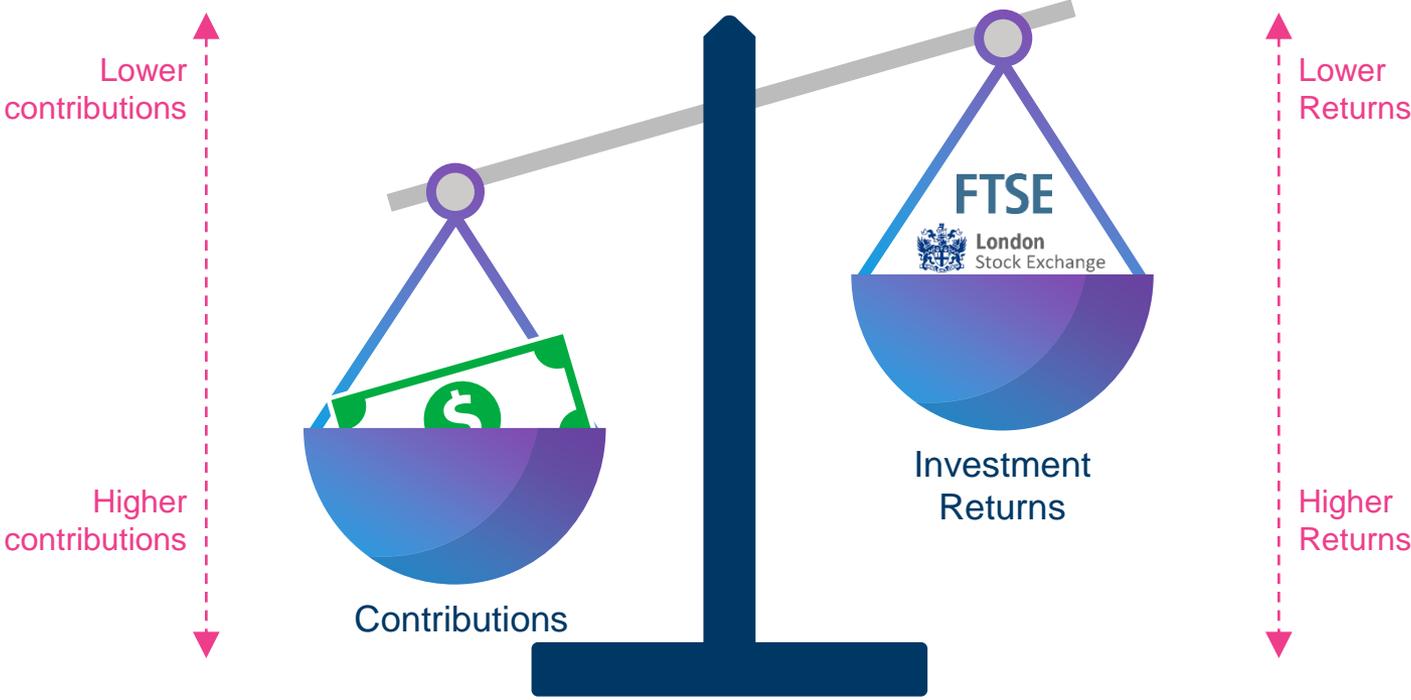
Valuation and Funding Basics

Why do a valuation (2)?



Valuation and Funding Basics

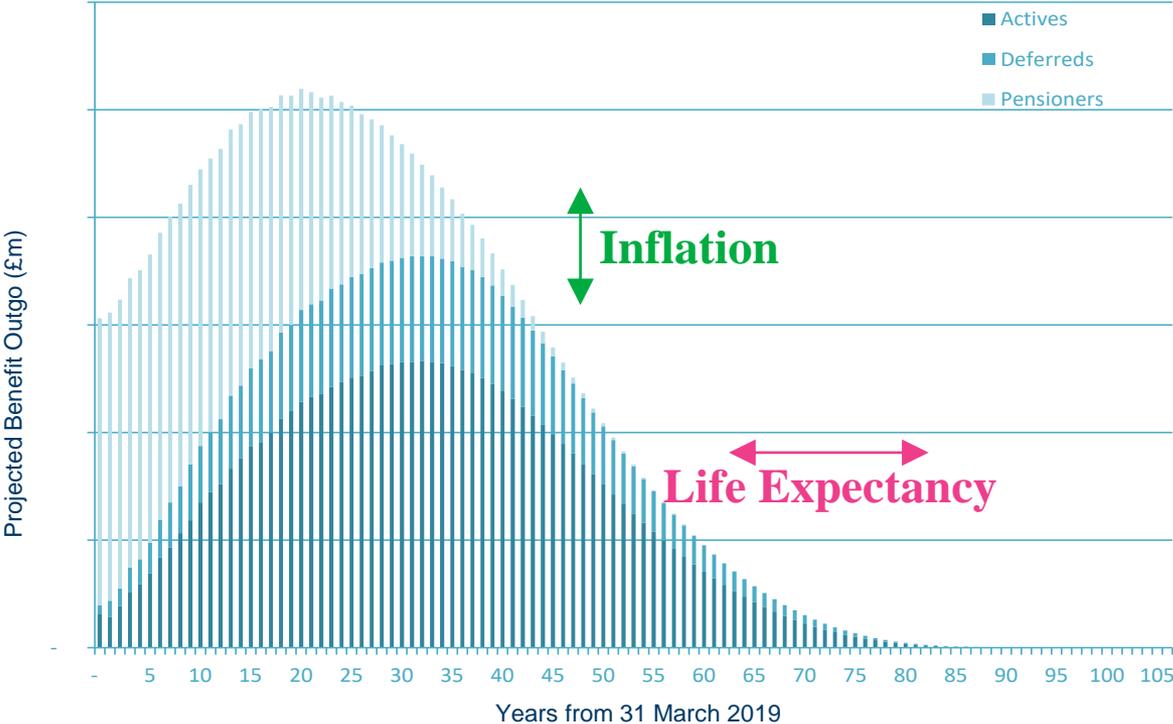
Financing the Benefits



Objective is to have sufficient assets to pay benefits as and when they fall due.

Valuation and Funding Basics

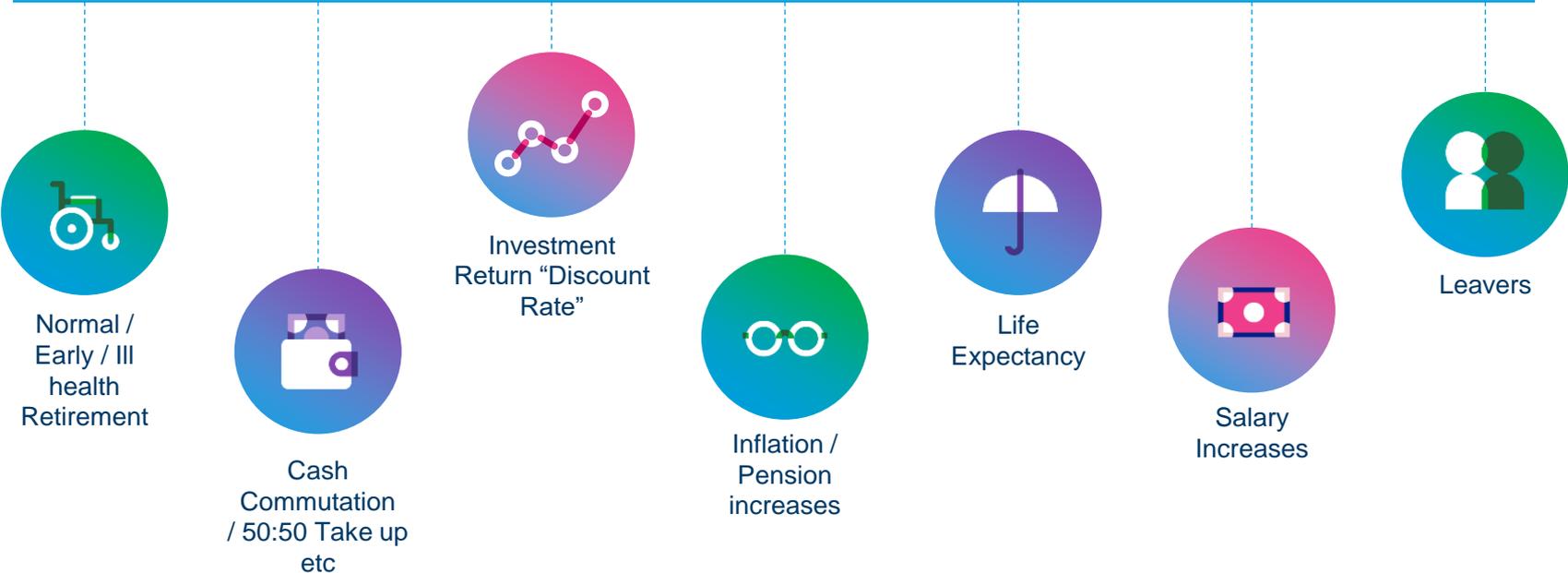
Liabilities...it's all about the cashflows



Valuation and Funding Basics

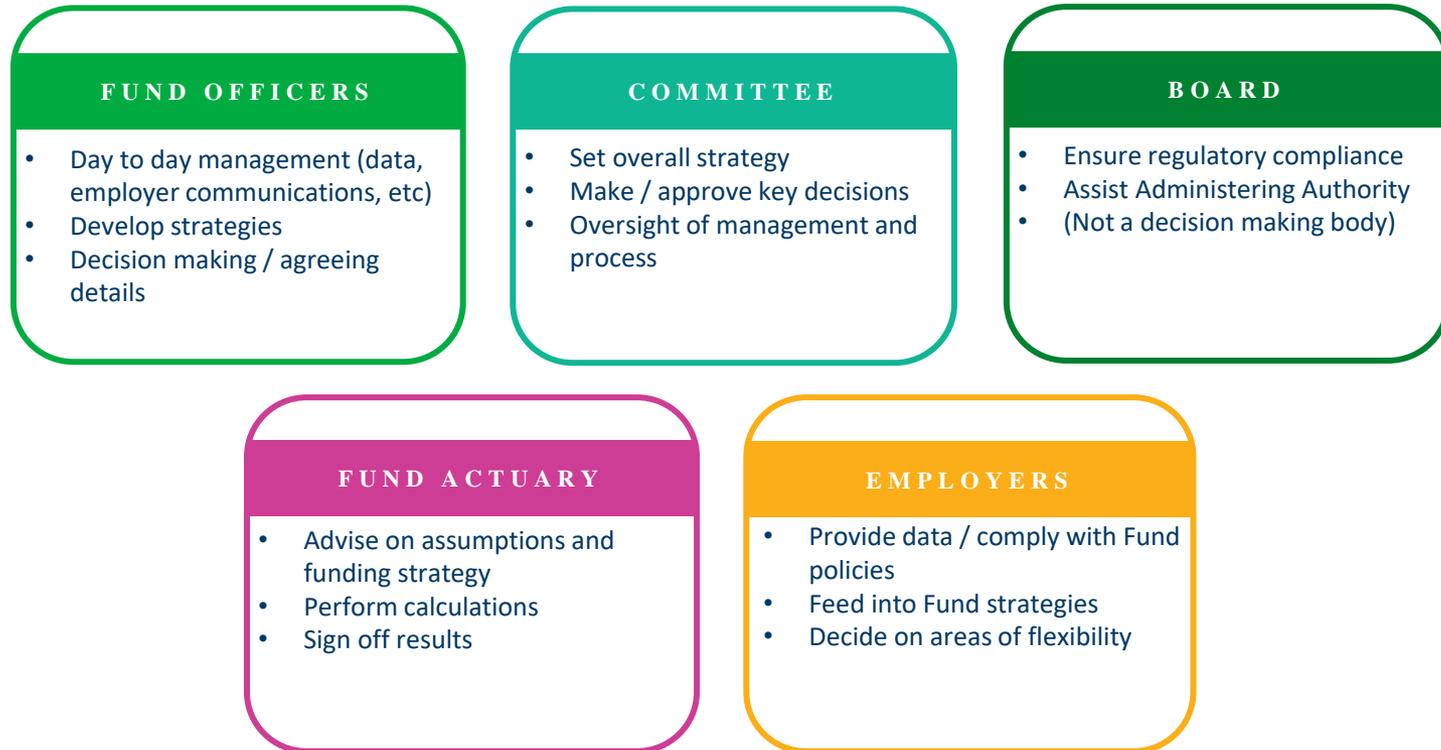
Actuarial Assumptions

Assumptions



Valuation and Funding Basics

Roles and responsibilities



Valuation and Funding Basics

What about accounting figures?

Solely required to adhere to accounting disclosure requirements. Performed annually and disclosed in an Employer's accounts.



Accounting liabilities are therefore directly affected by changes in corporate bond yields. Inflation assumption may also be derived differently (i.e. best estimate).



and maybe most importantly....



Liabilities are assessed using a "prescribed" set of assumptions (i.e. discount rate linked to corporate bond yields not assets held), which differ from those used in the actuarial valuation.

Does not impact on the Employer's contribution requirements.

Valuation and Funding Basics

2019 Valuation Recap

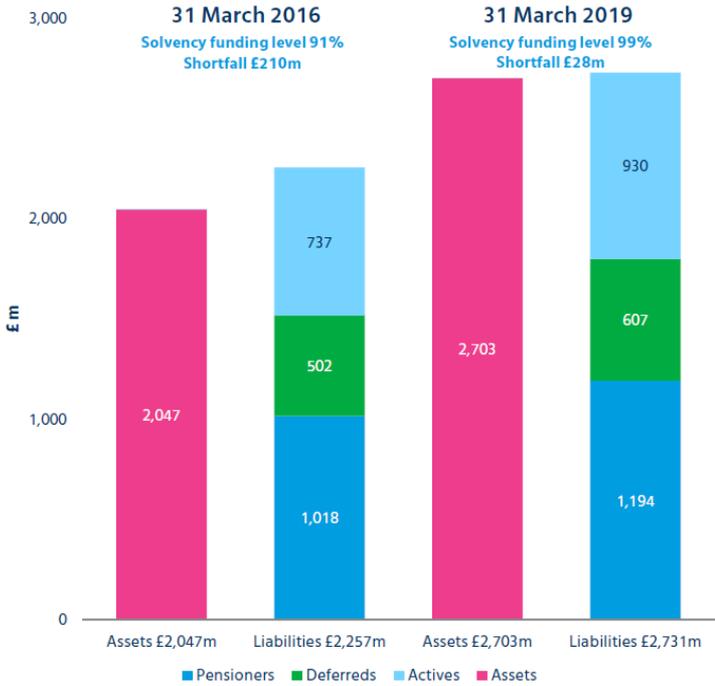
Funding Update - Current Position

Looking Forward – 2022 Valuation

Questions?

2019 Valuation Recap

Whole Fund Results as at 31 March 2019



Average Future Service / Primary Rate for the Fund was **18.6%** of pay

Deficit / Secondary contributions of **c£6m p.a.**

Employers:

Each employer is responsible for their own position within the Fund, and have their own contributions rates – for example future service rates ranged from **13.7% to 34.5%**

2019 Valuation Recap

Employer Variation



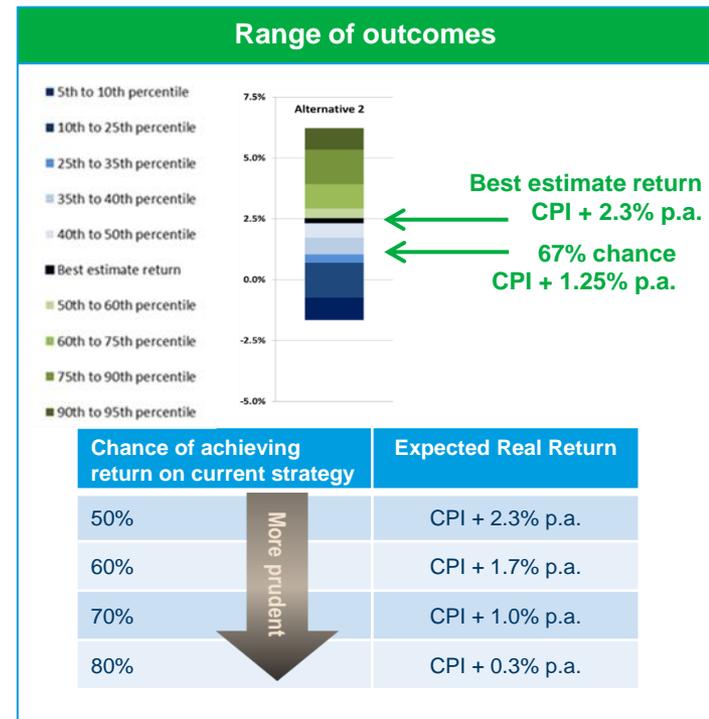
2019 Valuation Recap

Setting the (real) discount rate



Real discount rate - takeaways

- The Fund requires long term investment returns in excess of CPI - drives contribution rates and liability values
- So real discount rate is the single most important valuation assumption
- A lower rate means greater chance of exceeding target (and so less risk), but higher contributions – and vice versa



2019 Valuation Recap

Key funding parameters

1

Discount rate for past service – CPI + 1.25%
Discount rate for future service – CPI + 2.0%

2

Pay growth – CPI + 1.5% p.a. (short and long term)

3

Demographic assumptions based on scheme specific analysis

4

Average deficit recovery period – 12 years

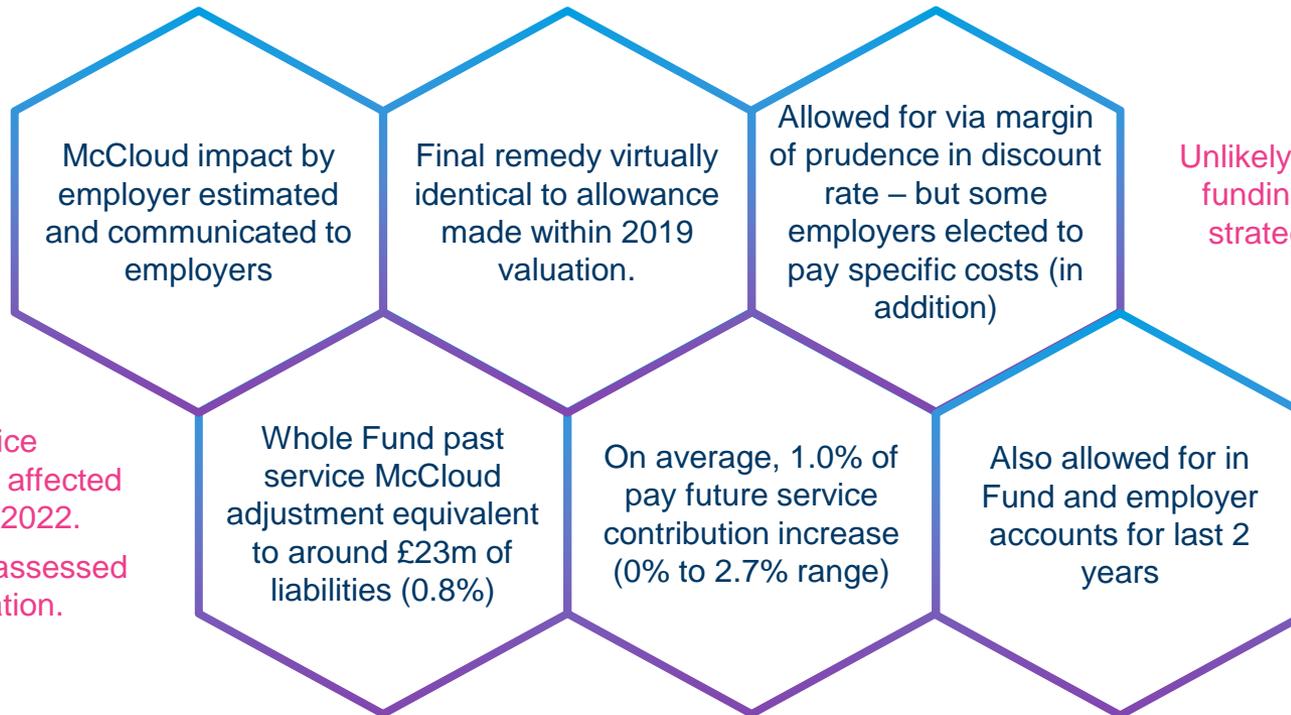
5

Prepayment of deficit contributions possible

Result – **positive valuation**. Contributions maintained/reduced for many employers, while also maintaining a prudent funding strategy

2019 Valuation Recap

McCloud – how did we allow for it?



Unlikely to affect long term funding and investment strategy given scale of impact.

Future service contributions only affected until 31 March 2022.
Liability impact reassessed at 2022 Valuation.

Valuation and Funding Basics

2019 Valuation Recap

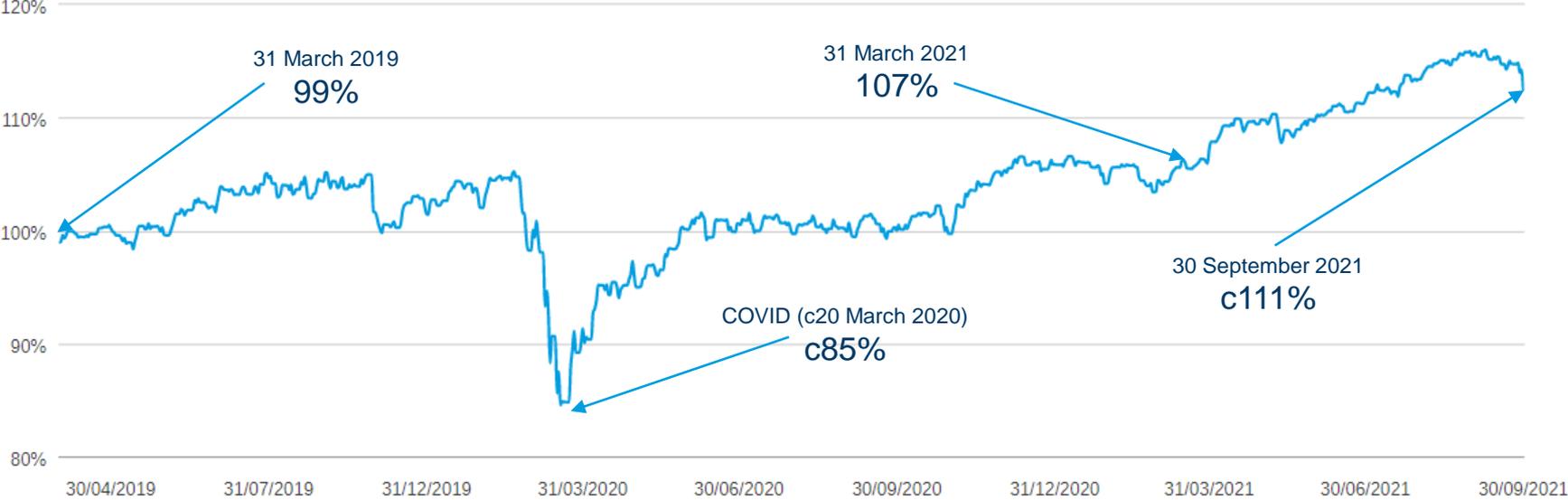
Funding Update - Current Position

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Funding Update - Current Position

”Like for like” assumptions



The Fund has seen strong investment performance since 2019. This has caused the like for like (i.e. ignoring potential assumption changes) funding level to improve significantly.

At employer level the impact of this will vary – better funded employers have more assets and so get more benefit

Funding Update - Current Position

Expected Return outlook versus CPI inflation

Investment markets and return/inflation outlook has the most material impact on the financial health of a pension fund. There have been significant changes since 2019, in economic outlook, inflation expectations and the Fund's investment strategy

- **Market outlook:** Overall the current outlook for expected investment returns on a like for like investment strategy has fallen slightly, reducing the absolute expected return by around 0.2% p.a.
- **Inflation expectations:** Since 2019 market expectations of long-term CPI inflation have increased from 2.4% at 31 March 2019 to around 2.9%-3.0% currently
- **Investment strategy:** Is currently under transition, however it is anticipated that the revised long-term strategy will deliver higher returns, **partially** offsetting the above issues

The net impact of this is that the Fund's **expected future return above CPI has fallen (particularly in light of the material increase in inflation expectations)**. This in turn will put pressure on discount rates.

Along with asset returns between now and March 2022, this assumption will be critical to the 2022 valuation outcome so will be kept under review (as with other assumptions).

Valuation and Funding Basics

2019 Valuation Recap

Funding Update - Current Position

Looking Forward – 2022 Valuation

Questions?

Looking Forward – 2022 Valuation

Conclusions and points to watch



Where we are:

- Funding position is good, with positive investment performance offsetting economic and demographic challenges
- As things sit currently, achieving overall contribution stability would be possible
- However...



Points to watch:

- Results will depend on position at the valuation date – ***a lot can happen in 5 months...***
- The outlook for total future investment returns is reduced, and ***we are entering an inflationary environment***, which could erode real returns, which are critical for funding
- ***Also, results will vary significantly by employer...***
- In particular ***contribution increases could be seen for some employers***, including:
 - Employers with lower funding levels in 2019, who will not benefit from the Fund's good investment performance to the same degree
 - Employers with a younger member profile, who will be more exposed to higher future inflation assumptions (and so lower expected real returns)

Looking Forward – 2022 Valuation

Conclusions and points to watch



Points to watch (continued)

- **Changes in membership / employee profile** – impact is expected to be relatively small at Fund level, but for smaller employers in particular this can cause material changes to contributions
- **Funding strategy, including surplus management** will be reviewed – an integrated approach seeking to balance risk, taking into account covenant strength, will be adopted
- **Data quality** – the employers role in providing good quality data to avoid overstatement of contributions
- **Contributions management / budgeting** – at employer level various issues to consider and potential options including
 - Phasing of increases?
 - Surplus management
 - Prepayment?
 - Short term pay assumption?
 - Recovery period?



Valuation and Funding Basics

2019 Valuation Recap

Funding Update - Current Position

Looking Forward – 2022 Valuation

Questions



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Cumbria County Council

LGPS

**Administration –
Update Nov 11
2021**

What's on the admin agenda today?

- McCloud
- Exit Payments
- Local Government Reorganisation
- PACE project
- Employer best practice around pension data

McCloud judgement

- Court of Appeal ruling in December 2018 – public service pension schemes had discriminated on the grounds of age when Schemes changed (2014 for LGPS from final salary to CARE)
- Government statement in July 2019 - as a result of the judgement, that it would “take steps to remove the discrimination”
- Consultation in Q3 of 2020 with proposals on changes that could be made to remove the discrimination
- July 2021 a bill, amending Public Service Pensions Act 2013, to amend the discrimination in public service schemes.
- DLUHC expected to release response to consultation soon and draft LGPS regulations are expected by the end of 2021

Implementing McCloud

- No-one will be worse off as a result of the McCloud judgement
- Underpin protection will extend to all members in the scheme at 31 March 2012
- Underpin means your pension 1 April 2012 to 31 March 2022 is best of 2008 rules (1/60th) and CARE rules
- Some will be better off under the old scheme rules – but most will not see any change
- The changes will also apply retrospectively – pensioner members and deferred members in scope will be included
- The changes will be in place from April 2023

Exit payments - flexibilities

- In the past, employers terminating from the Fund had to pay any exit payment in full at point of termination
- LGPS Regulations were amended in Sept 2020 to introduce **new powers for Admin Authorities** when employers exit the LGPS or circumstances change to:
 - Spread exit payments
 - Establish deferred debt arrangements
 - Review employer contributions (including mid-cycle)
- In March 2021 guidance was issued by MHCLG and LGPS Scheme Advisory Board to support Admin Authorities when updating their Funding Strategy Statements (FSS)

Cumbria – Local Government Reorganisation

Subject to Parliamentary approval in early 2022, the Government intends to progress with an:

- East unitary council covering the existing areas of Barrow, Eden and South Lakeland, “**Westmorland and Furness Council**”
- West unitary council covering the existing areas of Allerdale, Carlisle and Copeland This will result in the current 6 district councils and County Council ceasing to exist “**Cumberland Council**”

Vesting day is 1 April 2023

Cumbria – Local Government Reorganisation -details

There should be more clarity on how Cumbria Local Government Pension Scheme will be administered after 1 April 2023. The Structural Change Order is due early in 2022.

Whatever LGR means for the Cumbria Pension Fund will continue to ensure:

- sound investment management of the Funds assets;
- that we can continue to pay pensioners efficiently every month;
- that we can continue to collect contributions
- that we continue to meet our Regulatory requirements

LPPA – PACE Project

Pension Administration Core Evolution

LPPA are moving to a new pension administration system, including a new employer portal, during 2022 (in 2 tranches).

The implementation project is called Project PACE. The new System is called Universal Pensions Management (UPM)

The Cumbria Fund is expected to move during Q3/4 of 2022. Full training will be provided to employers nearer the implementation time.

LPPA are sending regular updates to employers – please check that the right person in your organisation is receiving these updates. Contact the Engagement team at LPPA if not.

Data – employer best practice

Poor data may result in higher employer contribution rates as the Actuary will have to estimate for unknown information.

- Vital that all leavers have a leaver form submitted as they leave your payroll*.
- Encourage all employees to sign up to My Pension Online (MPO) on the LPPA website so they can run their own benefit estimates and also access their annual benefit statements. Employees are then able to check out any discrepancies at the earliest opportunity.

***PARTICULARLY RELEVANT FOR DISTRICT AND COUNTY COUNCIL EMPLOYERS IN LIGHT OF LGR**

Data quality

Member Tracing

Recent work with DWP to contact 500 deferred members aged 55 or over whom we hadn't been able to confirm current addresses

Already had around 230 positive contacts who we are now able to contact regarding their pension benefits.

If employers encourage all employees to either register with MPO or give LPPA a personal email address, then even after they leave your employment they can still easily remain in contact with their pension.

Upcoming online LPPA training

LPPA run regular training to help employers understand how to comply with Scheme Regulations in the complex areas such as ill health retirements and employee absence.

Upcoming employer online courses:

- Scheme Leaver Essentials 7 December 2021
- Absence and APP 11 January 2022
- Ill Health (recording) On LPPA Youtube Channel

Additionally there are presentations for employees

Upcoming Employee information sessions:

- Scheme Essentials (28th Jan/28th Feb - 1 hour online)
- Make sense of Retirement (12th Jan/17th Feb – 2 hours online)

What does retirement mean to you? -
YouTube

Thank you for listening

If you have any questions please ask now or get in touch with
Cumbria LGPS admin team at:

pensions@cumbria.gov.uk

Or LPPA via the employer area at:

lppapensions.co.uk

Provisional date of next meeting



**Monday 21st
November 2022
10am**

Closing comments

The End

Thank you for coming