

# Leicestershire County Council Pension Fund

Annual General Meeting

- Barry McKay
- 1 December 2016

# What are we going to cover?

2016 Actuarial Valuation



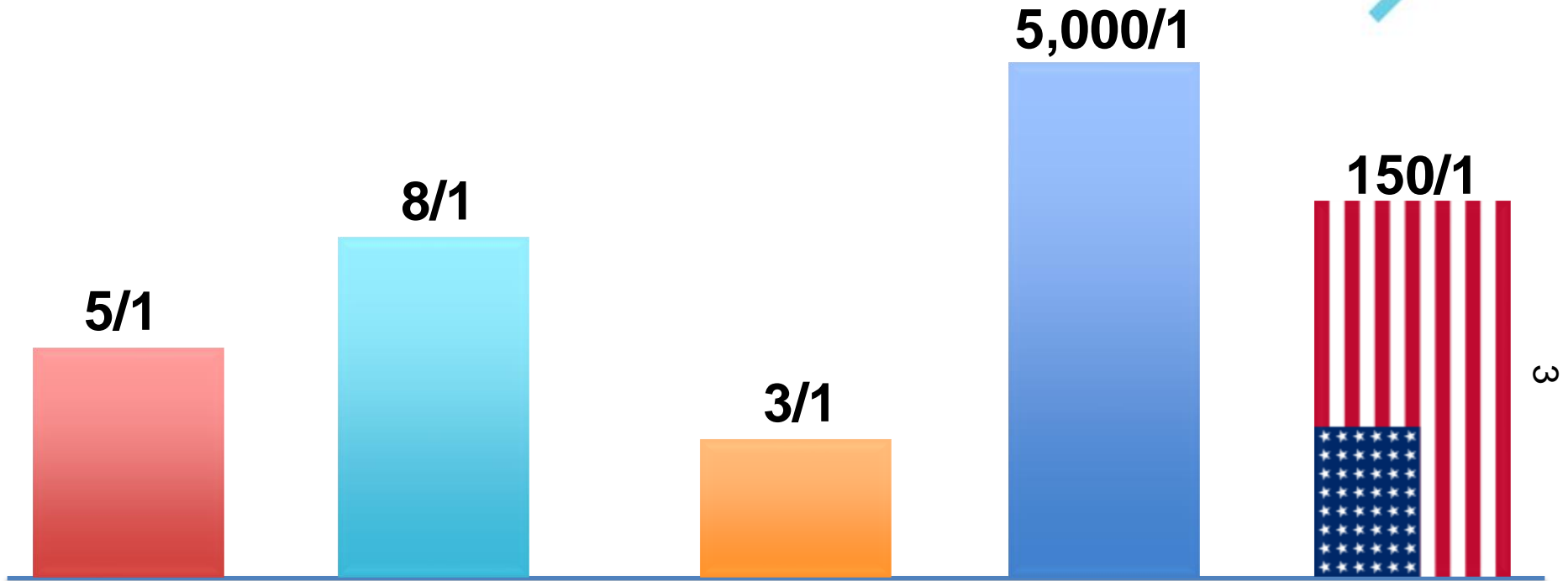
The National Picture



What does the future hold?

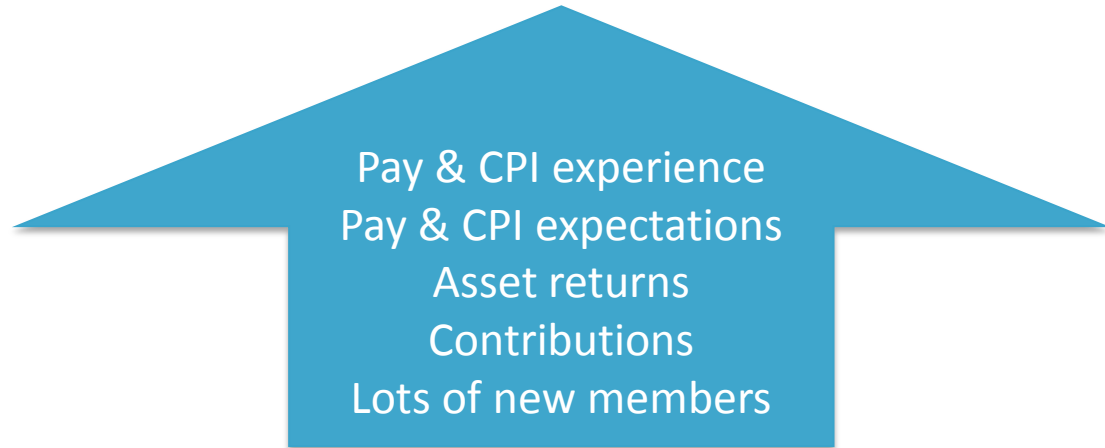


# Unlikely events since 2013



**BREXIT**

# Experience since 2013



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# Whole fund valuation results

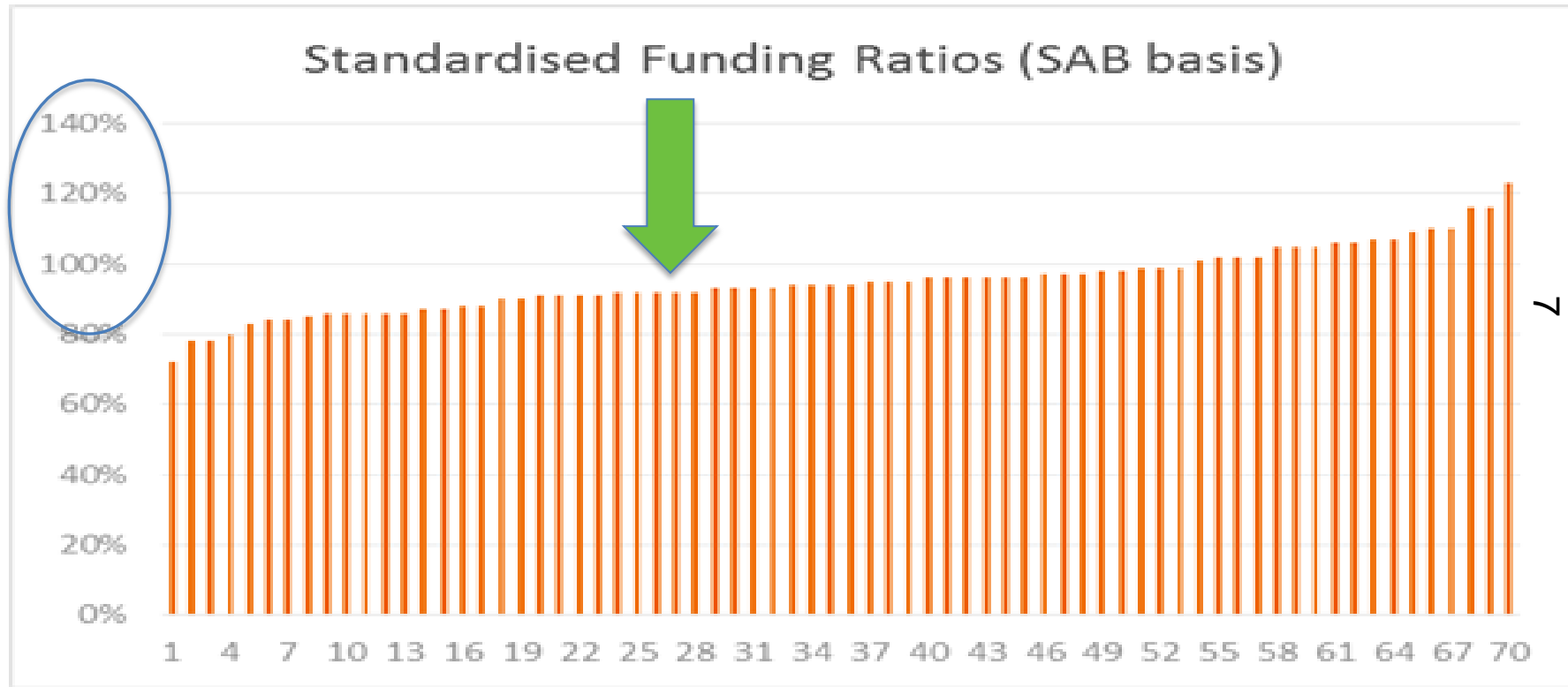
|                          | 31 March 2013  | 31 March 2016 |
|--------------------------|----------------|---------------|
| Active                   | 1,607m         | 1,684m        |
| Deferred                 | 623m           | 812m          |
| Pensioner                | 1,422m         | 1,658m        |
| <b>Total liabilities</b> | <b>3,652m</b>  | <b>4,153m</b> |
| Assets                   | 2,628m         | 3,164m        |
| <b>Deficit</b>           | <b>(1,024)</b> | <b>(989m)</b> |
| Funding level            | 72%            | 76%           |

Funding level improved, deficit reduced



# The National Picture

# National picture 2016 (so far)



Not appropriate for funding, only for comparison

Source: Scheme Advisory Board website

# National picture 2013

| Funding level                               | Fund valuation                               | National (SAB) "Section 13"                          | SAB ranking for Leicestershire Fund       | Comments on Fund vs SAB valuation  |
|---|--|--|---|--|
| <b>31 Mar 2013</b>                          | 72%  | 85%  | 55 <sup>th</sup> out of 90                | SAB basis is more optimistic (and explicitly not for funding purposes so f/l is higher)  |
| <b>31 Mar 2016</b>                          | 76%  | 92%  | Too early to say but mid table expected   |  |
| <b>Main reasons for change 2013 to 2016</b> | Asset returns<br>Mem'ship exp<br>Assumptions | Asset returns<br>Mem'ship<br>(Assumptions unchanged) | Too early to tell how ranking has changed | Ranking will depend on asset returns & Mem'ship exp vs other Funds<br><br>Will <b>not</b> depend on choice of financial assumptions for Fund valuation |



# Typical results and summary

- Funding levels are generally up
- Membership experience - very positive impact
- Contributions remain similar as.....
- Future cost up, deficit contributions down
- But results will vary by fund and employer
- It's complicated and requirements on Administration Authorities are more onerous than ever before
- Asset returns are a positive story
  - LGPS Funds are holding more assets per £ of pension to be paid



# The Future

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# Future expectations for asset returns?

“Projected return forecasts for 2016 – 2026 have fallen for developed market government bonds, investment grade credit, high yield bonds and global equity markets”

Baillie Gifford, 2016

“Our 2016 assumptions anticipate a challenging investment environment as policy and economic conditions globally continue to diverge and many asset returns fall short of those achieved over the past 30 years.”

JP Morgan 2016

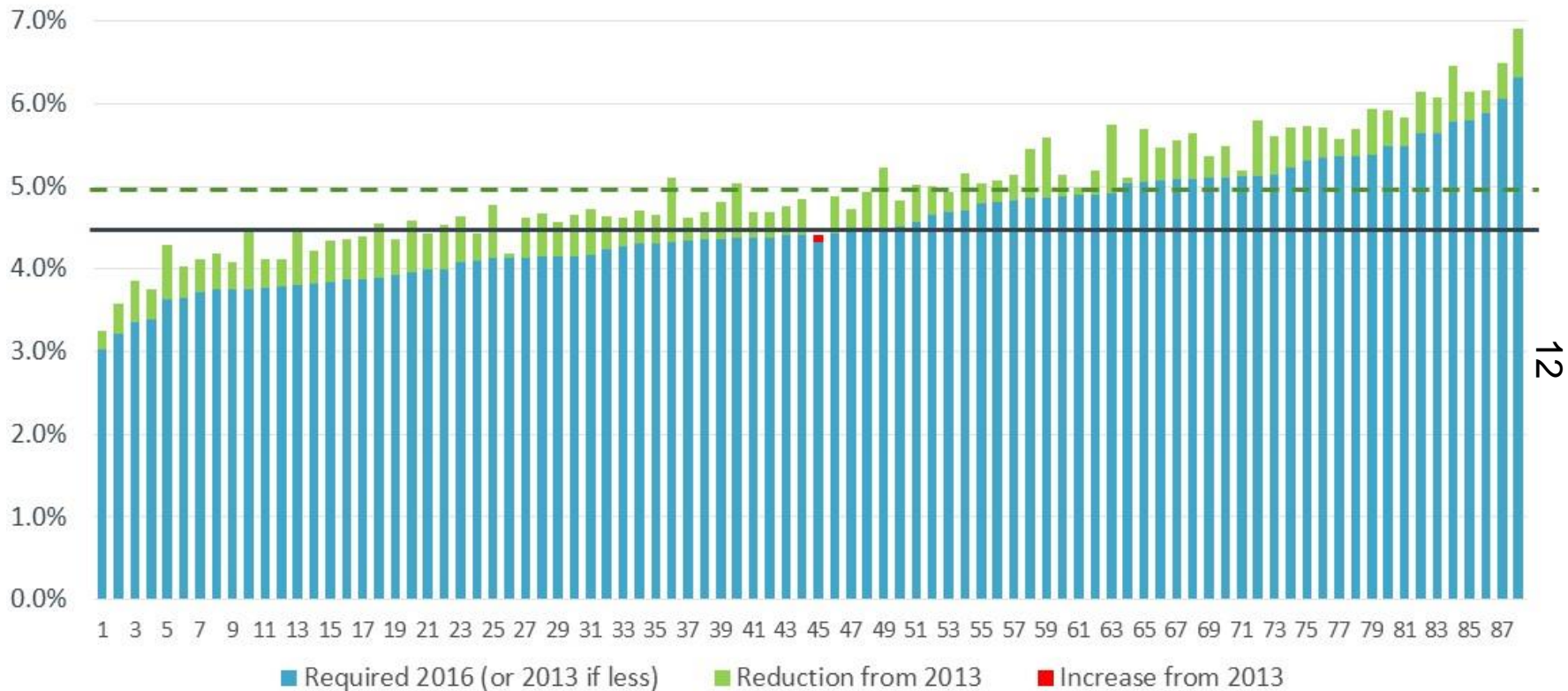
“Economic growth in the developed world since the Financial Crisis has been slower than at any comparable period except the Great Depression”

GMO, 2016

The outlook is for lower returns

# LGPS Success Story

## Required returns from 2016 (E&W)



Reduced asset dependence from 5.0% to 4.5%  
Holding more assets than before to meet future benefit payments

Thank you

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# **Leicestershire Local Government Pension Fund**

## **AGM**

### **1 December 2016**

**Ian Howe  
Pensions Manager**

# Pension Administration

A summary of the key points in 2015/16;

- Valuation – 31 March 2016
- Increasing membership
- The Pension Regulator - Governance requirements



# Valuation

The valuation date was the 31 March 2016. This was the first valuation since the scheme changed to a Career Average Revalued Earnings (CARE) on 1 April 2014.

The valuation results provide the funding position and future employer contribution rates between 1 April 2017 to 31 March 2020

The Pensions Section had between the 1 April 2016 to 31 July 2016 to ensure all member's pension records were accurate;

- The valuation (deadline 31 July 2016)
- Active and preserved members annual benefit statements (deadline 31 August 2016)

32,627 active member annual benefit statements

32,961 preserved member annual benefit statements

# Fund Statistics

Membership of the scheme has increased since the last valuation

|                                    | <b>Membership Numbers 2013</b> | <b>Membership Numbers 2016</b> |
|------------------------------------|--------------------------------|--------------------------------|
| Active contributors                | 30,382                         | 32,627                         |
| Preserved members                  | 28,231                         | 32,961                         |
| Pensioners                         | 21,580                         | 24,143                         |
| Employers with active contributors | 164                            | 209                            |

# Fund Statistics

Administration statistics in 2015/2016

| Area  | Number of cases completed |
|---|---------------------------|
| New entrants  | 6,108                     |
| Retirements   | 1,518                     |
| Preserved leavers                                     | 2,071                     |
| Deaths  | 633                       |
| Refunds   | 900                       |
| Transfers out   | 101                       |
| Aggregations (combining or keeping benefits separate) | 854                       |

# Governance

The Pensions Regulator introduced a code of practice – Governance and administration of public service pension schemes.

The Local Pension Board meets quarterly

The Board assists the Fund on scheme administration

The Board and Pension Section completed a review of all areas of the  $\infty$  Governance requirements

The Pensions Section key performance indicators (KPIs) are split between business processes and customer feedback

# 2015/16 KPIs

| April 2015 to March 2016   |        |     |   |  |        |       |
|--|--------|-----|---|--|--------|-------|
| Business Process Perspective   |        |     |   | Customer Perspective - Feedback  |        |       |
|  | Target |     |   |  | Target |       |
| Retirement Benefits notified to members within 10 working days of paperwork received | 92%    | 97% | ▲ | Establish members understanding of info provided - rated at least mainly ok or clear | 95%    | 98% ▲ |
| Pension payments made within 10 working days of receiving election                   | 95%    | 80% | ▼ | Experience of dealing with Section - rated at least good or excellent                | 95%    | 89% ▼ |
| Death benefits/payments sent to dependant within 10 working days of notification     | 90%    | 84% | ▼ | Establish members thoughts on the amount of info provided - rated as about right     | 92%    | 96% ▲ |
|  |        |     |   | Establish the way members are treated - rated as polite or extremely polite          | 97%    | 99% ▲ |
| Good or better than target   | ▲      |     |   | Email response - understandable  | 95%    | 93% ▶ |
| Close to target  | ▶      |     |   | Email response - content detail  | 92%    | 93% ▲ |
| Below target   | ▼      |     |   | Email response - timeliness  | 92%    | 96% ▲ |

**Any Questions?**

# **Leicestershire Local Government Pension Fund**

## **AGM**

### **1 December 2016**

**Colin Pratt  
Investments Manager**

# Asset Pooling within the LGPS

- Government initiative aimed at reducing investment management costs without compromising investment returns
- Announced in Summer Budget of 2015
- Criteria laid out in November 2015:
  - Scale (at least £25bn)
  - Strong governance
  - Reduced costs and excellent VFM
  - Improved capacity to invest in infrastructure



# Asset Pooling within the LGPS

- To go 'live' on 1<sup>st</sup> April 2018
- Regulation and oversight by Financial Conduct Authority (FCA) a pre-requisite
- Eight pools put forward submissions to be considered, although two were significantly sub-scale
- Government initially indicated 'up to six' pools would be considered

# Asset Pooling within the LGPS

- January 2016 – Leicestershire County Council started serious talks with other Midlands-based LGPS Funds
- Collaboration became known as ‘LGPS Central’
- Cheshire, Derbyshire, Leicestershire, Nottinghamshire, Shropshire, Staffordshire, West Midlands, Worcestershire
- Over £35bn

# Asset Pooling within the LGPS

- LGPS Central was accepted as a pool in November 2016
- A huge amount of work has been required to get to this point
- But a massive amount is still needed to meet very challenging timetable of April 2018
- FCA authorisation is the most time-consuming (and costly) element of the process

# Asset Pooling within the LGPS

- Additional costs in early years, mainly caused by one-off set up costs
- Savings will start to accrue at a pool level from year 3
- Different Funds will have a different 'break-even' date
- Costings are considered prudent, but only time will tell
- Investment managers desperate for a share of the post-2018 'pie'

# Asset Pooling within the LGPS

- Individual Funds retain strategic decisions, in particular asset allocation policy
- Pool will be responsible for appointment of individual investment managers
- Some small compromises may be necessary by Funds, in order that economies of scale are maximised
- Administering Authorities still retain majority of responsibility

# Asset Pooling within the LGPS

- New LGPS Regulations REQUIRE Funds to follow guidance
- Part of guidance is the requirement to pool. Pooling is mandatory
- Secretary of State now has power to intervene if considered necessary
- Likely to be used only in exceptional circumstances?

**Any Questions?**

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