

LEICESTERSHIRE COUNTY COUNCIL PENSION FUND



ANNUAL GENERAL MEETING 12 DECEMBER 2022

CHAired BY THE CHAIRMAN OF THE LOCAL PENSION COMMITTEE
MR TOM BARKLEY CC

Agenda Item 1: Minutes of the meeting held on 12 December 2021

Agenda Item 2: Question Time

Agenda Item 3: Questions
by members under
Standing Order 7(3) and
7(5).

Agenda Item 4: To advise of any other items which the Chairman has decided to take as urgent.

Agenda Item 5: Declarations of Interest

Agenda Item 6: Pension Fund Annual Report and Accounts

Introduction

Declan Keegan, Assistant Director



What is the LGPS?



An introduction to the Leicestershire County Council Pension Fund



Pensions Administration



Pensions Investment



Responsible Investment

What is the LGPS?

National Scheme

Defined Benefit Pension Scheme

Final Salary v Career Average

180 employers with active members (Councils, Academies, Universities etc)

Overseen by the Department for Levelling Up, Housing and Communities and the Pension Regulator

Two local governance bodies

- Local Pension Committee
- Local Pension Board

An Introduction to the LCCPF

IAN HOWE PENSIONS MANAGER

Local Governance



Local Pension Committee – Chaired by Mr Tom Barkley CC

- Delegated authority taking overall responsibility for the Fund.
- Ten employer representatives (elected members and universities rep)
- Three non-voting scheme member representatives
- Principal aim is to consider pensions matters with a view to safeguarding the interests of all scheme members



Local Pension Board – Chaired by Mrs Rosita Page CC

- Three employer representatives (elected members)
- Three scheme member representatives
- Role in assisting the Administering Authority in ensuring the effective and efficient governance and administration of the scheme

Administering Authority

Main Administration Duties include:

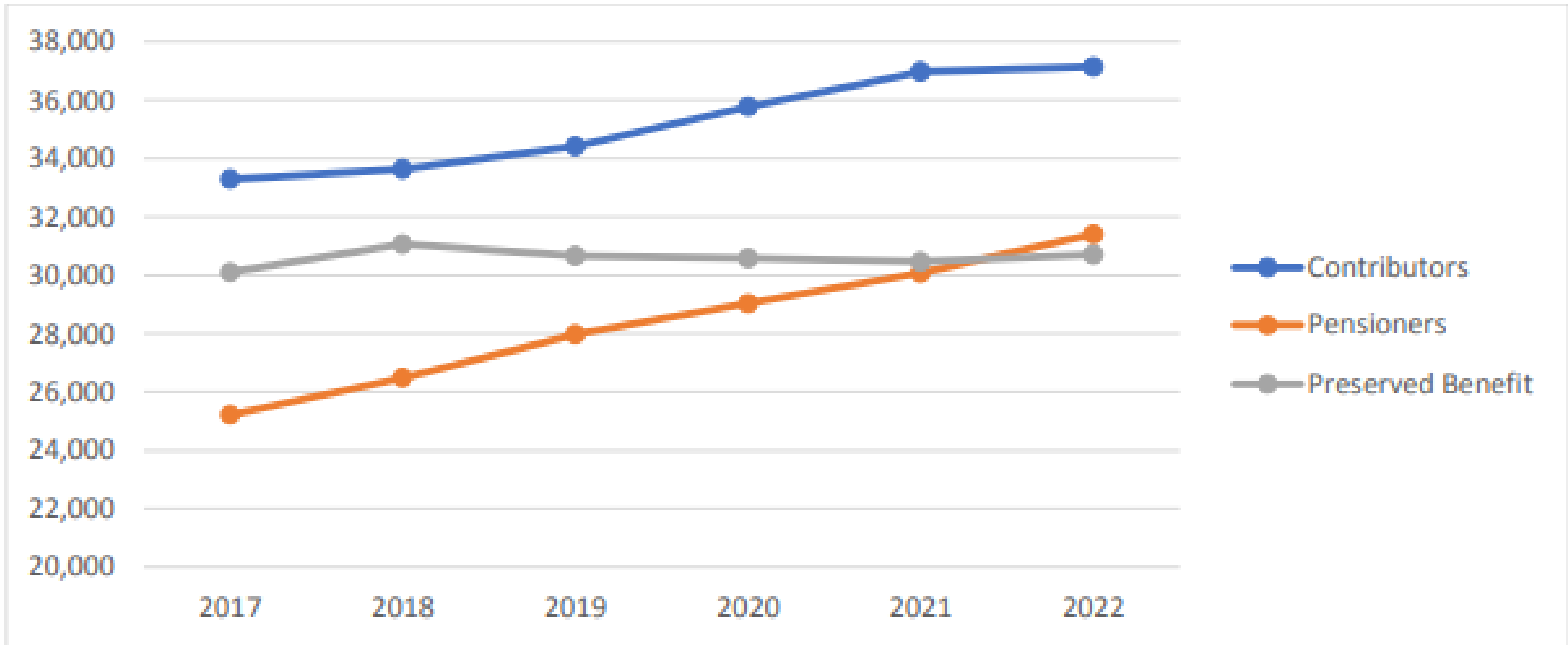
- Calculating and paying all types of pension benefits
- New starters, estimates
- New employers joining the scheme
- Regulation changes
- Year-end, valuation, benefit statements
- Governance - Reports to the Pension Board and as part of the Fund's Annual Report.

Pensions Administration

IAN HOWE PENSIONS MANAGER

Fund Statistics

	Membership Numbers 31 March 2021	Membership Numbers 31 March 2022
Active contributors	36,972	37,139
Preserved members	30,469	30,704
Pensioners	30,089	31,397
Total	97,530	99,240



Membership numbers over the last six years

Administration Statistics 2021/22

Area	Number of Cases completed
New entrants	7,397
Retirements	2,113
Preserved leavers	2,034
Deaths	1,196
Refunds	1,148
Transfers in and out	287
Estimates	1,206

Full Year - 1 April 2021 to 31 March 2022

Business Process Perspective	Target	Achieved	
Retirement Benefits notified to members within 10 working days of paperwork received	92%	89%	▶
Pension payments made within 10 working days of receiving election	95%	95%	▲
Death benefits/payments sent to dependant within 10 working days of notification	90%	87%	▶

Good or better than target

Close to target

Below target

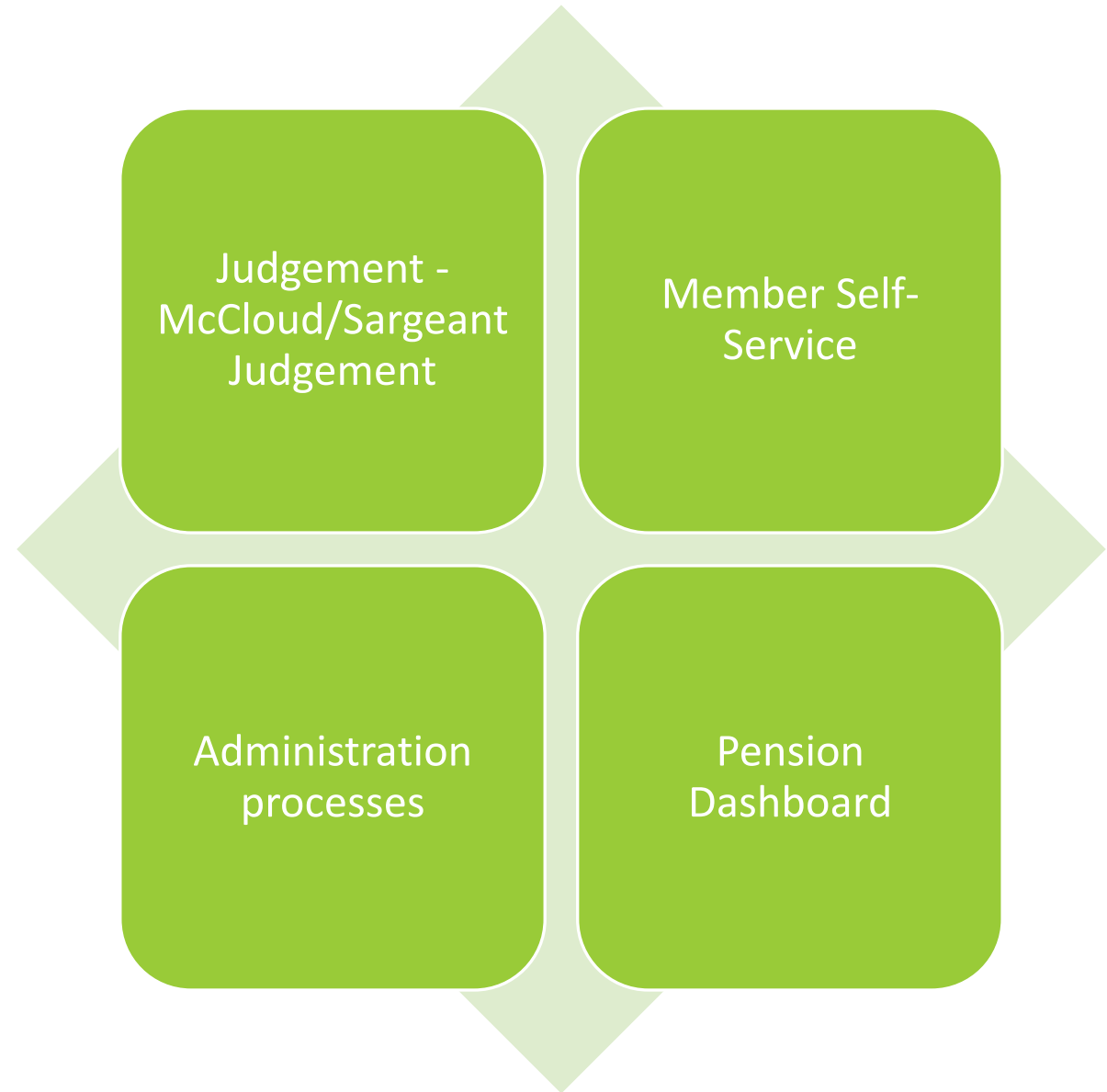
▲
▶
▼

2021/22 Admin Key Performance Indicators

Customer Perspective - Feedback	Target	Achieved	
Establish members understanding of info provided - rated at least mainly ok or clear	95%	99%	▲
Experience of dealing with Section - rated at least good or excellent	95%	92%	▶
Establish members thoughts on the amount of info provided - rated as about right	92%	93%	▲
Establish the way members are treated - rated as polite or extremely polite	97%	99%	▲
Email response - understandable	95%	93%	▶
Email response - content detail	92%	94%	▲
Email response - timeliness	92%	91%	▶

2021/22 Admin Key Performance Indicators

Looking Ahead



Looking Ahead

McCloud Sargeant Judgement

- In December 2018 the Court of Appeal found the protections granted during the move from final salary to career average (CARE) unlawful, on the grounds of age discrimination
- Remedy is being finalised for each Public Sector Scheme
- All Leicestershire Fund employers have been written to requesting scheme members hour changes for the period April 2014 to March 2022, as this will be required for the remedy.
- Subject to the final remedy, member's benefits will be “rerun”
- Benefits will be compared – using the better of final salary versus CARE
- Members benefits that increase will have arrears paid
- The increased cost of the remedy was scoped into the Fund valuation

Looking Ahead

Member Self-Service System Changes

- Further development to the Fund's member self-service system
- Over 28,000 scheme members signed up (but still much more to do)
- Working with some larger employers who have volunteered to help us increase their colleagues sign up
- An online retirement process is available allowing a scheme member to liaise directly with the Pension Section via member self-service. This includes submission of their retirement options and certificates.
- It speeds up the retirement process, makes the transfer of documents more secure, and assists with home working
- Other online processes are being developed

Looking Ahead

Bulk Administration Processes

- Bulk administration processes are being developed for high volume areas, initially preserved benefits and refunds
- Officers will be able to run multiple member calculations simultaneously, rather than singular case by case calculations
- Improves efficiency and reduce administration time in these high-volume areas
- Reduces the time between members leaving the scheme and receiving their benefits
- Resource becomes available to work on other important areas; e.g. estimates, transfers, aggregations

Looking Ahead

Dashboard

- National move to improve the member pension experience
- People will have a "single sign in" to view all their pension benefits in one place (the dashboard)
- Data will be "pulled" securely from all pension systems – including the Leics LGPS
- Officers hope this will increase our own member self-service take up and increase member awareness
- Pension schemes will have a phased implementation – starting with some of the largest schemes.
- LGPS is due to go live in 2024

Pensions Investments

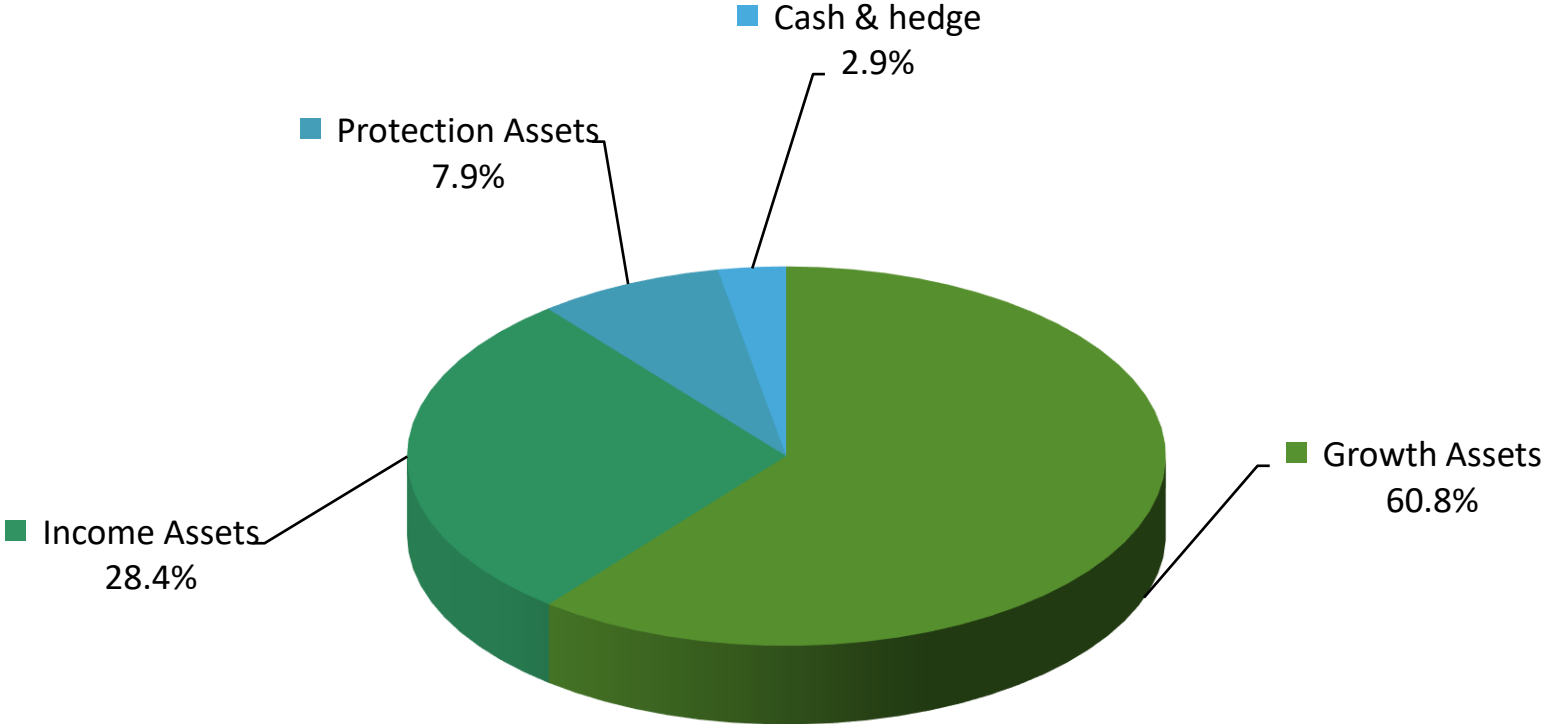
BHULESH KACHRA, SENIOR FINANCE ANALYST

Current Investment Goals

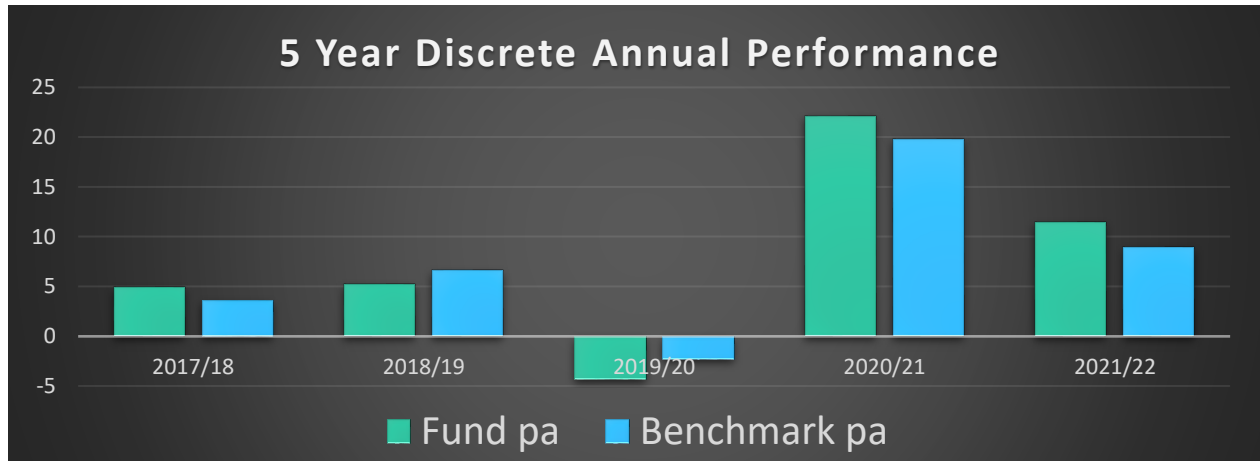
- Long term view of investment returns 20 years +
- Continued commitment to Responsible Investment with a comprehensive climate strategy currently undergoing consultation
- Balance between long term returns and risk assessed annually
- Considerable diversification to differing asset classes to balance risk
- Preference to investing with the 'Pool' (LGPS Central) and established external institutional managers
- Continued commitment to asset pooling, improving ESG goals & generating cost savings

Total Investments: £5.8bn at 31 March 2022 (£5.1bn 2021; £4.1bn 2020; £4.3bn, 2019)

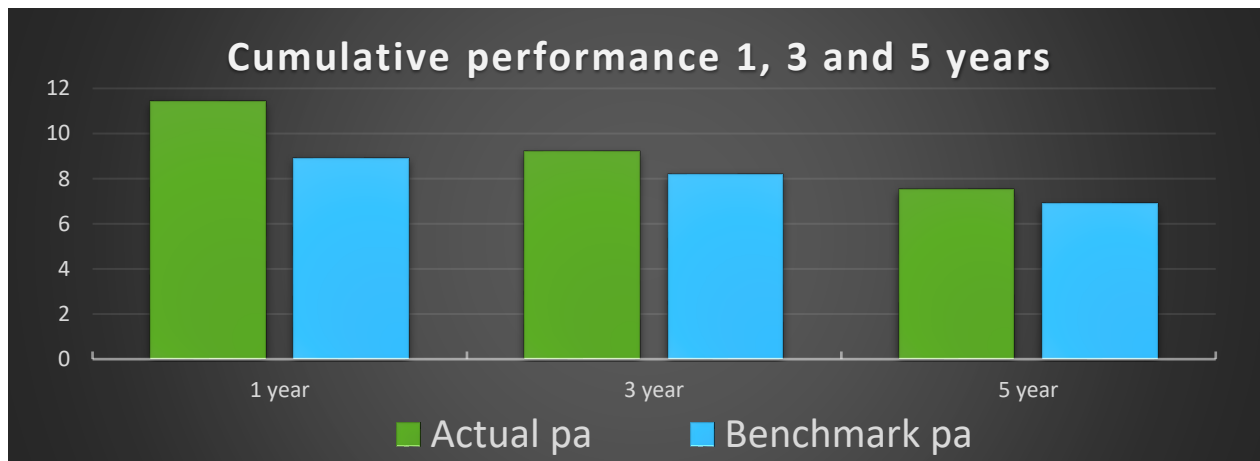
Investments as at March 2022 (£5.8bn)



Investment Returns



	Actual pa %	Benchmark pa %	Diff pa %
2017/18	4.9	3.6	1.3
2018/19	5.2	6.6	-1.4
2019/20	-4.3	-2.3	-2.0
2020/21	22.1	19.8	2.3
2021/22	11.4	8.9	2.5



	Actual pa %	Benchmark pa %	Diff pa %
1 year	11.4	8.9	2.5
3 year	9.2	8.2	1.0
5 year	7.5	6.9	0.6

Leicestershire County Council Pension Fund and LGPS Central

Government instigated 'pooling' of pension funds in 2015 with the publication of criteria and guidance on pooling of Local Government Pension Scheme (LGPS) assets.

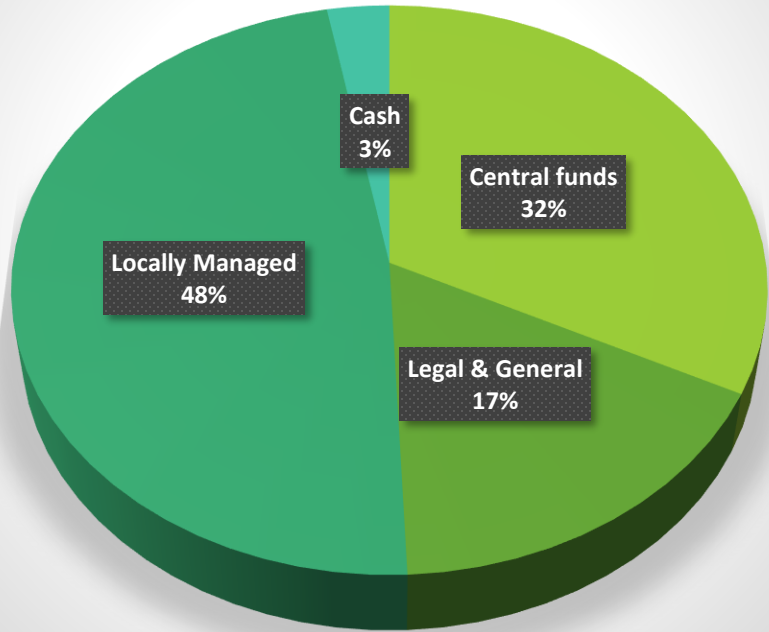
Administering authorities formed their own groups and eight asset pools were formed. LGPS Central ("Central") is one of the eight pools, Leicestershire County Council is an equal shareholder with seven other Councils.

LGPS Central has become the first port of call when assessing the needs of the Fund:

- A single investment 'manager' providing client support
- Access to Environmental, Social and Governance (ESG) specialism incorporating responsible investing and climate risk reporting
- LCC are able to influence the development of products with respect to risk and target returns characteristics
- After a number of years of launching products, Central manages a significant portion of The Fund's investments



32% of funds Pooled with Central with an additional 17% pooled with a collectively procured Legal and General low cost passive tracker



LGPS Central

The LCCPF is has invested in 10 products as 31st March 2022

- 2 active and 1 passive equity fund - c£1,600m
- 2 private equity vintages - £40m committed, £34m uncalled
- Infrastructure core/core+ £70m committed, £48m uncalled
- Private credit vintages 2021 - £160m committed , £150m uncalled
- Emerging market credit – £120m
- Multi Asset Credit – £222m
- Investment Grade Credit – £126m

Including LGIM investments the Fund has pooled 49% of total funds

The £232m of uncalled commitments when called will increase the proportion of pooled investments by c4% all else being equal

Developments since 31st March 2022

Products that aim to deliver investment returns in line with the Fund's goals have been created in conjunction with partner funds.

The Fund made a number of commitments since the year end to Central products, alongside other managers where suitable Central products were not available

As result of these additional commitments by the Fund, an additional £650m could be called by Central in the coming years.

All other things being equal this will increase the proportion of 'pooled' funds further

April 2022 – the investment sub committee approved £120m to the LGPS Direct Property Fund

July 2022 – the investment sub committee approved:

- £30m to the LGPS Central core / core + fund
- £30m to JP Morgan IIF
- £55m to Quinbrook Net Zero infra power fund
- £55m to Stafford Capital's Carbon offset opportunities fund (mainly an afforestation and reforestation fund)

October 2022 - the investment sub committee approved commitments totalling:*

- £320m to the Central private credit low return fund
- £180m to the Central private credit real assets fund
- £60m to Partners MAC7

* These private credit investments have restrictions surrounding minimum fund raises by the manager before the Fund will fully commit the amounts approved

RESPONSIBLE INVESTMENT

CAT TUOHY, RESPONSIBLE INVESTMENT ANALYST

Responsible Investment

- ❑ “Responsible investment is an approach to investment that aims to incorporate environmental including climate risk, social and governance (ESG) factors into investment decisions, to **better manage risk and generate sustainable investment returns**”
- ❑ Member of Local Authority Pension Fund Forum.
- ❑ Annual Climate Risk Report and reporting under the Taskforce for Climate related Financial Disclosures since 2020
- ❑ Key engagement topics with LGPS Central:
 - Climate change
 - Plastic
 - Fair Tax Payment and Tax Transparency
 - Human Rights Risks




ENVIRONMENTAL

- climate change
- resource depletion
- waste
- pollution
- deforestation



SOCIAL

- human rights
- modern slavery
- child labour
- working conditions
- employee relations



GOVERNANCE

- bribery and corruption
- executive pay
- board diversity and structure
- political lobbying and donations
- tax strategy



Leicestershire County Council
Pension Fund

Net Zero Climate Strategy

Draft November 2022

Draft Net Zero Climate Strategy

- First engaged on 9 targets and metrics, over 1000 responses.
- 70% supportive of overarching primary target Net Zero by 2050, with an ambition for sooner.
- Strategy looks to manage climate risk and opportunities by working with managers, companies and investing in climate solutions.
- Recognises limitations on the Fund, but that limitations are not a reason to delay taking action where we can.

HAVE YOUR SAY

Consultation on the draft Strategy until 5 February 2023. More information on the Pension Fund's Member Self Service site:

<https://leicsmss.pensiondetails.co.uk/>



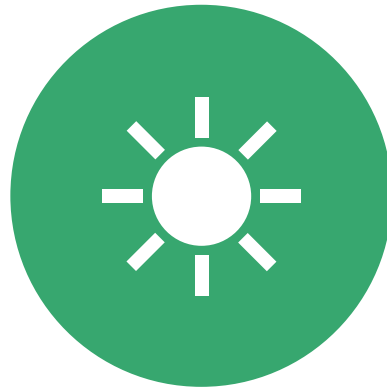
Action We're taking

- The Fund is already 26% less carbon intensive since its initial measurement as at 31st December 2019 across measurable investments.
- Transitioning £800m+ to sustainable and low carbon investment strategies.
- Investment in timberland (forestry) since 2011. Our investments extend across 12 countries, and covers the equivalent of 17% (363 km)² of Leicestershire's surface area.
- This sequesters more than 720,000 tonnes of carbon dioxide from the atmosphere each year. This is equivalent to the annual emissions from 233,000 cars, or 62% of reported emissions within the City of Leicester in 2020.

RI in the Year Ahead



2023 RI PLAN



COMPLETION OF
CONSULTATION AND APPROVAL
OF NET ZERO CLIMATE
STRATEGY



DEVELOPMENT OF THE FUNDS
CLIMATE RISK ANALYSIS

Agenda Item 7: Fund Valuation

TOM HOARE, RICHARD WARDEN, STEVEN TART, HYMANS ROBERTSON

Leicestershire County Council Pension Fund

2022 valuation – AGM

Tom Hoare

Steven Tart

12 December 2022

What we will cover today

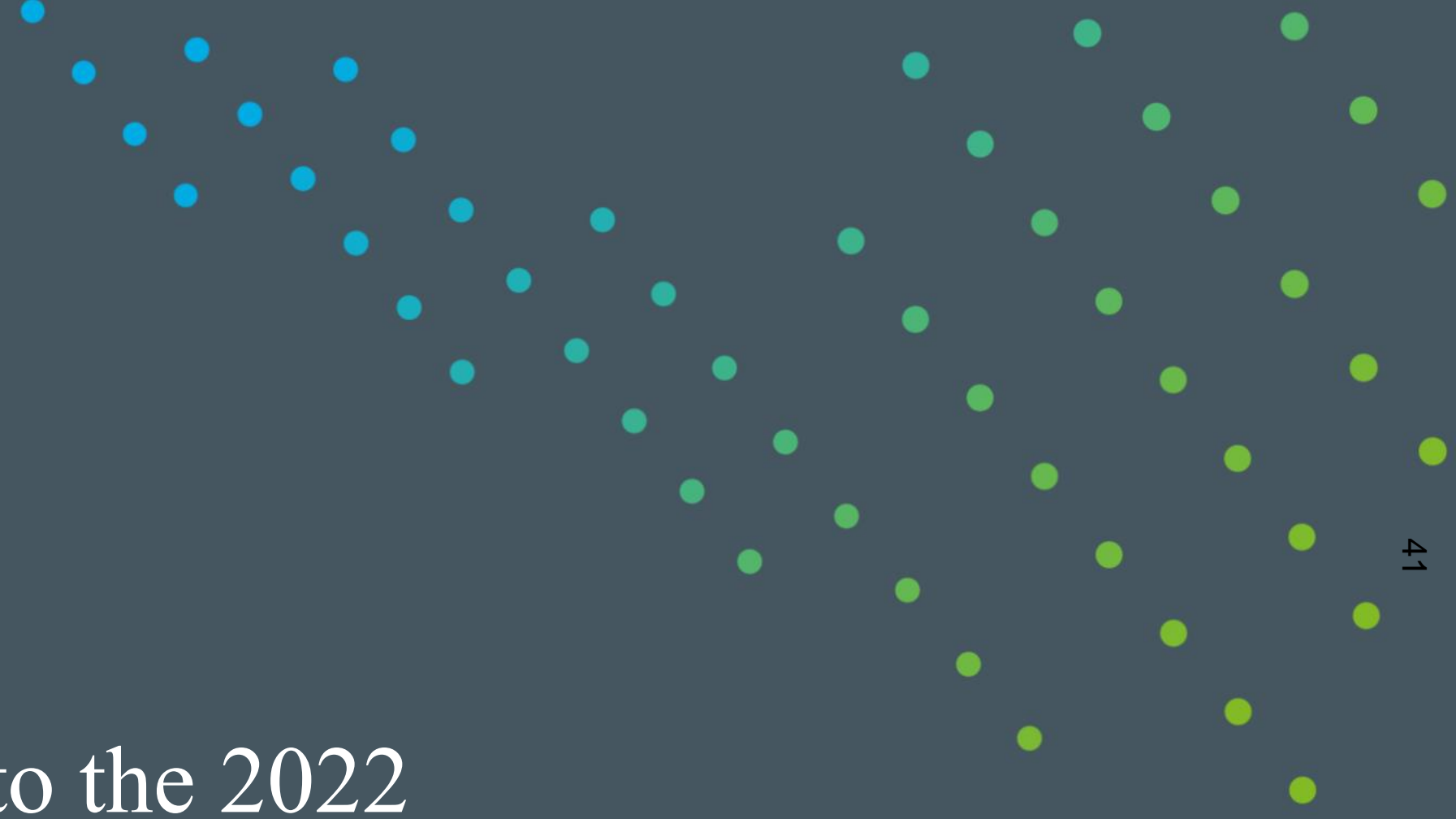
- 1 Background to the 2022 valuation
- 2 Inputs - what we need
- 3 Method - what we do
- 4 Results - what employers & Officers get



Tom Hoare



Steven Tart



Background to the 2022 valuation

How the Fund works



Collect money
(contributions)



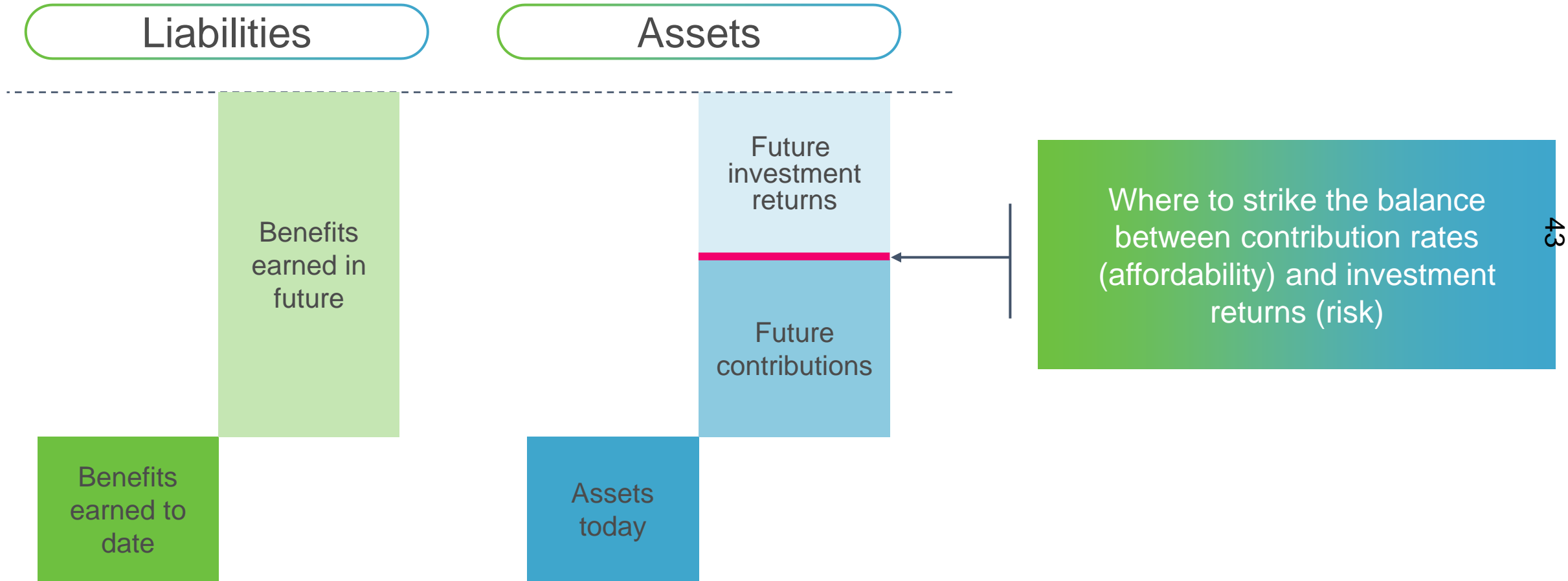
Invest money
(its assets)



Pay money out
(benefits)

Contributions and investment returns fund all the benefits

Key funding decision per employer



Why we do a valuation?



Calculate employer contribution rates



Compliance with legislation



Analyse actual experience vs assumptions



Review Funding Strategy Statement



Part of continual 'health check' on fund solvency

The valuation is a key risk management for the fund

How we do the valuation

Inputs – what we need

Data for each member
past & present

Financial and
demographic assumptions

Funding and investment
strategy

LGPS benefit structure

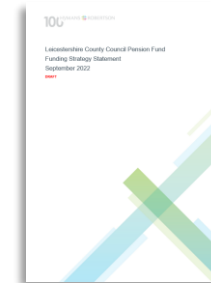
Method - what we do



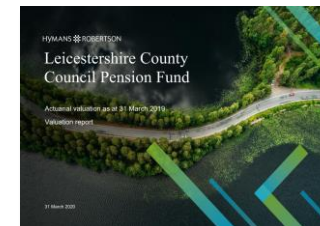
Results - what employers & Officers get



Individual employer
results schedule



Updated Funding
Strategy Statement



Final valuation report

2022 valuation timetable

Q4 2021 – Q1 2022

Pre-valuation work:

- Planning
- Data cleansing
- Review of assumptions
- Review of stabilisation mechanism for precepting employers



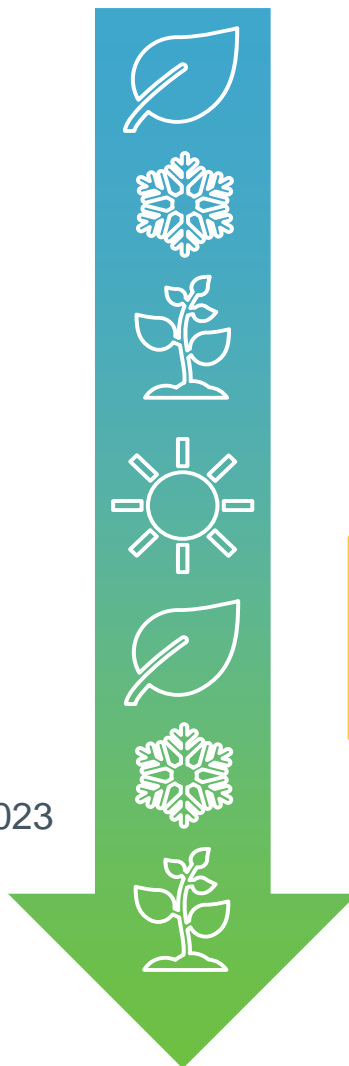
Q3 2022

Data cleansed and submitted to actuary
Review of strategy for all employer groups
Initial results & discussions with Officers



Q1 2023

Funding strategy statement finalised
Final valuation report signed off by 31 March 2023



Q2 2022

Contribution rate modelling for stabilised employers



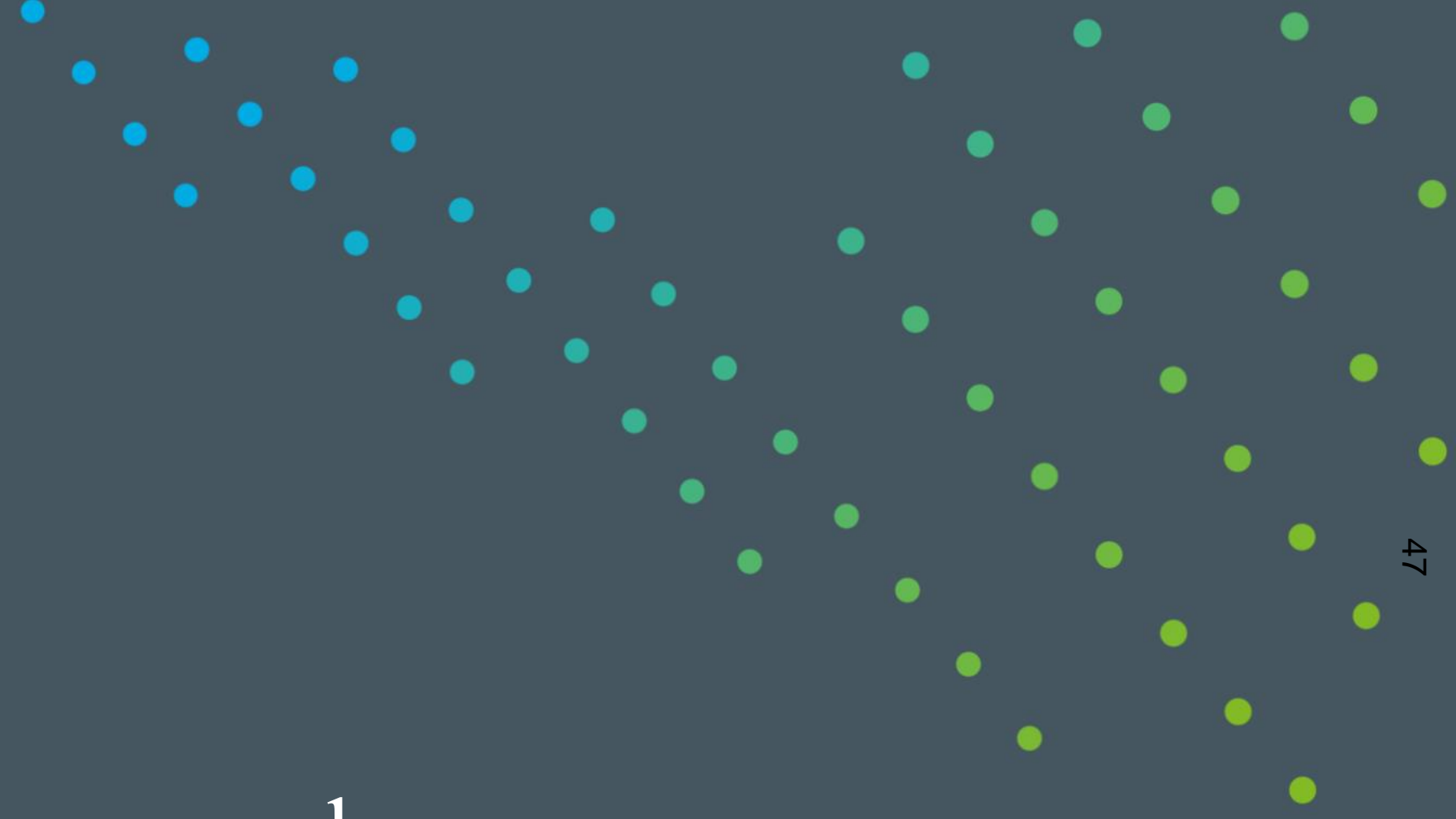
Q4 2022

Employer results issued to employers
AGM & consultation period
Funding Strategy Statement consultation



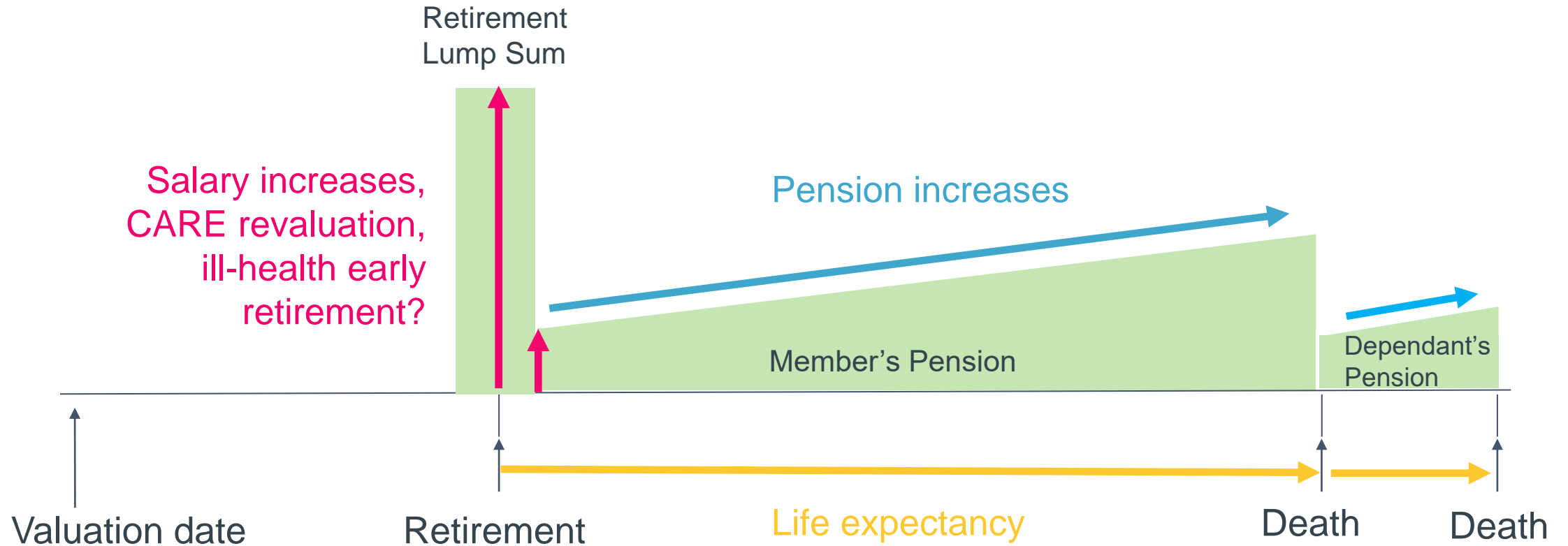
1 April 2023

New employer contributions come into payment



Inputs – what we need

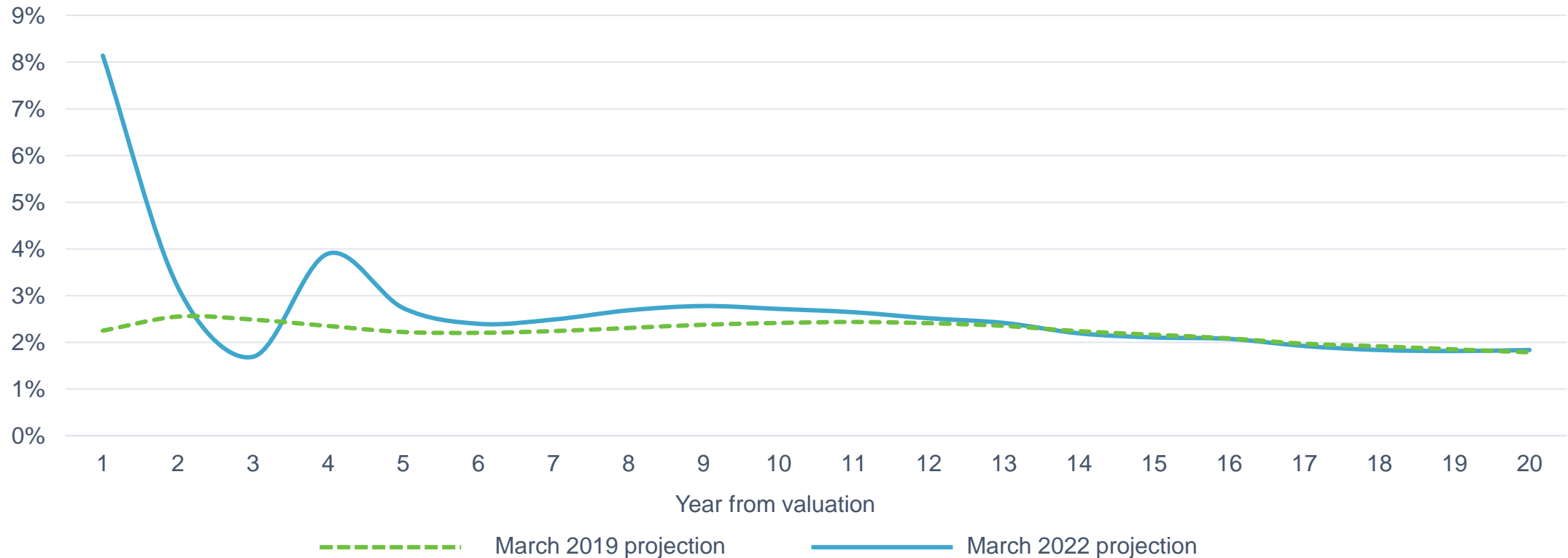
Assumptions – why they are needed



No significant changes in assumptions, except for inflation...

CPI inflation – 2019 vs. 2022

Annual CPI inflation – 2019 vs. 2022



Average level of future inflation: 2019 = 2.3% pa, 2022 = 2.9% pa

Source: Hymans Robertson ESS model

How to capture variable longevity



Gender/
generation



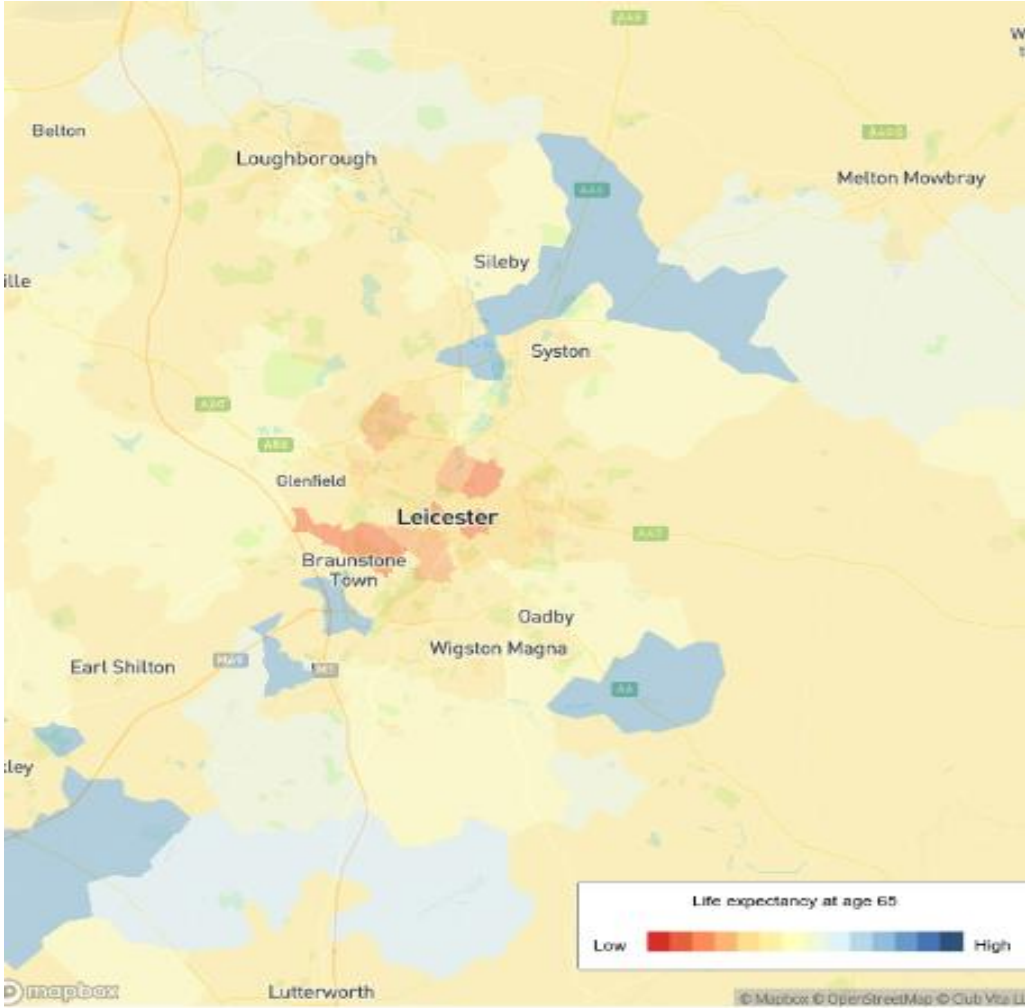
Pay/Pension



Reason for
retirement



Postcode

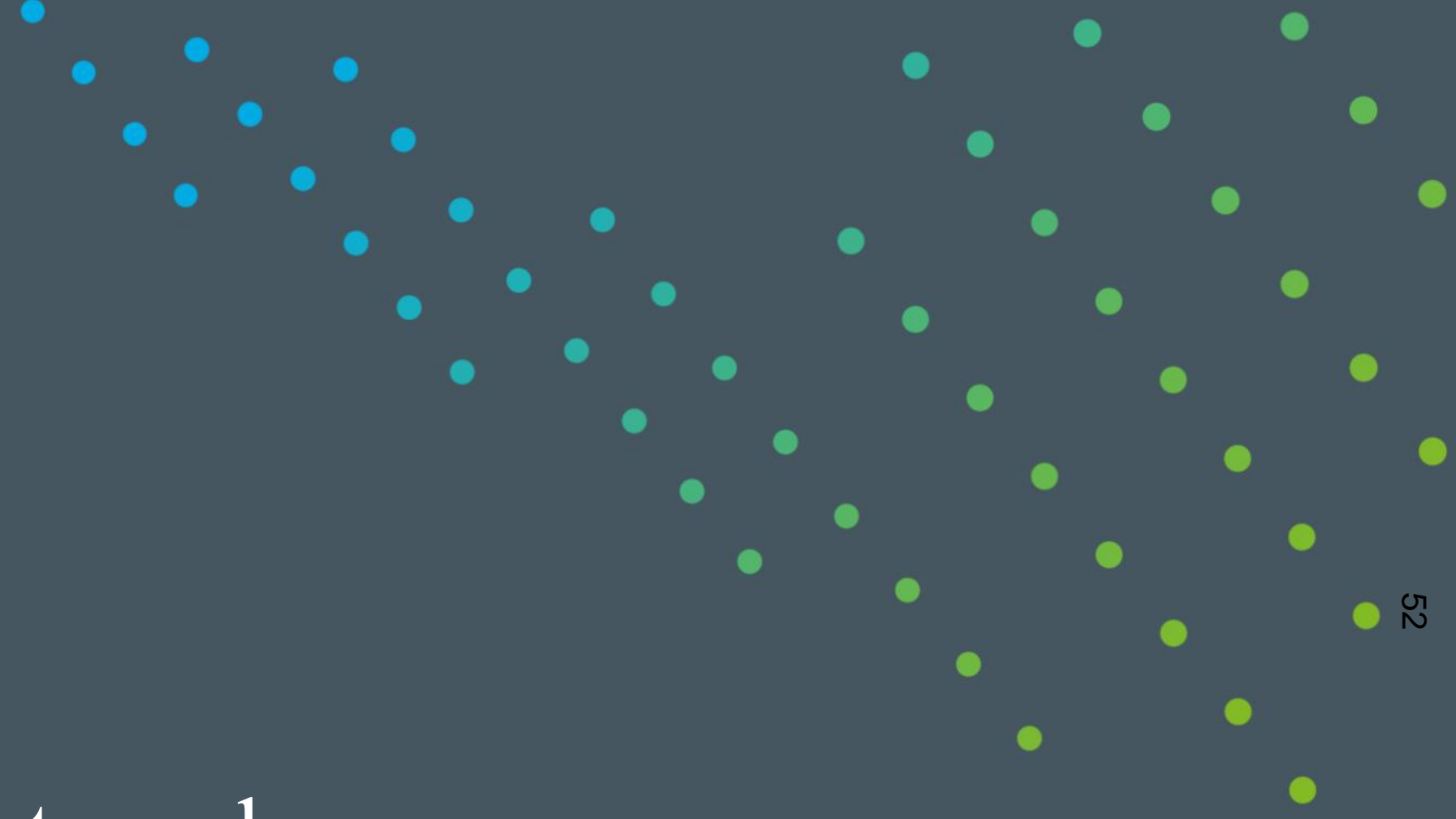


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Benefit structure - McCloud

- Extension of 'best-of' underpin for service between 2014 & 2022
- Given the 'best-of' nature, some members may see an increase in benefits
- At 2022, more certainty about the format of the remedy in LGPS
- We have built in allowance for McCloud at this 2022 valuation into employer funding positions

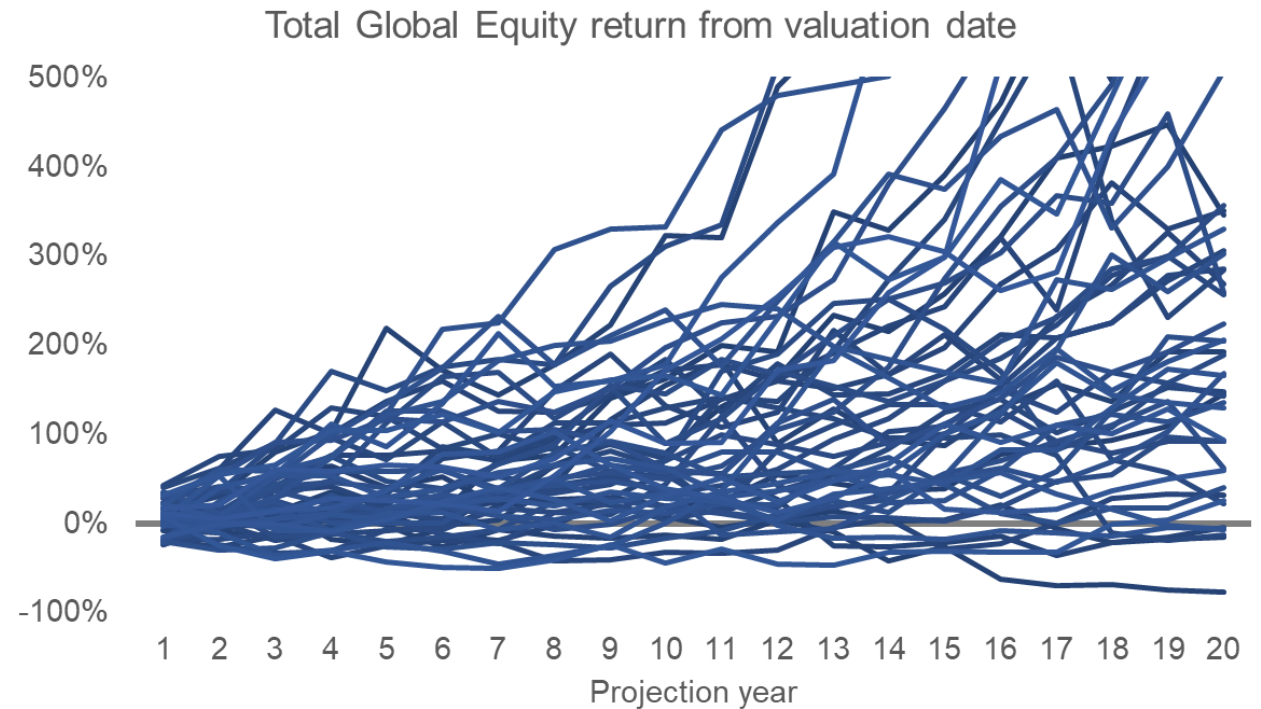
Overall cost impact to the Fund is small (c0.2% of liabilities), but will vary by employer



Method - what we do

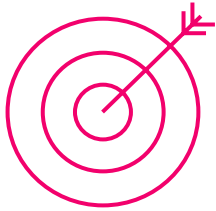
Risk-based valuation approach

- Future investment returns and inflation are uncertain and volatile
- Use a valuation approach which reflects the real-world
- Capturing uncertainty allows users to better understand risk funding plans
- Model 5,000 different future economic scenarios

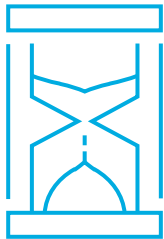


Real world approach applied to each of the Fund's asset classes

3 steps to setting the funding strategy



What is the funding target?

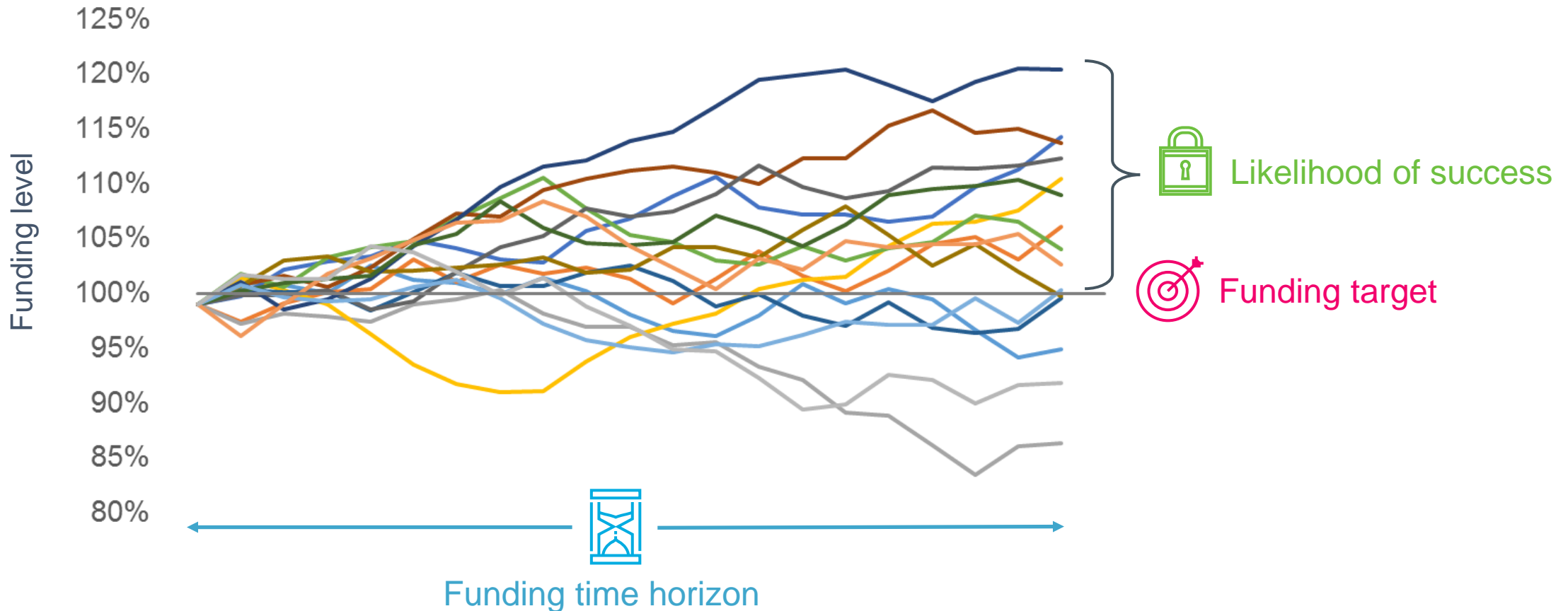


How long do we want to give the employer to get to the target?



How sure do we want to be that the employer hits the target? (75%)

Setting risk-based contribution rates



Set contribution rate to have sufficiently high likelihood of meeting the funding target at the end of the time horizon



Results - what employers & Officers get

Single reported 2022 funding position

- Funding position has improved since 2019
- Mainly due to strong investment returns over inter-valuation period
- Important to remember limitations with funding level
 - It only considers past service
 - It is a snapshot on one particular day, it will fluctuate

Valuation Date	31 March 2022	31 March 2019
Past Service Liabilities	(£m)	(£m)
Employees	2,131	1,842
Deferred Pensioners	1,077	966
Pensioners	2,299	2,041
Total Liabilities	5,507	4,849
Assets	5,790	4,312
Surplus/(Deficit)	283	(537)
Funding Level	105%	89%

Numbers may not add up due to rounding

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Funding level improvement comparable to LGPS peers*

* 2022 valuation results - early insights - Hymans Robertson

Individual funding positions

Funding profile

Balance between past and future service matters at 2022

Membership experience

Events such as ill-health retirements, salary increases will affect employer funding positions

Membership profile

Differences such as age and gender will affect the contribution rate

Contributions being paid

Higher contributions will result in a larger funding level improvement

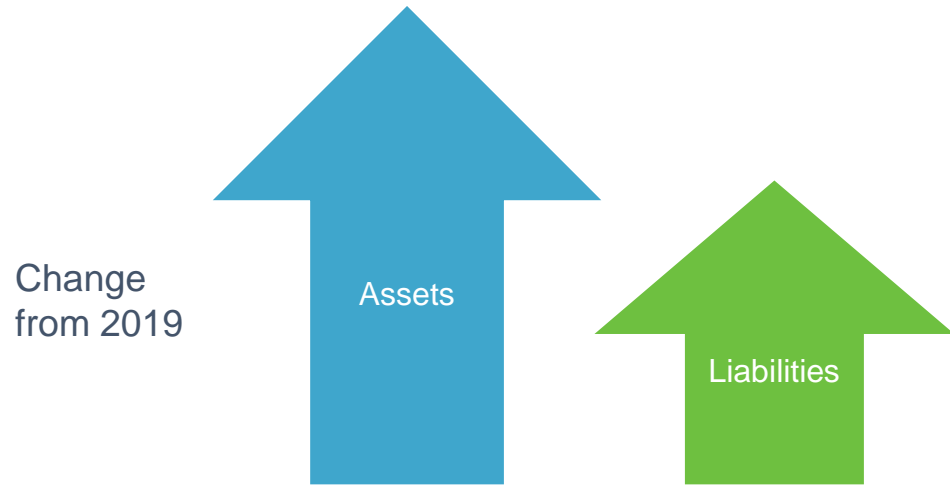
Difference in average life expectancy (from fund average) for each employer



No two employers are the same

Funding themes at 2022 valuation

Funding position + secondary contributions



Likely see an improvement in funding position and lower secondary contributions...

Primary contributions



...but primary rates don't benefit from asset performance and may see upward pressure due to inflation pressures

Net impact will vary by employer, depending on funding profile

Your own contribution rates from 1 April

Contribution rates

Employer contribution rates for year ending	Primary	Secondary	Total		
	% of pay	% of pay	£	% of pay	£
31 March 2023				25.4%	0
31 March 2024	23.5%	1.9%	0	25.4%	0
31 March 2025	23.5%	1.9%	0	25.4%	0
31 March 2026	23.5%	1.9%	0	25.4%	0

The above contribution rates are the minimum rate required by the Fund. In most circumstances you can pay additional contributions to improve your funding position but this should be referred to the actuary first. The Primary Rate includes an allowance of 0.4% of pay for administration expenses. Employer contribution rates are due in addition to employee contributions. The average employee contribution rate is 6.0% of pay.

Outlined on p1 of employer results schedules

Funding Strategy Statement review

- No material changes in funding strategy at 2022 valuation
- Improved structure and layout
- Improve accessibility and navigation
- Updated FSS will be sent round for consultation to all employers



**Please read, understand what it means for you
and let the Fund know your thoughts**

2022 valuation timetable

Q4 2021 – Q1 2022

Pre-valuation work:

- Planning
- Data cleansing
- Review of assumptions
- Review of stabilisation mechanism for precepting employers



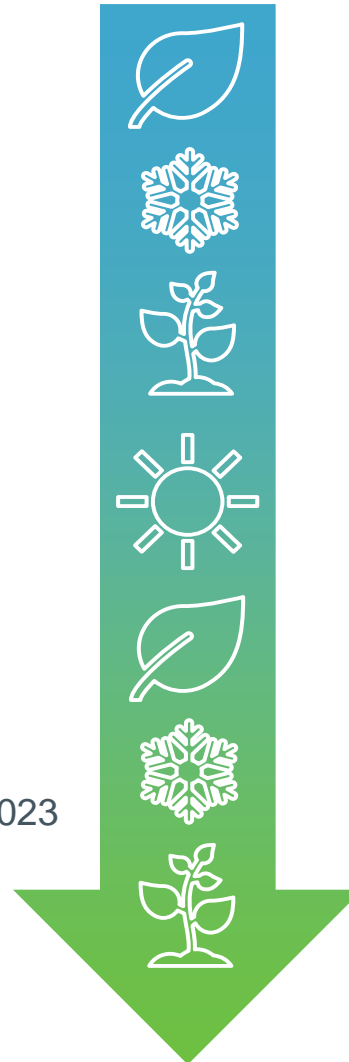
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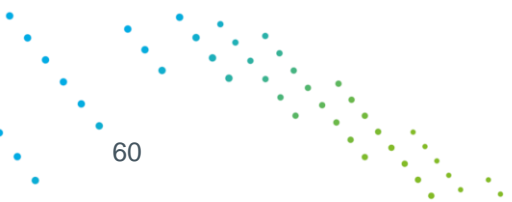
Q4 2022

Employer results issued to employers
 Employer Forum & consultation period
 Funding Strategy Statement consultation



1 April 2023

New employer contributions come into payment



What employers need to do



Read the results schedule

Check the data is correct, understand your current funding position and the contributions that you will pay from 1 April 2023



Review the updated Funding Strategy Statement

Understand how the Fund's strategy applies to your participation in the fund



Talk to the Fund

Ask any questions and let them know about any possible changes in circumstances

Thank you

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