Serving the people of Cumbria

Agenda

- What is the Local Government Pension Scheme (LGPS)
- Cumbria fund specifics
- National and Cumbria LGPS governance structures
- Roles and responsibilities of Cumbria Local Pension Board
What is the Local Government Pension Scheme (LGPS)
What is the LGPS?

- Defined Benefit Pension Scheme available to Local Govt. & Local Govt. service provider employees
- Collection of 89 Funds across England & Wales making 1 Scheme (11 Scotland)
- Providing Pensions for just over 5m members
- Approx. 10,700 employers
- Managing £192.1bn assets nationally
- 5th largest Funded Pension Scheme in the world
- Deficits approx. £51bn
- 79% funded
Aims & Purpose

To pay pensions & benefits (as defined by regs) BY:-

- collecting contributions (employer & employee) & other income (investment) as its due.
- ensuring the long term solvency of the Fund (managing assets & liabilities).
- ensuring that employer contribution rates remain as stable as possible.
Public / Private Pension Schemes

- Almost all private sector schemes have closed their *Defined Benefit* Schemes in favour of *Defined Contribution* Schemes (on grounds of affordability).
- All public sector schemes remain defined benefit.
- Accounting / valuation (funding rules) different – government guarantee.
- Auto enrolment applies to all employers.
What makes the LGPS Different to other Public Sector Pension Schemes?

- Most public sector schemes are “pay as you go” (Police; NHS; Fire; Civil Service) = 0% funded
- Only public sector funded schemes are LGPS 79% funded; USS; Environment Agency
- Quantity; variety; rapidly changing employer base
- Locally not nationally administered
- Long standing, well regulated but varied governance structure’s.
Cumbria Fund
Specifics
As at March 2015

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Cumbria LGPS In Numbers

- 52,676 members
  - Actives 16,506
  - Deferred 21,768
  - Pensioners 14,402

- 118 employers
  - County Council & 6 District Councils
  - 67 scheduled bodies (11 no actives)
  - 44 admitted bodies (10 no actives)

13.5% of Adult population of Cumbria depends on our Fund

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Membership Trends
(at Triennial Actuarial Valuations & Current Year)

ISSUE - Actives decreasing as a % of total membership

<table>
<thead>
<tr>
<th>Year</th>
<th>Active</th>
<th>Deferred</th>
<th>Pensioners</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>14,520</td>
<td>6,725</td>
<td>9,260</td>
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<tr>
<td>2004</td>
<td>16,359</td>
<td>8,226</td>
<td>9,767</td>
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<tr>
<td>2007</td>
<td>16,602</td>
<td>11,699</td>
<td>10,395</td>
</tr>
<tr>
<td>2010</td>
<td>17,886</td>
<td>12,901</td>
<td>12,549</td>
</tr>
<tr>
<td>2013</td>
<td>15,969</td>
<td>19,525</td>
<td>13,594</td>
</tr>
<tr>
<td>2015</td>
<td>16,506</td>
<td>21,768</td>
<td>14,402</td>
</tr>
</tbody>
</table>
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Number of employers doubled from 2001
Disproportional increase in costs

Employer Trends

<table>
<thead>
<tr>
<th>Year</th>
<th>Admitted Bodies</th>
<th>Scheduled Bodies</th>
<th>CCC &amp; District Councils</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>47</td>
<td>31</td>
<td>7</td>
</tr>
<tr>
<td>2011</td>
<td>47</td>
<td>32</td>
<td>7</td>
</tr>
<tr>
<td>2012</td>
<td>46</td>
<td>52</td>
<td>7</td>
</tr>
<tr>
<td>2013</td>
<td>42</td>
<td>56</td>
<td>7</td>
</tr>
<tr>
<td>2014</td>
<td>45</td>
<td>59</td>
<td>7</td>
</tr>
<tr>
<td>2015</td>
<td>44</td>
<td>67</td>
<td>7</td>
</tr>
</tbody>
</table>
Investments

- Investment assets: £2.005bn
- 2014/15 assets increased by £0.243m from £1.762bn to £2.005bn 15.2% net return
- Above Fund benchmark performance 1, 3, 5 & 10 years – LONG TERM OUTLOOK
- Defensive allocation strategy, invested across 9 asset classes (13 investment managers).
- Peer Ranking 1, 3, 5, 10 years is 16; 18; 16; 34 / 100

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Investments (March 2015) £2.005bn

- UK Equities, £382.8m (19%)
- Overseas Equities, £700m (35%)
- Property, £145.5m (7%)
- Cash & Derivatives, £37m (2%)
- Alternatives, £218m (11%)
- Index-Linked Bonds, £373.3m (19%)
- Fixed Interest Bonds, £148.3m (7%)

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Fund Specific Performance

Performance should be measured to own benchmarks – targeting different liabilities

* Net of fees

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Liabilities

- Funding level
  - 78% at 2013 valuation
  - 79% March 2015.

- Ranking
  - 21/85 on standardised 2013 valuation (Mercers)
  - 41/89 no standardisation

Beware quoted valuation results – they are not comparable……
Standardised 2013 Valuation Results

Top quartile funding; low required return

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Cumbria Funding Position

Assets = 😊
Liabilities = 🙁

Funding level:
2004: 76%,
2007: 81%,
2008: 70%,
2009: 60%,
2010: 79%,
2011: 82%,
2012: 70%
2013: 69%
2014: 85%
2015: 79%

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Operational Structure

**ADMINISTRATION**
All dealings with employers and members
Mix of internal team & Shared Service with Lancashire – Your Pension Service YPS

**GOVERNANCE**

**ACCOUNTING**

**OVERSIGHT**

**INVESTMENTS / LIABILITY MANAGEMENT**
Range of external contracts (investment managers; custodian; actuary; proxy voting) managed by Internal team

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Administration Performance 14/15

- All KPI targets exceeded & overall achievement against KPIs = 98%.
- Approx. 25,300 contact points with members.
- Surgeries, roadshows & training for members & employers.
- Cumbria cost per member = £18.92:
  - comfortably lower than CIPFA average (£20.75), &
  - ranked 29th lowest out of 89 per SF3 data
Achievements Against 2014/15
Business Plan included:

- 92.3% of investment strategy review outcomes implemented
- Revised tiered performance reporting framework implemented
- Scrutiny of fund manager fees: secured c.£0.690m of reductions & c. £0.187m one-off saving
- Worked with employers to support them in development of process to deliver CARE data
- Reviewed & subsequently extended actuarial services contract
- Retendered proxy voting service provider
- Provided effective training to members, partners and colleagues

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Score Card Performance Summary

- Investments exceeded internal benchmarks & LGPS peers average returns (1, 3, 5 & 10 years).
- Delivery of admin improvements; 2014 Scheme & further cost efficiencies, below average comparator costs.
- Good Audit Results internal & external.
- Governance recognised nationally.
- Achieved all substantive outcomes in an stretching business plan within budget.
2015/16 Business Plan
(Our “To Do” List)

- Implement the final aspects of the investment strategy review outcomes
- Recruit & train new staff
- Complete Annual Report & Accounts 2015/16
- Initial 2016 actuarial valuation work
- Creation, establishment and training for Cumbria LGPS Local Pension Board
- Involvement in consultations & assessment of impact on Cumbria of national decisions on future structure of LGPS
- Enhancement of contract review procedures & performance monitoring
- Further develop the Fund’s stewardship & corporate engagement framework
- Provide effective training to members, partners and colleagues

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National and Cumbria LGPS Governance Structures (following 2013 Public Sector Pensions Act)

Where do you fit in?
New Roles Under PSPA 2013

The Act sets out distinct roles to be performed in every Public Service Pension Scheme, these are:-

- The **Responsible Authority** - DCLG (Clause 2)
- The **Scheme Manager** – Admin Auth (Clause 4)
- The **National Scheme Advisory Board** (Clause 7)
- The **Pensions Regulator** (Schedule 4 PSP Act)
- The **Pension Board** - Admin Auth (Clause 5 & 6)
National LGPS Governance Structures

- Scheme Advisory Board
- Responsible Authority (Secretary of State)
- Pension Board
- Scheme Manager (Administering Authority)
- The Pensions Regulator

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Responsible Authority

- The person who makes regulations for the Scheme (administration; investment & governance),
- For the LGPS this is the Secretary of State for DCLG who is responsible for policy.
- NEW Clause 3(5) of the Bill provides that the consent of HM Treasury is now required before any regulations can be made.
Scheme Manager

- Responsible for managing or administering the scheme and any other statutory scheme connected with it.
- For unfunded Schemes = the Responsible Authority
- For LGPS = the administering authority as currently defined by LGPS regulations.
- For Cumbria = the County Council
National Scheme Advisory Board

- National body responsible for providing advice to the Responsible Authority & the Local Pension Boards.
- Been in shadow form for a year
- LGPS’s will fund this, currently consulting on how these costs will be allocated – likely to be on membership numbers.
The Pensions Regulator (tPR)

- tPR now has a role over all public service pension scheme's
- For LGPS exclude oversight of investments
- tPR Code of Practice no.14
- Link to local Funds through Pension Boards and the Administering Authority
- Role & toolkit mirrors current codes in existence for the private sector where its role is well established

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Pension Board – You!

- Responsible for “assisting” the Administering Authority in:-
  - securing compliance with scheme regulations, other legislation covering governance and administration and the requirements of the Pensions Regulator.
  - securing effective and efficient governance and administration of the Scheme.
- Not a decision making body.
Roles and responsibilities of Cumbria Local Pension Board

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Cumbria LGPS Governance Structure

- Scheme Advisory Board
- Responsible Authority (Secretary of State)
- Scheme Manager = Administering Authority = Cumbria County Council
- Local Pension Board
- Pensions Committee
- The Pensions Regulator
- Investment Sub Group
- Forum

Do not use fonts other than Arial for your presentations.
Cumbria LGPS Governance Framework

ADMINISTERING AUTHORITY / SCHEME MANAGER
FULL COUNCIL

LOCAL PENSION BOARD
1 Employer CCC (Advisory)
1 Employer District Councils
1 Employer Other
3 Member Representatives
(Selected to ensure all membership types represented)

PENSIONS COMMITTEE
8 CCC Cllr’s (Strategic Decision Makers)
1 District Cllr
2 Trade Union
2 Independent Advisors

INVESTMENT SUB GROUP
S151 (Tactical Decision Maker)
3 Cllr’s
1 CIO
2 External Advisors

PENSIONS FORUM
Employers (Consultative) Members

OFFICERS
Regulation 106 - Establishment / Operation

- Each admin authority to establish a local pension board by 1\textsuperscript{st} April 2015.

- Must be operational as soon as reasonably practicable – DCLG advised first meeting no later than end July 2015.
Regulation 108 & 109 – Conflict of interest and Guidance

- Each admin authority to be satisfied that appointees to a LPB do not have a conflict of interest*
- Gain ongoing satisfaction of this
- Appointees to provide reasonable information to the admin authority in this regard

“Conflict of interest” is defined in PSPA 2013 as “a financial or other interest which is likely to prejudice the person’s exercise of functions as a member of the board (but does not include a financial or other interest arising merely by virtue of membership of the scheme or any connected scheme)”.

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## Role Profile - Capacity

<table>
<thead>
<tr>
<th>Essential Criteria</th>
<th>Desirable Criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ Demonstrate commitment to the role.</td>
<td>▪ Knowledge of Pension Funds and Schemes.</td>
</tr>
<tr>
<td>▪ Demonstrate commitment to undertake training as determined by the Fund.</td>
<td>▪ Experience of participating in meetings open to the public and press.</td>
</tr>
<tr>
<td>▪ Willingness to travel with the Committee within the UK with some over-night stays.</td>
<td>▪ Mathematical / statistical literacy.</td>
</tr>
<tr>
<td>▪ Experience of understanding complex financial matters.</td>
<td></td>
</tr>
<tr>
<td>▪ Experience of working effectively with colleagues as part of a team.</td>
<td></td>
</tr>
<tr>
<td>▪ The ability to come to an objective view based on evidence provided.</td>
<td></td>
</tr>
<tr>
<td>▪ To be discreet with sensitive information.</td>
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</tbody>
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First Meeting - Check List

- Noting of Chair and election Vice Chair
- Adoption of Terms of Reference including Code of Conduct
- Confirm understanding of the role of the Board
- Adoption of Conflicts of Interest Policy
- Review Fund work plan for 2015/16
- Consideration of any audit reports
- Future Meeting Dates
Proposed Second Meeting - Check List

- Adoption of Training Policy
- Creation Board work plan for 2015/16
- Consideration of latest Pension Committee meeting papers
- Consideration of draft 2014/15 annual report and accounts
- Consideration of any audit reports
- Ensuring compliance with tPR Code of Practice
In Summary – Local Pensions Boards

- Established by April 2015 / Operational July 2015
- Equal employer & member representatives.
- Members must not have a conflict of interest.
- Members have capacity to undertake role.
- Funded locally.
- Specific duties re tPR
- Role is to assist, not decision making body
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