

Local Pension Board

MINUTES of the Local Pension Board meeting held on Wednesday 07 October 2020
at 10.00 am Online using Microsoft Teams

PRESENT:

- Mike Ellsmore – Independent Chair
- Dominic Cain – Employer Representative
- Diana Lupulesc – Employee Representative
- Tony O’Brien – Retired Employee Representative
- Allan Wells – Employer Representative
- Mike Antoniou – Schools Employer Representative

**OTHERS
PRESENT:**

- Barry Berkengoff – Pensions Manager
- Caroline Watson – Senior Finance Manager
- James Gilliland – Divisional Accountant

1. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Neil Tasker.

2. NOTICE OF INTENTION TO CONDUCT BUSINESS IN A CLOSED MEETING

It was confirmed that agenda item 11 Pensions Advisory Panel Meeting Papers would be conducted in a closed meeting.

3. DISCLOSURE OF INTERESTS AND DISPENSATIONS

Mike Ellsmore (ME) had an interest in item 14 and declared his intention to recuse himself from the meeting at that point.

4. MINUTES

RESOLVED:

That the open minutes of the local pension board meeting held on 26 February 2020 be agreed as a correct record and signed by the Chair.

5. ACTION TRACKER

Caroline Watson (CW) provided an update. It was confirmed that the COP14 review improvement plan would be tabled at the Pensions Advisory Panel meeting in November and at the January 2021 LPB meeting.

An update on the National Cost Transparency Initiative is covered at agenda item 10.

6. PENSION SERVICES UPDATE

Barry Berkengoff (BB) addressed the board.

BB advised that following a six-month pilot and formal review, the enquiries helpdesk that was being handled by Contact Centre (Queens Road) will be brought back in-house under Pension Services control. The intention is to complete this by early 2021 and create a First Contact Resource Centre, handing enquiries from members, employers and other stakeholders.

Following a review of LGPS pensions admin software, Pension Services have procured pensions admin software from Civica, a market leader specialising in LGPS. The advantages of switching to Civica's Universal Pensions Management (UPM) software includes improved operational efficiency and greater improvements in member self-service, and communication and engagement with members and employers. The new admin software will go live to coincide with the existing software contract with Heywoods expiring in April 2022.

As part of the procurement of UPM, pensioner payroll will also be integrated within Pension Services for greater efficiencies. Go-live is expected around May 2021 although the intention is to do at least three parallel payroll runs (against the Council's own payroll system 'SAP') in January - March 2021. Furthermore, to reduce possible risk around pension increase 2021, this will be processed in April 2021 under SAP. Accordingly, a new Pensions Payroll Manager will be recruited within the team. This will most likely be on a temporary position initially during the implementation phase before a permanent position is sought internally/externally. Likewise, with the Contact Centre enquiry work, a new First Contact Team Leader is being sought.

6,500 annual benefit statements were issued in August to active members, and around 70 pensions savings statements were issued early October to active members who had breached the annual pensions allowance. Those with tax liabilities to pay mainly have substantial Pre 2014 Final Salary service.

Pension Services have rolled out training to HR Business Partner colleagues covering specific pensions topics relevant to their HR roles, especially around employer responsibilities. This is going well and further training sessions (covering topics such as flexible and ill-health retirement) is booked in over the next three months.

A pensions awareness initiative is underway; not only to explain the key benefits of being in the LGPS, but to specifically target around 1,000 Southwark employees who are presently not members of the LGPS.

On complaint management there have been no complaints about BB personally; but there have been some complaints around Additional Voluntary Contributions, chiefly due to the manner in which these are administered by AEGON, the AVC provider.

Questions were then invited by Mike Ellsmore (ME).

Mike Antoniou (MA) asked if the UPM/Civica system was tried and tested. BB confirmed that it was and Civica currently had around 30% of the market share with the LGPS, and were very familiar with data transfers and implementations from the Altair/Heywoods system. BB expressed his confidence in using Civica, saying management information and reporting would be much improved, annual costs would be 40% lower, and this decision would future-proof pensions admin software for the Council for at least 20 years.

Tony O'Brien (TO'B) welcomed the return of Contact Centre work to Pension Services, but asked how had the pandemic affected contact with pensioner members? BB said that this relied on having the correct contact details for all members, and appreciated that it was difficult for those without internet access, particularly some elderly members. BB raised the notion of a future Pensioners' Association, which could help with specific needs/welfare of pensioner members. But for those members with internet access, the new pensions website and Civica member self-service would be helpful in improving communication with pensioner members. TO'B stated that in the past Southwark had done home visits and could this be revived. BB said that was not practical given the number of potential home visits that might be needed and resourcing of the pensions team. BB also said that contact with pensioner members was not solely down to the pensions team, and Southwark Council as a former employer also had a responsibility in this area.

Dominic Cain (DC) thanked BB and Pension Services for improving the information provided to members, especially Annual Benefit Statements, and welcomed the approach of moving pensioner payroll. He asked if there were any statistics for the recent Contact Centre trial period that might be used to monitor performance going forward.

Allan Wells (AW) referred to statutory requirements around KPIs, and asked what the impact might be if the pension fund did not meet these. BB replied and said the fund always tried to meet KPIs but its priority (since 2016) had always been to ensure financially sensitive (payroll related) work was processed on time. While some statutory deadlines had not been met there were mitigating factors, and therefore wouldn't be classified as a 'red' breach by The Pensions Regulator (TPO). Most breaches are due to incomplete schools data which has been a longstanding problem for Southwark as schools outsource payroll to numerous third party providers. BB had recognised schools data was not at the same quality as Council data which is why the restructure of Pension Services included a dedicated systems and data team. Looking ahead, BB expects better turnaround times and would aim to meet CIPFA benchmarks or better.

ME mentioned that the TPO focusses on Pension Boards and its members. He commended the pensions awareness materials, and asked if it would be possible to prepare a webinar for some of those members affected by annual/lifetime allowance. BB replied that it can be difficult to simplify these areas of taxation but will look into further. TO'B also commended the pensions awareness materials, and asked if it would be posted? BB replied that this was intended for current employees and staff, who should all be able to access it electronically.

7. MCCLOUD JUDGEMENT UPDATE

BB explained the background of the McCloud case which centres around age discrimination. In Southwark's case, this may require the recalculation of up to 3,000 members pensions since 1 April 2014 (approximately 2,000 deferred and 1,000 pensioner members). Those predominantly affected by the judgement will have seen large pay rises shortly before leaving or retiring.

Southwark's current position is not to automatically re-calculate benefits for all 3,000 members who are potentially affected. For one there are legacy data gaps around historic part-time service for example. This will be addressed however as part of the migration to the new Civica pensions system.

Southwark intend to contact all potentially affected members explaining the McCloud judgement and carefully set out examples/case studies of where a member may be affected. If a member feels they meet the criteria they will be invited to request a recalculation of benefits. It is expected that no more than 2% of the 3,000 cases will actually need benefits amended following a recalculation. If however, Pension Services is inundated with enquiries and recalculations it will consider involving its actuaries, Aon, to provide additional support. DC asked, firstly, if this approach was consistent with other Local Authority Pension Funds; secondly, how would a member know if they were a likely beneficiary of recalculation; and thirdly, how will it affect admitted and scheduled employers within the pension fund?

BB said that some local authorities/councils may well undertake a full review of all potentially affected members, but when you account for all the work this entails (comms, data cleansing etc.) the cost of doing so could run into millions, and given the low number of members that would actually be affected it was felt this was not a good use of pension fund money. BB reiterated that all 3,000 members would be contacted which includes members of admitted/scheduled bodies.

BB also confirmed this had future funding implications for the fund which would last for decades and had already been taken into account by the fund actuaries, Aon. Caroline confirmed that 1% had been set aside for McCloud, which was different to the day-to-day administration costs.

ME moved that the Board noted this position, and that McCloud monitoring was required, both of the numbers with the pension fund who seek recalculation, and of the wider response to McCloud across the LGPS and public sector as a whole.

Diana Lupulesc (DL) asked where the line was to be drawn, i.e. at what point would we have to engage Aon or similar to undertake recalculations. BB answered that it remained to be seen how many recalculation requests would be received by potentially affected members. BB reiterated that if existing resources could not meet demand then Aon would be asked to provide additional support.

TO'B asked whether we had a duty to reassess or identify all those affected by the McCloud judgement. BB replied that the current position had been discussed and agreed with the Strategic Director of Finance and Governance, but that we would be contacting all 3,000 potentially affected members.

DC asked for it to be minuted that we should be consistent with other London Boroughs' approaches.

AW asked when contact with the relevant members of the fund would be made. BB said that this would occur over the next couple of months.

ME noted the disquiet among the board, and reiterated that ongoing monitoring would be required. BB agreed that this would be a recurring agenda item in future board meetings.

8. PENSION FUND RISK REGISTER

Caroline Watson introduced this item. There were three new risks: Covid-19, the safeguarding of members' records and member data itself.

Cash flow is subject to ongoing monitoring but is stable. The fund has no reliance on dividends or income in order to pay pensions, so has not been affected by recent market events in this respect. The position has particularly been helped by Nuveen's sale of an asset in March, and the cash generated from the sale has not yet been reinvested.

MA asked how the risk register was scored and about the weighting given to different items. CW replied that it was based upon a more general LBS risk register. DC confirmed this and it was asked that details be circulated.

Action: Details of risk scoring methodology to be provided to LPB members.

AW asked BB about the new risks around data and communications arising post-lockdown and homeworking, and was there a greater risk of data protection failures? BB replied that the Pension Services team had all undertaken data protection training and because nothing could be printed off at home, the risks associated with homeworking were low. BB reiterated an earlier update around a hybrid 'office post' solution to deal with a longer term posting/scanning solution. DC asked if the pension software move to Civica represented a risk. BB said he would add that to the risk register. ME also raised the risk around McCloud which was agreed should also be added.

ME mentioned that the strength of the fund was in the diversity of the asset allocation.

9. LPB ANNUAL REPORT

ME introduced this item. He noted that 2019-20 was a truncated year in terms of the work conducted by the Board.

CW confirmed that the report will be submitted for audit later this week.

10. COST TRANSPARENCY INITIATIVE UPDATE

Caroline Watson introduced this item: the transparency code has been drawn up by CIPFA and the Scheme Advisory Board, and is optional for fund managers to sign up to. Of funds held by the Pension Fund, Blackrock, Legal and General, Invesco, Newton and M&G have signed up. The first reports have been received under this new code, from March 2020 onwards, and have proved beneficial in the extra information available.

11. PENSIONS ADVISORY PANEL MEETING PAPERS

Caroline Watson introduced this item. The investment strategy review has commenced; however implementation will be delayed on account of Covid-19. The intention is for progress to be made during 2020-21 with completion by 2021-22.

The review will consist of optimising the balance of risk and return among the fund's investment, rather than any major changes. In recent months, chiefly on account of the fund's high exposure to equities, the fund has gone from being 103% funded to 93% in March 2020 and returned to 106% funded at June 2020. Accordingly, this is a favourable position compared to many Local Authority funds.

There will be a cautious approach going forward and regular advice will continue to be taken from the Fund's investment consultants. ME noted that the fund is resilient and that the forthcoming US election could mean volatility.

12. TRAINING

Caroline Watson introduced this item. A refresh of the training plan is planned for January's meeting, as well as a refresher on the role and purpose of the LPB, to be conducted by ME. At further meetings there may be sessions on AVCs and employer bodies within the fund. If any members of the board have any requests or suggestions for training, they should let CW know.

13. LOCAL PENSION BOARD INSURANCE RENEWAL

Caroline Watson introduced this item. Annual renewal in December, once again with Aon.

14. OPTION TO REAPPOINT CHAIR

ME recused himself and left the meeting. DC, in his capacity as Vice-Chair, took over as Chair. DC proposed ME be reappointed as Chair. There was unanimous acceptance of this option and accordingly Mike Ellsmore is reappointed as the Chair of the LPB for another year.

15. ANY OTHER BUSINESS

Date of next meeting – 20 January 2021 at 1000.

Meeting ended at 1137.