



AGENDA

PENSION BOARD

Friday, 14 June, 2019, at 10.00 am

Ask for: **Theresa Grayell**

Wantsum Room - Sessions House

Telephone **03000 416172**

Tea/Coffee will be available 15 minutes before the start of the meeting in the meeting room

Membership

Scheme Employer Representatives (4)

Kent County Council (2)

Mrs M Crabtree (Chairman) and Mrs R Binks

District/Medway Council (1)

Councillor D Monk

Police/Fire & Rescue (1)

Ms A Kilpatrick

Scheme Employee Representatives (4)

KCC (1)

Ms L Shah

Medway/Districts (1)

Mr J Parsons (Vice-Chairman)

Trade Unions (1)

Vacancy

Kent Active Retirement Fellowship (1)

Mr D Coupland

UNRESTRICTED ITEMS

(During these items the meeting is likely to be open to the public)

1. Apologies

2. Membership

To note that Lauren Shah has joined the Board as Kent County Council staff

representative, in place of John Peden.

3. Declarations of Interest by Board members on items on the agenda for this meeting
4. Minutes of the meeting held on 19 October 2018 (Pages 3 - 8)

Motion to Exclude the Press and Public for Exempt Business

That, under Section 100A of the Local Government Act 1972, the press and public be excluded from the meeting for the following business on the grounds that it involves the likely disclosure of exempt information as defined in paragraph 3 of part 1 of Schedule 12A of the Act.

Paragraph 3 – Information relating to the financial or business affairs of any particular person (including the authority holding that information)

EXEMPT ITEMS

(During these items the meeting is likely NOT to be open to the press and public)

5. ACCESS Pooling Update (Pages 9 - 12)

UNRESTRICTED ITEMS

(During these items the meeting is likely to be open to the public)

6. Fund Employer Matters (Pages 13 - 28)
7. Pensions Administration (Pages 29 - 36)
8. Date of next meeting

The next meeting of the Board will be held on Friday 18 October 2019, commencing at 10.00 am

EXEMPT ITEMS

(At the time of preparing the agenda, the only exempt item was item 5. During that and any such items which may arise the meeting is likely NOT to be open to the public)

Benjamin Watts
General Counsel
03000 416814

Thursday, 6 June 2019

KENT COUNTY COUNCIL

PENSION BOARD

MINUTES of a meeting of the Pension Board held in the Wantsum Room - Sessions House on Friday, 19 October 2018.

PRESENT: Mr J Parsons (Vice-Chairman in the Chair), Mrs R Binks, Mr D Coupland, Ms A Kilpatrick, Cllr D Monk and Mr J Peden

IN ATTENDANCE: Mr N Vickers (Business Partner (Pension Fund)), Mrs B Cheatle (Pensions Manager) and Miss T A Grayell (Democratic Services Officer)

UNRESTRICTED ITEMS

25. Apologies and Substitutes

(Item 1)

Apologies for absence had been received from the Chairman, Mrs M Crabtree, so the Vice-Chairman took the Chair for the meeting.

Mrs A Mings (Treasury and Investments Manager) was not able to be present as she was attending an ACCESS meeting in London.

26. Declarations of Interest by Board Members on items on the agenda for this meeting

(Item 2)

There were no declarations of interest.

27. Minutes of the meeting held on 15 June 2018

(Item 3)

It was RESOLVED that the minutes of the meeting held on 15 June 2018 are correctly recorded and they be signed by the Vice-Chairman. There were no matters arising.

28. ACCESS Pooling Update

(Item 4)

1. Nick Vickers (Business Partner, Pension Fund) introduced the report and advised the Board that the pooling arrangement was working well. Alison Mings (Treasury and Investments Manager) and Sangeeta Surana (Principal Accountant, Investments) were working on the pooling arrangements but a dedicated long-term resource was being sought in the form of a Programme Director and Contract Manager, although these roles were proving difficult to fill. Essex County Council would provide an ACCESS support unit. Mr Vickers responded to comments and questions from the board, including the following:-

- a) asked if the Programme Director role should best be filled by someone with an investment background, Mr Vickers explained that the role involved

much project management and would need someone who understood local authority governance as well as investment;

- b) asked about the status and role of the four seconded part-time technical officers, Mr Vickers explained that these would retain their substantive posts in their respective authorities and would spend some time working at pool level. They would not be based at local authority offices but would work remotely. Mr Vickers added that the aim was to keep the pool team to a scale at which it would be most cost-effective. Some other pools around the country had built larger teams but he was confident that the arrangements made by the South East pool would more than meet the necessary governance requirements; and
- c) asked what reply had been sent to the letter from the Minister for Local Government, Rishi Sunak, Mr Vickers undertook to send a copy of the response to board members.

2. It was RESOLVED that the information set out in the report and given in response to comments and questions be noted, with thanks.

29. Superannuation Fund Report and Accounts and External Audit

(Item 5)

1. Mr Vickers introduced the report and explained the role of the Board in maintaining an overview of the County Council's managed funds. The fund report and accounts had been prepared by Mrs Mings, Ms Surana and Katharine Gray (Senior Accountant, Investments) for submission to Grant Thornton for auditing.
2. In response to a question about references in the report to derivatives which seemed to contradict each other, Mr Vickers undertook to look into this and clarify the information outside the meeting.
3. It was RESOLVED that the information set out in the report be noted, with thanks.

30. Internal Audit Report

(Item 6)

The Vice-Chairman secured the Board's agreement that the appendix to the report be considered as urgent business as it had not been made available to the public for the statutory minimum of five clear working days.

1. Mr Vickers introduced the report and emphasised that the County Council had received a 'High' rating for its pensions contributions, with the prospects for improvement being 'Good'.
2. It was RESOLVED that the information set out in the report be noted, with thanks.

31. Date of next meeting

(Item 7)

The Democratic Services Officer advised the Panel that the date for the Board's next meeting had yet to be set.

This was subsequently set for Friday 14 June 2019, commencing at 10.00 am in the Wantsum Room at Sessions House, County Hall.

32. Pensions Administration

(Item 8)

The Vice-Chairman secured the Board's agreement that the report be considered as urgent business as it had not been made available to the public for the statutory minimum of five clear working days.

1. Barbara Cheatle (Pensions Manager) introduced the six-monthly report and highlighted key areas of activity and challenges in the current workload, as follows:-

- a) pensions staff were dealing with a large volume of correspondence as pensions issues currently had a high profile. Scheme members would email the team with concerns and questions and expect a quick response. Although scheme members were encouraged to seek information via the website, many people still found it easier to email a query, as pensions were complicated and people sought reassurance. Many people had questions on transfers out of the scheme so needed detailed information;
- b) the statutory deadline of 31 August for issuing annual benefit illustrations meant that the work undertaken to produce these had to be undertaken from April to July. This made up 50% of the workload at that time and took staff away from normal pensions work, which in turn had an impact on that work. It would help ease the workload if people requiring a pension statement could avoid if possible requesting this between April and July;
- c) the fund was preparing for valuation in 2019 by the Pensions Regulator, who would look at and compare public sector pension schemes. This valuation relied on the quality of two types of data: (i) data specific to each individual scheme and (ii) data held in common by all schemes. There were some areas in which it was difficult to maintain full and current data, for example, addresses for customers who had deferred their pensions could be out-of-date if people had moved away and forgotten to notify the County Council of their new address. The Pensions Regulator expected local authorities to have full and up-to-date address details for their scheme members; and
- d) checks on the data held on any scheme member would be made at the time when they approached retirement age. The County Council would test its data thoroughly, using the same categories as the Pensions Regulator, to ensure that the data submitted for valuation in August 2019 was as robust as possible.

2. Mrs Cheatle responded to comments and questions from Members, including the following:-

- a) out of the 460 active employers who were members of the scheme, a mix of 80 large and small companies had attended the most recent Pensions Forum. Training for employers had also been offered but uptake had been low. Asked how the level of involvement could be boosted, Mr Vickers suggested that all employers be contacted to ask who from their company would be taking part in the forum and training sessions, emphasising the importance of keeping their pensions knowledge up-to-date and highlighting the problems which could arise from not doing so. This approach was generally supported;
- b) Mrs Cheatle explained that the training given to employers was comprehensive, however, no equivalent training sessions were offered to employees. There was some online training but what employees most wanted now was one-to-one sessions. It was difficult to deliver detailed training to a large audience as everyone present would have different individual circumstances and specific questions. One subject often raised was the annual allowance and related tax relief, which was liable to change periodically. The pensions team would advise recipients of pensions statements that they may have to pay tax at a higher level, and working out this extra information added to the workload of producing such statements;
- c) in response to a question about the frequency with which the fund would be valued, Mrs Cheatle explained that frequency was currently set at three years. Mr Vickers added that the Government may change this in the future to four years;
- d) asked about staffing levels in the pensions team, Mr Vickers explained that the Superannuation Fund Committee had agreed in November 2018 that new technology could be commissioned and four new KR4 Pensions Support Officers appointed to help handle the backlog in workload. He added that it had proved difficult for the last ten years to recruit pensions staff. Mrs Cheatle added that temporary staff or an external company could be engaged in the short-term. A team of students recruited for the summer vacation in a previous year had worked well. Mrs Cheatle explained that it was planned to recruit ten Pensions Support Assistants, review the career structure and benchmark Kent's offer against that of other local authorities; and
- e) asked if there were any potential data protection issues relating to deferred pensions, Mrs Cheatle reassured the Board that the County Council took data protection very seriously and the pensions team handled all data with extreme care. Sometimes it could be difficult to obtain accurate and timely information if people with deferred pensions rights had moved away or changed their name. The Government had suggested introducing a pensions dashboard, in which a person's data would be accessible all in one place. To prepare this would require all local authority pensions teams in the UK to supply data to a central collation point. The UK was lagging behind many European countries in this sort of innovation.

3. Mr Vickers thanked the Board for a full and very useful debate on pensions administration issues. The Vice-Chairman requested that more information on data quality be supplied to the Board's next meeting.

4. It was RESOLVED that:-

- a) the information set out in the report and given in response to comments and questions be noted, with thanks;
- b) all employers be contacted to ask who from their company would be taking part in the Pensions Forum and training sessions, emphasising the importance of keeping their pensions knowledge up-to-date and highlighting the problems which could arise from not doing so; and
- c) a report on data quality be submitted to the Board's next meeting.

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Agenda Item 5

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By: Acting Corporate Director of Finance
To: Pension Board – 14 June 2019
Subject: **FUND EMPLOYER MATTERS**
Classification: Unrestricted

Summary: To report on employer related matters for the period to 31 March 2019, matters relating to admitted bodies, information on Hadlow College, consultations and actuarial issues.

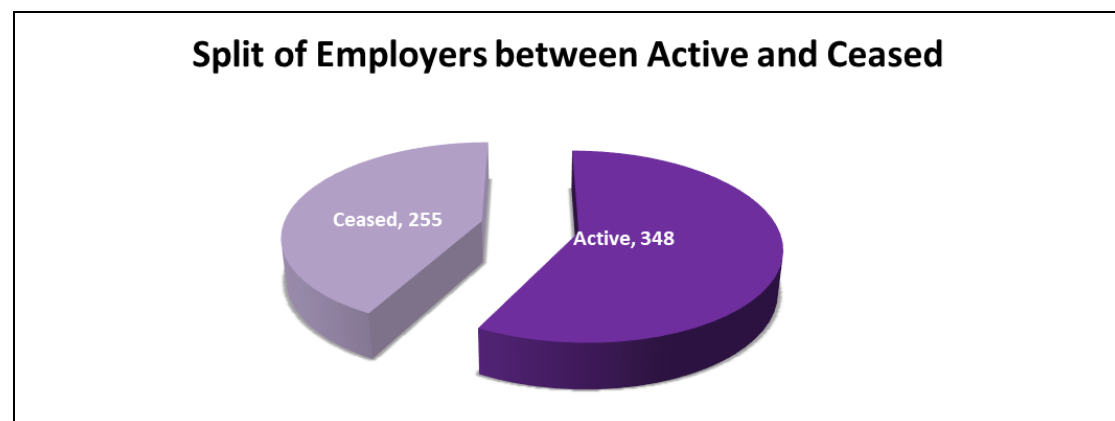
**FOR
INFORMATION**

INTRODUCTION

1. This report sets out information on employers, matters related to admitted bodies, Hadlow College, consultations and actuarial issues.

EMPLOYERS IN THE FUND AT 31 MARCH 2019

2. There were a total of 603 employers in the Kent Pension Fund, an increase of 2 from 31 March 2018.



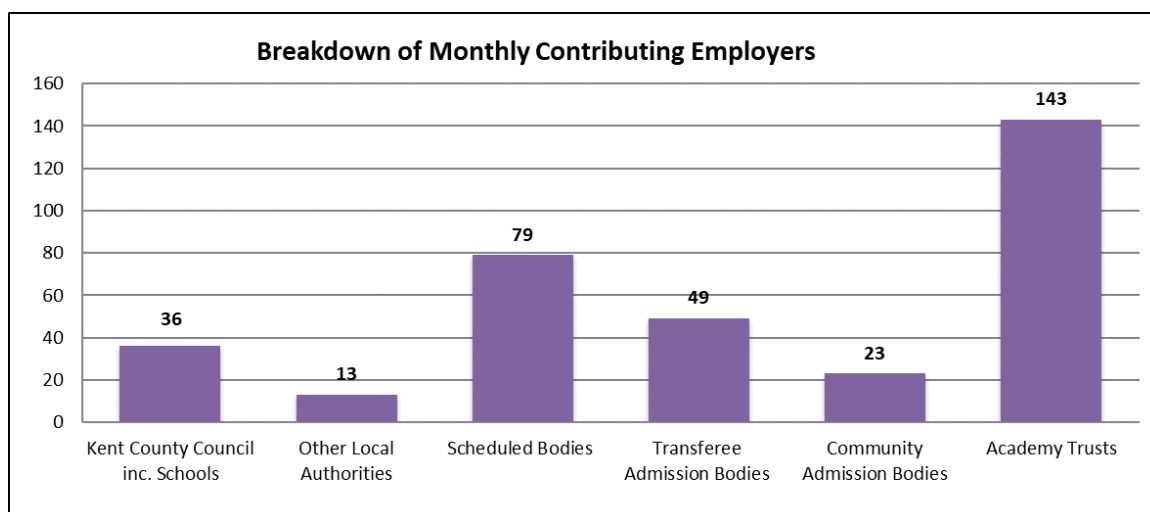
3. The following table lists employers who either joined or ceased to have active members in the Fund during 2018-19.

New Employers	Effective date
<i>Scheduled Bodies</i>	
Westgate on Sea Parish Council	1 April 2018
Cantium Business Solutions Limited	1 July 2018
EDSECo Ltd trading as The Education People	1 September 2018
<i>Academy Trusts</i>	
Veritas Multi Academy Trust	1 May 2018
Fortis Trust	1 June 2018
The Pioneer Academy	1 July 2018
Coppice Primary Partnership	1 September 2018
Fort Pitt & Thomas Aveling Academies Trust	1 September 2018
<i>Admitted Bodies</i>	
Nourish Contract Catering Limited (Swale Academy Trust)	1 April 2018
Solo Service Group Limited	1 July 2018
Churchill Contract Services Limited (SJWM)	16 July 2018
Cater Link Limited (re Rivermead Inclusive Trust)	1 August 2018
Kingdom Services Group Limited	1 August 2018
Nourish Contract Catering Limited (re Stour)	1 September 2018
Monitor Services Group Limited	1 December 2018
The Marlowe Trust	1 December 2018

Ceased/Merged to Trust Employers	Effective date
<i>Academy joined a Multi-Academy Trust / Change of Trust</i>	
Danecourt Academy (Argent)	1 April 2018
Veritas Academy	1 May 2018
Bradfields Academy	1 June 2018
Meopham Community Academy	1 August 2018
Schools Company Trust	1 August 2018
Rosherville Church of England Academy	1 September 2018
Walderslade Girls' School Trust	01 October 2018
St James CE Primary School Academy-WAT	01 January 2019

Admitted Bodies	
Principal Catering (Our Lady Of Hartley)	1 December 2017
Mitie Security Limited	1 August 2018
TCS Independent Limited	1 December 2018
Scheduled Bodies	
Sholden Parish Council	1 July 2018
Temple Ewell Parish Council	1 January 2019

4. The following chart shows the Employers from whom the Fund receives monthly contributions by Employer Group. Note the KCC figures reflect the County's and schools' relationships with a number of payroll providers.



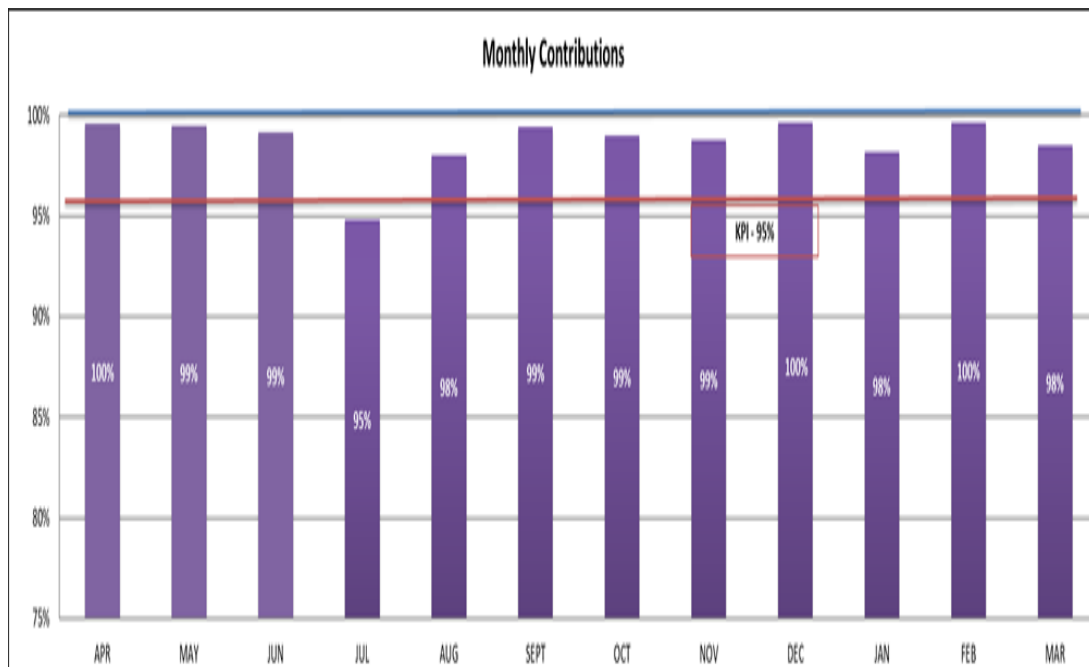
CONTRIBUTIONS FROM EMPLOYERS

5. In 2018-19 the Fund received £228m from Employers in respect of their monthly contributions (employer and employee) as follows:

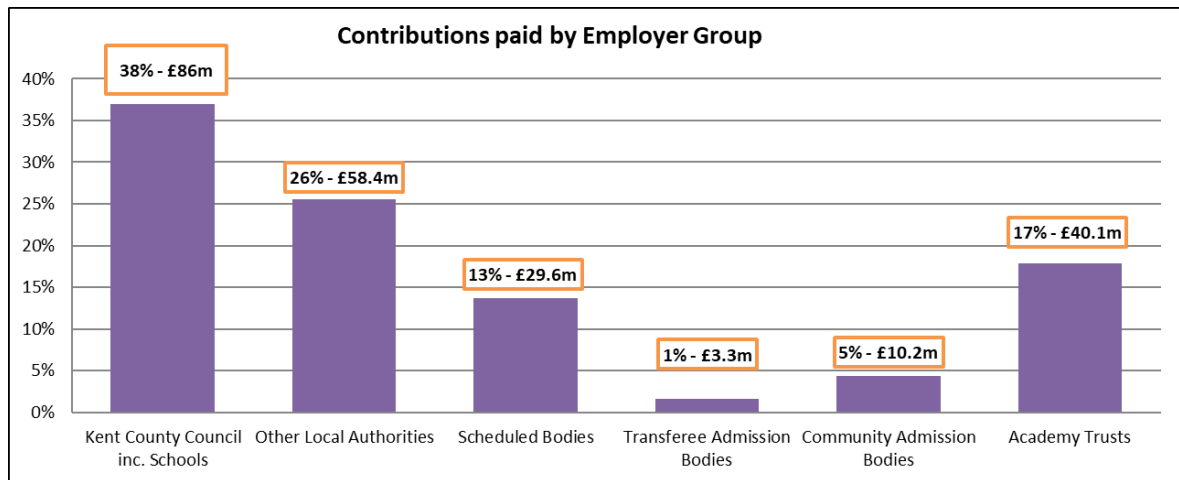
	Received Early	Cash on 19th	Received Late	Total
	£	£	£	£
April	10,125,904	9,140,793	84,200	19,350,896
May	11,766,335	7,105,259	93,664	18,965,259
June	10,401,830	8,559,473	150,331	19,111,634
July	9,095,181	8,875,664	1,023,703	18,994,548
August	10,080,883	8,391,175	375,229	18,847,287
September	11,091,649	7,609,068	42,917	18,743,635
October	10,310,159	8,398,323	221,816	18,930,299

November	10,620,515	8,090,218	262,675	18,973,409
December	11,278,990	7,928,484	68,972	19,276,445
January	11,776,824	6,756,046	348,653	18,881,522
February	12,161,209	6,976,720	72,003	19,209,932
March	9,951,104	8,590,306	286,869	18,828,279
Total	128,660,583	96,421,529	3,031,032	228,113,145

6. KCC monitors the timing of receipt of these contributions compared to a KPI of 95%. The KPI was exceeded in 11 out of the 12 months and the average for this quarter for contributions received was 99%. The late receipts in July and August were 1-2 days late from 2 local authorities and a college, and officers followed up with the employers.



7. The following chart shows the proportion paid by KCC and other employers of contributions received.



EMPLOYER ADMISSION MATTERS

8. Since we last reported to the Board the following admissions were agreed by the Superannuation Fund Committee.

at its meeting on 16 November 2018;

- a) Deep Beat Entertainment (re Medway Park and Strood Sports Centres).
- b) Compass Contract Services (UK) Ltd (re Fortis Academy Trust).
- c) The Contract Dining Company Ltd (re Barnsole Academy Trust).
- d) Cleantec Services Ltd (re Leigh Academies Trust).

at its meeting on 8 February 2019;

- a) PT Commercial Ltd t/a Ecoclean (re Sunny Bank Primary School in Sittingbourne).
- b) That we may enter into an updated admission agreement with Southern & South East England Tourist Board t/a Tourism South East so that any designated employee may join the scheme.
- c) That we may enter into an updated admission agreement with Birkin Cleaning Services Ltd to reflect their contract extension.
- d) That we may enter into an updated admission agreement with CAPITA Managed IT Solutions Ltd (re St Georges School in Broadstairs) to reflect their contract extension.

and at its meeting on 15 March 2019;

- a) Exclusive Contract Services Ltd (re Orchard Theatre Dartford).
- b) that a Deed of Modification may be entered into with Clarion Housing Association.
- c) to the updated policy for the recovery of Pension Fund costs.

HADLOW COLLEGE

9. Hadlow College is a scheduled body in the Kent Pension Fund and its staff both past and present are members of the LGPS.
10. On Wednesday 22 May 2019 the Secretary of State for Education made an application at the High Court of Justice for an Education Administration Order pursuant to the Technical and Further Education Act 2017 in respect of the Corporation of Hadlow College of Hadlow, Tonbridge, Kent, TN11 0AL. The court granted the order and named partners at BDO LLP have been appointed as education administrators of the College with immediate effect.
11. BDO LLP have written to the Kent Pension Fund, as they are required to inform all creditors of the College, that the Education Administration Order has been made.
12. BDO have also confirmed that the purpose of the Education Administration Order is to protect education provision for learners as the College is facing financial difficulties. They plan to implement a solution to ensure a sustainable future for the College and its learners and this aligns with the law governing the Education Administration Order process.
13. It has been reported that the Department of Education has sought bids from other education providers to take over the College and such a transfer would be undertaken by the education administrators jointly with the DfE. In these circumstances, the risks the Education Administration Order poses to the Kent Fund's interests could be minimal as the College would continue to be a going concern and its finances could have been corrected by the administration process.
14. There is however a risk that the Education Administration Order does not work and in that event the DfE may then choose to proceed to insolvency.
15. The 31 July 2018 accounting report for the college showed a deficit on the FRS102 basis of £6.5m. The Fund's actuary has been asked to provide a cessation report which will give an up to date value for the College's deficit.
16. In order to safeguard the Kent Pension Fund's interests with respect to Hadlow College, officers intend to write to the named partners of BDO LLP and bring to their attention the results of the actuary report when it is available and current position of the Hadlow College LGPS fund so that this liability can be considered in the round and at the early stages of the process.
17. Officers will monitor the progress of the administration and report to the Board and Committee on any further developments.

CONSULTATIONS

Fair Deal – Strengthening pension protection

18. The Ministry of Housing, Communities & Local Government (MHCLG) ran a consultation from January to April 2019 called Fair Deal – Strengthening pension protection. Officers did not respond to the consultation on behalf of the Fund however we are broadly welcome the proposals. As at the date of this report we have yet to be advised of the outcome.
19. The purpose of the Government's proposals are to strengthen pension protection on TUPE transfers and they are in summary;
 - a) The removal of a Broadly Equivalent alternative to the LGPS.
 - b) Deemed Employer status rather than entry via an admission agreement particularly for short term contracts. This should make contracts easier and cheaper to let as well as helping to manage the increasing number of employers in the LGPS which nationally are now at some 16,000.
 - c) Risk sharing between the letting authority and Deemed Employer to be included in commercial contracts on which the Scheme Advisory Board are expected to issue advice.
 - d) All employers, except Admission Bodies, Further Education Corporations, Colleges and Higher Education Corporations to be Fair Deal employers.
 - e) Commercial Contracts must state whether LGPS membership to be via an admission agreement or the deemed employer route.

Changes to the Local Valuation Cycle and the Management of Employer Risk

20. MHCLG is presently running a consultation on changes to local valuation cycles and employer risk which closes on 31 July 2019. Both the Fund and employers are invited to respond. The main proposals are:
 - a) Move to valuations on a 4 year quadrennial cycle starting with the 31 March 2024 valuation, and 2 proposals have been made for the transition;
 - the 31 March 2019 valuation to certify contribution rates for 5 years
 - the 31 March 2019 valuation to certify contribution rates for 3 years and have an additional valuation to certify rates for a further 2 years

The government favours the latter option.

- b) Introduction of interim valuations if required and strengthening the ability to amend employer contribution rates between valuations.
- c) Review the return of exit credits to an employer when they leave the LGPS, particularly in light of any risk sharing agreements between the exiting employer and the letting authority.
- d) Provide greater flexibility around the recovery of exit deficits where an employer leaves the fund including the concept of Deferred Employer Status which would allow an employer to continue to make contributions even when they have no active members left.
- e) Remove the requirement for Higher Education Corporations and Colleges to offer LGPS membership to new staff, although existing staff will continue to be eligible.

ACTUARY ISSUES

- 21. Barnett Waddingham have provided a briefing note which is attached and has been published on the Pension Fund website. The main issues are:

31 March 2019 triannual valuation

- 22. The 31 March 2019 valuation is currently underway and the results are expected in the autumn and will be shared with employers. The valuation has to be signed off by Barnett Waddingham on 31 March 2020 and the new employer contribution rates will apply from 1 April 2020. Barnett Waddingham are expected to attend the Kent Finance Officers meeting and the November Committee meeting as has been done previously.

Cost management in the LGPS.

- 23. The cost control mechanism was introduced following the Hutton review, with the aim of providing protection to taxpayers and employees against unexpected changes (expected to be increases) in pension costs.
- 24. There are two cost control mechanisms in place for the LGPS carried out by the Scheme Advisory Board (SAB) and the Treasury (HMT). The SAB test is first and gives early warnings although HMT has the final say.
- 25. The 2016 valuation was the first time the mechanism was utilised. Contrary to what was anticipated the cost of the LGPS is now estimated to be lower than it was previously on both mechanisms, based on the assumptions used. This means benefit improvements are required to bring the total cost back to target.
- 26. SAB have proposed the following benefit improvements to bring the LGPS cost back within the 2% corridor and does not then trigger the HMT cost cap mechanism;

27. Removal of Tier 3 ill-health benefit with any eligible member receiving Tier 2 instead;
28. Introduction of a minimum death in service benefit of £75,000 – this is per member, not per employment;and
29. Enhanced early retirement factors for members active on 1 April 2019, applied to all service.
30. The net cost of these benefits is estimated to be an increase of 0.5% of pay.
31. The review also includes some recommendations around changes to employee contribution rates.

The McCloud Judgement

32. The McCloud judgement recently ruled that the transitional protections for older members built into the Judges' Pension Scheme when the scheme changed breached age discrimination rules (there was also a similar case in the Firefighters' Scheme).
33. The SAB has therefore considered it has no option but to pause its own cost management process pending the outcome of McCloud. They have commissioned the Government Actuary Department to prepare an assessment of the potential impact on a LGPS scheme wide basis.

RECOMMENDATION

1. The Board is asked to note this report.

Alison Mings
Treasury and Investments Manager
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Briefing

Cost management in the LGPS and the 2019 valuation outlook

RISK | PENSIONS | INVESTMENT | INSURANCE

The 2019 formal valuations for the English and Welsh funds in the Local Government Pension Scheme (LGPS) are fast approaching and preparation is key. As if there wasn't enough to do already, the cost control mechanism has been triggered.

This mechanism was introduced following the Hutton review, with the aim of providing protection to taxpayers and employees against unexpected changes (expected to be increases) in pension costs.

Lord Hutton's recommendation was:

.....
"The Government, on behalf of the taxpayer, should set out a fixed cost ceiling: the proportion of pensionable pay that they will contribute, on average, to employees' pensions over the long term. If this is exceeded then there should be a consultation process to bring costs back within the ceiling, with an automatic default change if agreement cannot be reached."
.....

This would ensure that the anticipated risks of the rising cost of pensions would be shared fairly between employers and employees. What we ended up with though was not just a cost ceiling but also a floor so that if costs reduced then changes would be required to increase costs back to the fixed cost.

So 2016 was the first time the mechanism was utilised. Contrary to what was anticipated when these mechanisms were being built – at least by their architects – it was the floor that was breached rather than the ceiling.

As a result, changes will be needed to the design of the LGPS to actually improve benefits. This will return the total cost of the LGPS to the target rate of 19.5% p.a. of pay (split 13% employer and 6.5% employee contributions). So, the outcome of the cost management process has shown the cost of the Scheme has actually decreased since implementation in 2014. So how has this happened and what does it mean?

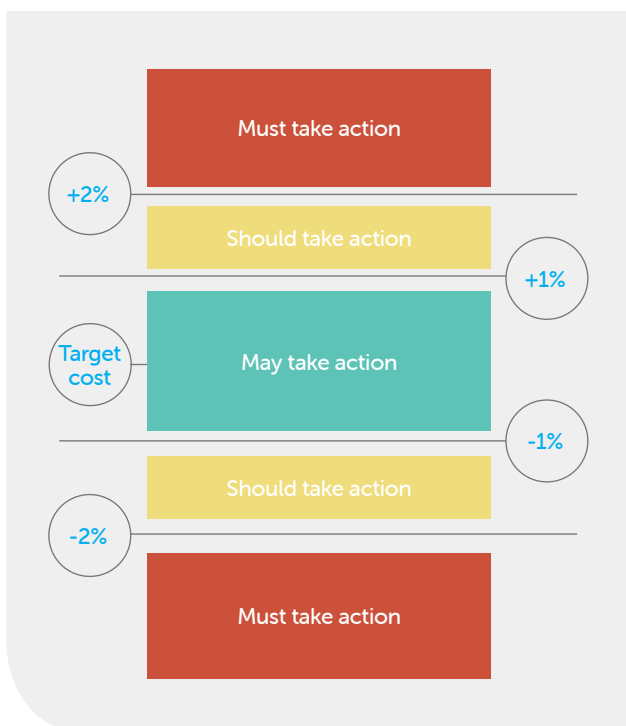
In this briefing note we explain the key reasons for the outcome of the cost management process and cover the likely changes to the LGPS set out in the consultation soon to be underway as we understand it. We discuss how this might affect administering authorities, employers and members. We also consider what administering authorities can do to prepare for the 2019 valuation as a result.

Cost management process outcome

As a reminder there are two cost control mechanisms in place for the LGPS. One is calculated by the Treasury (HMT) and the other is calculated by the Scheme Advisory Board (SAB). Below is a summary of the key differences:

- The SAB mechanism is tested first and gives an early warning. The HMT mechanism is then tested allowing for any changes proposed by SAB. HMT, however, has the final say!
- The HMT mechanism is the same across the public sector schemes but the SAB mechanism takes into account the additional features of the LGPS as a funded scheme.
- So, the SAB mechanism considers total future cost only whereas the HMT mechanism uses a model LGPS fund and considers both past and future service cost that fall to the employer.

In both cases, the mechanism is triggered if the absolute change in the cost of the Scheme is more than a pre-specified level. Under the SAB mechanism, the Scheme design may, or must, be changed to bring the total future service cost back to the target of 19.5% p.a. of pay. Under the HMT mechanism it is to bring the total employer cost back to 14.6% as follows:



The SAB have carried out their calculations as part of their 2016 Scheme valuation and assess the future service cost to be 19% p.a. of pay, so the cost has decreased by 0.5% p.a. since inception. GAD has suggested that the key reason for this decrease is a result of the latest projections of future life expectancy. Available evidence suggests that longevity improvements have slowed down since 2014 and so although future life expectancy continues to increase, it is increasing at a slower rate than previously assumed. This reduces the length of time that pensions will typically be paid for and lowers the expected cost by around 0.4% p.a.

There are other factors which have also resulted in a decrease in cost relating to early retirement assumptions and withdrawal assumptions, but these have a smaller effect.

The cost control mechanism only considers "member costs". These are the costs relating to changes in assumptions made to carry out valuations relating to the profile of the Scheme members; e.g. costs relating to how long members are expected to live for and draw their pension. Therefore, assumptions such as future expected levels of investment returns and levels of inflation are not included in the calculation, so have no impact on the cost management outcome.

So, after the reviews, the cost of the LGPS is now estimated to be lower than it was previously on both mechanisms, based on the assumptions used. This means benefit improvements are required to bring the total cost back to target. The SAB get to go first and the upcoming SAB consultation will consult on these proposed benefit changes as follows.

Recommendations

The following benefit changes have been proposed by the SAB so that, hopefully, the LGPS cost falls within the 2% corridor and does not then trigger the HMT cost cap mechanism:

- Removal of Tier 3 ill-health benefit with any eligible member receiving Tier 2 instead;
- Introduction of a minimum death in service benefit of £75,000 – this is per member, not per employment; and
- Enhanced early retirement factors for members active on 1 April 2019, applied to all service.

⋮ **The net additional cost of these benefits is estimated to be an increase of 0.5% p.a. of pay.**

The review also includes some recommendations around changes to employee contribution rates. This involves a proposal to reduce employee contributions at the lowest salary bands to remove tax relief anomalies. The expected reduction to contribution yields, and therefore potential increases in employer contributions, is 0.8% p.a. of pay. This will vary by employer, depending on their employee profile, with employers where there are mainly lower paid workers being more significantly affected.

The communications from the LGA suggest that employer contributions could increase by up to 2% p.a. but, as mentioned above, this will vary by employer. The actual change in employer contributions will be more heavily driven by the assumptions used in the 2019 actuarial valuation by the local Fund actuary.

The SAB process must be carried out before the HMT cost management process can be completed. However, we understand that HMT will take into account these proposals by SAB, if they are accepted by the Government, when determining whether the cost floor has been breached in the HMT cost cap review.

It is important to note that if these changes are agreed the employee contribution rates would change with effect from 1 April 2019. Any changes to the employer rates would start from 1 April 2020 when new rates will be certified by the local Fund actuary as part of the 2019 formal valuation. Discussions are being held with software providers but it is important that payroll providers are ready to implement any changes as soon as they are confirmed.

We also understand that there could be some changes proposed to the revaluation of CARE benefits but we will cover this in a separate blog once we know more.

A further potential complication could however impact on this process. The recent McCloud judgement recently ruled that the transitional protections for older members built into the Judges' Pension Scheme when the scheme changed breached age discrimination rules (there was also a similar case in the Firefighters' Scheme). Whilst the transitional protections in the LGPS and the other public service schemes were slightly different, there is the possibility that they too could be deemed to have breached age discrimination rules. This would then mean that all the public service schemes would need to be amended and would most likely mean an improvement in benefits. Therefore, there is the possibility that the outcome of the cost management reviews of all public service schemes could be put on hold until this is resolved. This will clearly take some time and will not be resolved before 1 April 2019. We understand that ministers are considering the position and will make a decision very soon.

Perhaps, not unsurprisingly, a further recommendation is that the cost cap mechanism process is reviewed prior to the next review.

⋮ **We will provide a further update, if required, as the cost management process progresses and any proposed changes are agreed.**

2019 valuation outlook

The 2019 valuation gives us the opportunity to review and monitor the assumptions we agreed with funds as part of the 2016 valuation. The key assumptions impacting the valuation are the assumed future investment return (or in actuarial terms, the discount rate), price inflation, longevity and, to a lesser extent, the levels of future salary increases (as this assumption only effects the ever diminishing proportion of pre-CARE benefits).

The Section 13 valuation commissioned by MHCLG resulted in an independent review of the 2016 local fund actuarial valuations for compliance, consistency, long term cost efficiency and solvency. Increased consistency of assumptions across funds was one of the recommendations made by GAD in their final report. However we still believe that they have misinterpreted their obligation to comment on inconsistencies or outliers, rather than lack of consistency.

However, although the Section 13 valuation considers consistency, there are good reasons why assumptions vary across funds. For example, different investment strategies lead to different assumed future returns and a fund's geographical region and membership profile has a significant impact on longevity assumptions. In addition, a fund's attitude to risk is factored into our discount rate model through a transparent and bespoke level of prudence.

Changes in assumptions will only be made if considered appropriate in light of experience and factors emerging since the 2016 valuation. There are no hard and fast rules. Although some of our assumptions are consistent across the funds we advise, we do not have a house view on assumptions. Instead, we discuss and agree appropriate assumptions with each fund so that they understand the level of risk being taken.

Having said that, typically we might expect the following changes for 2019:

- A reduction in the discount rate - markets have outperformed expectations over the last three years and future investment return expectations are likely to be lower, therefore placing a higher value on liabilities / future cost - as prices go up yields come down;

- Low salary growth to continue for longer, placing a lower value on liabilities (no impact on future cost);
- A small increase in the gap between the Retail Prices Index (RPI) and the Consumer Prices Index (CPI) placing a lower value on liabilities / future cost, as this reduces the future assumed inflationary increases applied to all benefits in the Scheme linked to CPI; and
- A reduction in longevity improvements placing a lower value on liabilities / future cost.

Even after allowing for recent market falls, assets have still outperformed expectations since 2016 and so funding levels have typically increased, assuming liabilities are valued on current market conditions and assumptions are set consistent with the 2016 approach.

With all else being equal, the proposed changes in benefits and potentially updated assumptions will increase primary contributions. Any improvement in funding level should reduce secondary (deficit) contributions, hopefully resulting in overall stability of total contribution rates. However, this will vary by employer depending on their membership profile and actual experience since 2016. Therefore, it may be useful to carry out approximate calculations for some employers to help engagement and avoid any nasty surprises. This will provide an early indication of any likely changes in contribution rates from 1 April 2020.

New employers commencing post 31 March 2019

There is a second reason why carrying out some indicative calculations is beneficial. As a result of any formal valuation review, there will always be a “cliff edge” as a result of a review and potential changes in assumptions at each valuation date. This will be a particular issue for employers who join a fund after 31 March 2019, but before the valuation assumptions and approach have been finalised.

The size of the problem will be different for different funds based on:

- The amount of employer work in each fund, particularly in terms of the number of new employers that are likely to join in this period and the related administrative work; and
- How much employer contributions will change by, and the need to budget for future costs. This will depend on how the assumptions may change relative to 2016.

It is therefore difficult to recommend a single approach that will be the optimal solution for all funds. The options are likely to be:

1. Don't change the approach until the assumptions have been agreed following the initial discussions meeting (around September 2019). For employers between 31 March 2019 and this time, calculations are carried out on the 2016 assumptions. This would mean either:
 - a. providing a contribution rate on the 2016 assumptions and apply this to 31 March 2020 and recalculate the contribution rate, assets and liabilities for consistency with the other employers on the 2019 assumptions once agreed;
 - b. setting contributions at a notional level, using the current level of the local authority/guarantor for outsourced employers and recalculating once the assumptions are known. However, this may not be appropriate for some employers where a bidder needs a good indication of the contribution rate to complete the tender.
2. Carry out calculations from a current date but consider a review of the assumptions used to be based on any likely changes to the 2019 valuation assumptions. This will provide an assessment that will be close to the 2019 valuation results for such employers, once the assumptions are finalised.

Option 1 results in less work and fees.

However, it may be less satisfactory from the new employer's view point. Option 2 requires some work to determine the assumptions ahead of the valuation (although this has other benefits through an early indication of results to help budgeting). But it will be more helpful in contract negotiations/assessing bids.

In both scenarios a bulk exercise can be done once the 2019 assumptions are agreed to calculate the accurate starting positions and appropriate contribution rates for each employer.

The agreed approach should be consistent across all employer work. Therefore, administering authorities should consider how any changes in approach would affect employers leaving a fund and the basis to apply for their cessation valuation.

This is an important issue and we strongly recommend that you give this consideration before 31 March 2019.

We will get in touch with you to discuss and agree an approach or please speak to your actuary if you have any concerns. We would also be happy to help administering authorities to communicate these changes to employers, members and committees in the form of bulletins, training sessions or one-to-one discussions.

Please contact your Barnett Waddingham consultant if you would like to discuss any of the above topics in more detail. Alternatively get in touch via the following:

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By: Acting Corporate Director of Finance
 To: Pension Board – 14 June 2019
 Subject: **PENSIONS ADMINISTRATION**
 Classification: Unrestricted

Summary: To provide members with a comprehensive update of administration issues including: -

FOR INFORMATION

- Workload position
- Achievements against Key Performance Indicators (KPIs)
- CIPFA Benchmarking Survey Results 2018
- Preparation for Fund Valuation

INTRODUCTION

1. This report brings members fully up to date with a range of issues concerning the administration of the Kent Pension Scheme.

WORKLOAD POSITION

2. Appendix 1 shows the year on year comparison of work levels being received in the section.
3. The majority of work categories have increased levels when compared to 2017/18 and overall when comparing the work completed in 2014/15 to 2018/19, work completed has increased by 54%.
4. As reported previously the category where there is the most marked increase, when compared to 2014/15, is regarding communications to the section. Emails and written correspondence increased to 5789 during 2018/19, with the peak months being July through to September, and the quietest December. The peak months are probably as a result of communications to deferred and active members of the scheme regarding the current value of their pension benefits which then raise questions. We encourage members of the scheme to visit our website www.kentpensionfund.co.uk, with approximately 110,000 visits in 2018/19, to answer as many of their questions as possible however many still require a personal response. These figures do not include telephone calls received in the section, which averages at approximately 1630 each month.
5. The increase in the number of pension benefits paid during the year 2018/19 is likely to be due to the scheme regulations changing in May 2018 to allow former members

of the scheme, i.e. deferred beneficiaries, to access their pension benefits from age 55 without their employer's consent. Previously this option had only been available to those that had left the scheme after 1 April 2014 but was now opened to all deferred beneficiaries. This new option was communicated to these scheme members in June 2018 with an increase in those seeking information and taking up this option.

6. The increase in the number of deferred benefit calculations shown in Appendix I for 2018/19 is as a result of us increasing the amount of resource in this area to help to alleviate the backlog of these cases built up over the previous years. However, backlogs still exist in this area and work continues to try to lessen the amounts before the valuation of the Fund takes place.

ACHIEVEMENTS AGAINST KEY PERFORMANCE INDICATORS (KPIs)

7. Appendix 2 shows the achievements of the section in meeting its KPIs for the year 2018/19 compared to the previous 4 years.
8. We are required to complete 95% of the recorded KPI tasks, within the agreed target turnaround times.
9. 3 categories of work show a KPI percentage within the agreed target however as a result of concentrating efforts on certain areas of work and due to the changes to the scheme still impacting, especially with regard to data received from employers, and the requirement in the scheme regulations that annual benefit illustrations and deferred benefit updates have to be issued by 31 August, the turnaround of estimates and other areas of work have suffered.

CIPFA BENCHMARKING SURVEY RESULTS 2018

10. The Kent Pension Fund participates in the annual CIPFA administration costs benchmark survey.
11. The survey in 2018 compared our costs with those of 31 other administering authorities.
12. Appendix 3 shows our performance against other authorities in a range of administrative areas. I have shown Kent's performance for 2017 and 2018 for comparison.
13. The results place Kent 10th of the 32 authorities (1st being the lowest) in terms of the cost of administration per member of the scheme.
14. In comparison to other administering authorities our administration cost per member at £17.18 is lower than the average of £21.46.
15. Staff costs and communication costs per member are on a par with the average although as members will be aware, we have and remain understaffed regarding our structure and therefore if fully staffed it is likely that our staff costs would

exceed the average. The payroll cost per pensioner is higher than the average and detailed discussions are being undertaken with Cantium Business Solutions, who provide the pension payroll function, with regard to the breakdown of their costs and initiatives, like the introduction of member self service, would bring down the costs of providing payslips etc to pensioners, which are included in these costs

16. The report indicates that Kent has the 9th highest number of employers in the Fund when compared to the other 31 authorities.
17. The most significant variance is seen in the number of unprocessed leavers that we currently have when compared to the other authorities. This is as a result of the changes to the scheme from 2014, the added complexities to administering the scheme, the increase in communications and the statutory requirement to provide annual benefit illustrations by 31 August. Work is being undertaken to process these cases and more information regarding this is detailed below.
18. With the exception of this area of work in general terms I believe the results reflect well on our achievements particularly given, there is no 'quality' measure, built into the survey.

PREPARATION FOR FUND VALUATION

19. In preparation for Barnett Waddingham undertaking the scheme valuation, and due to our problems in recruiting and retaining staff, various initiatives have been undertaken in the last 12 months to assist with clearing outstanding cases. During last summer temporary staff were employed and in the autumn several staff from Barnett Waddingham assisted with clearing cases.
20. However it soon became apparent that due to the number of cases outstanding additional help was needed and at the Superannuation Committee meeting, that took place on 16 November 2018, agreement was given for the Fund to call off from the Norfolk Framework to engage with a company to help to clear backlog cases.
21. The expectation was that the company could help to clear 10,000 cases before the scheme information for the valuation had to be sent to the scheme actuary at the end of July 2019. Two companies on the framework responded to the option however it soon became apparent that neither company could commit to clearing 10,000 cases within the timeframe.
22. It was therefore decided to engage with both companies, Independent Transition Management and JLT Employee Benefits, both of which have been allocated 5000 cases. These cases include deferred benefits, refunds of contributions and aggregation cases. Some of the cases have the information available in order to proceed, others require information from the scheme member's former employer, which the companies are required to obtain where possible.
23. In order to clear the cases, the companies received training from the Pensions

Section regarding processes. Work is progressing on the cases with weekly update calls and reports being provided. Updates on the number of outstanding cases are provided to Barnett Waddingham on a regular basis.

24. The companies are experiencing the same problems as the Pension Section has in obtaining leaver information from the former employers but contacts have been made and it is hoped that information will be provided in order that the cases can be completed within the timeframe.

RECOMMENDATION

25. Members are asked to note this report.

Barbara Cheatle
Pensions Manager
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Tasks completed in key administration areas
Workload summary

Case Type	2014/15	2015/16	2016/17	2017/18	2018/19
Benefit calculation	1928	1766	2238	2008	2591
Correspondence	3450	4719	5370	5339	5789
Divorce case	293	385	381	329	398
Estimate calculation	2541	2810	3145	3025	3681
Deferred benefit	2475	993*	1357*	1720*	3914
Transfer/Interfunds in (including quotes)	189	204	286	422	432
Transfer/Interfunds out	558	651	644	859	788
Dependants	323	377	410	578	529
Total	11,757	11,905	13,831	14,280	18,122

*These represent the number of leavers that have been identified as deferred benefits and have been processed. It does not include members who have left the scheme where we have still to process the leaver

Achievements against Key Performance Indicators

Case Type	Target Time	14/15		15/16		16/17		17/18		18/19	
		No	% in target	No	% in target	No	% in target	No	% in target	No	% in target
Calculation and payment of retirement benefit	20 days	1928	99%	1766	96%	2238	95%	2008	98%	2591	96%
Calculation and payment of dependant benefit	15 days	323	87%	377	86%	410	95%	578	99%	529	97%
Calculation and provision of benefit estimate	20 days	2541	63%	2810	62%	3145	67%	3025	72%	3681	72%
Reply to correspondence	15 days	3450	98%	4719	98%	5370	99%	5339	99%	5789	100%

NB. All target turnaround times commence when we have all the necessary documentation to complete the particular task.

CIPFA Administration Benchmark Survey 2018

	Kent Pension Fund		Average over all participants 2018
	2017	2018	
Total administration costs per member	£18.08	£17.18	£21.16
Staff costs per member	£9.02	£9.21	£9.04
Payroll costs per pensioner	£6.67	£8.68	£4.89
Communication costs per member	£0.72	£0.62	£0.75
Number of LGPS Employers	422	428	357
Leavers unprocessed/in progress	12.7%	12%	3.2%

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