Nottinghamshire County Council

# Nottinghamshire Pension Fund Annual Meeting

## Tuesday, 08 October 2013 at 14:00

**County Hall, County Hall, West Bridgford, Nottingham NG2 7QP**


| | | |
|---|---|---|
| 1 | **Welcome and Introduction**<br>Details | 1-2 |
| 2 | **Apologies for Absence**<br>Details | 1-2 |
| 3 | **Notes of the AGM - 1st October 2012**<br>Details | 3 - 6 |
| 4 | **Management and Financial Performance - Nigel Stevenson (Group Manager - Financial Strategy & Complia**<br>Details | 1-2 |
| 5 | **Investment Performance - Simin Cunnington, Senior Accountant (Pensions & Treasury Management)**<br>Details | 7 - 20 |
| 6 | **Pensions Administration -The New Scheme - John Fairbanks, Acting Pensions Manager**<br>Details | 21 - 40 |
| 7 | **Pensions Fund Actuary - Alison Hamilton, Barnett Waddingham**<br>Details | 41 - 70 |

**NOTES OF THE PENSION FUND ANNUAL EMPLOYERS AND TRADE UNIONS MEETING HELD AT COUNTY HALL, WEST BRIDGFORD ON MONDAY 1st OCTOBER 2012 AT 14:00pm.**

**Present**

**Members of the County Council's Pensions Committee**

Councillor Mike Cox (Chairman)
Councillor Sheila Place
Councillor Carol Pepper
Councillor Ken Rigby
Councillor Reg Adair

**Members of the Pensions Investment and Administration Sub-Committees**

| | | |
|---|---|---|
| Mr. C. King | - | Trade Union Representative |
| Mr. K. Stedman | - | Pensioner Representative |

Executive Mayor T Egginton – Mansfield DistrictCouncil

**Representatives of Employers and Trade Unions**

| | | |
|---|---|---|
| M. Hope | - | Ashfield Homes Ltd |
| D. Straw | - | Nottingham & Notts Futures |
| M. Stevenson | - | Mansfield District Council |
| C. Radford | - | Nottinghamshire Police Authority |
| R. Drayton | - | Brunts Academy |
| M. Calvert | - | Brunts Academy |
| S. Thackary | - | Trent Valley IDB |
| E. Lambert | - | IIA |
| V. Turton | - | National Church of England Academy |
| N. Pickavance | - | Newark & Sherwood District Council |
| K. Braithwaite | - | NORSACA |
| R. Moore | - | Nottinghamshire Probation Trust |
| R. Tingle | - | Nottinghamshire Probation Trust |

**Representatives of the Corporate Director (Environment and Resources)**

Mr. S. Brooks
Mr. S. Cunnington
Mr. N. Stevenson
Mr. N. Robinson
Ms. M. Toward
Ms S. Thurlby
Mr J. Fairbanks

**Advisor to the Fund**

Mr E Lambert

**Clerk to the Panel**

Mr. C. Holmes - Policy Planning and Corporate Services Department

**NOTE:-**

The list of those present was taken from attendance sheets signed on the day of the meeting. Apologies are however given if all the names are not entirely accurate or representatives did not have a chance to sign these sheets and are, therefore, not shown above.

**1. WELCOME AND OPENING REMARKS**

Councillor Mike Cox, Chairman of the Nottinghamshire Pensions Fund Committee, opened the meeting and welcomed representatives to the Annual Meeting.

He reported that apologies for absence had been received from:-

Councillor Thulani Molife
Councillor Jackie Morris
Councillor Milan Radulovic MBE
Councillor Stella Smedley MBE JP
Councillor David Taylor
Councillor Gail Turner
Mr T. Neeham

**2. NOTES OF THE ANNUAL MEETING HELD ON 3rd OCTOBER 2011**

The Notes of the 2011 meeting, circulated with the papers for the meeting were noted.

**3. MANAGEMENT AND FINANCIAL PERFORMANCE**

Mr Stevenson, Group Manager (Financial Strategy and Compliance) gave a presentation to the meeting on the overview of the Management and Financial

Performance of the Fund for 2011/12. He indicated that the accounts showed the Fund remained above £3 billion at the year end. Investments had reduced due to the volatility of the market. He added that there had been a downward trend of net additions but that the benefits paid out where increasing. Employee contributions had reduced by 6% whereas benefits had increased by 38% which clearly indicated a change in the membership. He pointed out however that the Fund still received more in contributions than it paid in benefits and that further changes were unlikely to impact the Fund to the same extent. He added that the Fund received substantial investment income. He commented that there was continuing pressure on Public Sector Funding and the investment market continued to be volatile. The next triennial valuation was due on the 31st March 2013 but he stated that whilst pressures and risks still existed the Fund was still in reasonable shape heading to the next triennial valuation.

## 4. INVESTMENT PERFORMANCE 2011/12

Mr Cunnington, Team Manager Investments, presented the 2011/12 investment performance. He explained that long term expected investment returns were built in to the valuation through the discount rate. The discount rate at the 2010 valuation was 6.8%, the investment returns for the total Fund over the last 2 years were 9.4% in 2010/11 and 1.6% in 2011/12. The 10 year annualised returns were 5.7%. During that period the value of the Fund had increased from £1.5billion to £3.1billion. Long term returns from equities and property were still expected to be higher than bonds. The strategy continued to favour growth assets. He concluded by stating that investment returns where important to help keep contributions stable. Performance since the last valuation had been mixed. Long term returns had been reasonable but a good performance in 2012/13 would help at the next valuation.

## 5. AUTOMATIC ENROLMENT

John Fairbanks, Acting Pensions Manager gave a presentation on Auto Enrolment. He explained that Auto Enrolment had been introduced to help more people save for their retirement by compelling employers to provide some pension provision for certain categories of their employees. Eligible job holders must be auto enrolled into a qualifying scheme that the employer contributes to. The Local Government Pension Scheme was a qualifying scheme. Employers were given a staging date based on their payroll size – the biggest first. The County Council's staging post was 1st November 2012. He explained that all small employers which paid staff through the County Council Pay Roll would be part of the County Council's starting date.

Under the Local Government Pension Scheme rules, most scheme employers must automatically enter new employees into the Local Government Pension Scheme if they have a contract of three months or more. To comply with auto enrolment rules, those employees will no longer be allowed to opt out of joining the Local Government Pension Scheme prior to the commencement of employment.

The meeting closed at 14:50pm.

# Investment Performance

Simon Cunnington

Senior Accountant

Pensions & Treasury Management

Nottinghamshire County Council

# Agenda

- Conclusions (2012)
- Investment returns – last 3 years
- Main manager returns
- Long term returns
- Asset allocation
- Conclusions (2013)

# Conclusions (2012)

- Investment returns are important to help keep contributions stable
- Performance since last valuation has been mixed
- Long term returns have been reasonable
  - Bond returns have been remarkable
  - Equity and property returns volatile
  - All main managers have performed well
- Asset allocation continues to favour growth assets

Good performance in 12/13 will help at the next valuation

# Investment returns
## Last 3 years

| | 2010/11 | 2011/12 | 2012/13 | **3 years** |
|---|---|---|---|---|
| | % | % | % | % pa |
| UK Fixed Interest | 5.2 | 11.9 | 10.7 | 9.2 |
| Overseas Fixed Interest | -1.6 | 5.1 | 11.9 | 4.9 |
| Equities | 10.9 | 0.0 | 17.7 | 9.3 |
| Property | 9.6 | 0.8 | 1.3 | 5.3 |
| **Total Fund** | **9.4** | **1.6** | **13.9** | **8.2** |

Expected return on assets at last valuation was 6.8% pa

# Main manager returns

| | 2010/11 | 2011/12 | 2012/13 | **3 years** |
|---|---|---|---|---|
| | % | % | % | % pa |
| Kames (bonds) | 4.2 | 11.0 | 10.6 | 8.6 |
| Schroders (equities) | 10.9 | -0.9 | 18.0 | 9.1 |
| In-house (equities) | 9.5 | 0.1 | 16.6 | 8.5 |
| Aberdeen (property) | 9.6 | 4.6 | 2.4 | 5.5 |

All managers contributing positively to Fund performance

# Long term returns

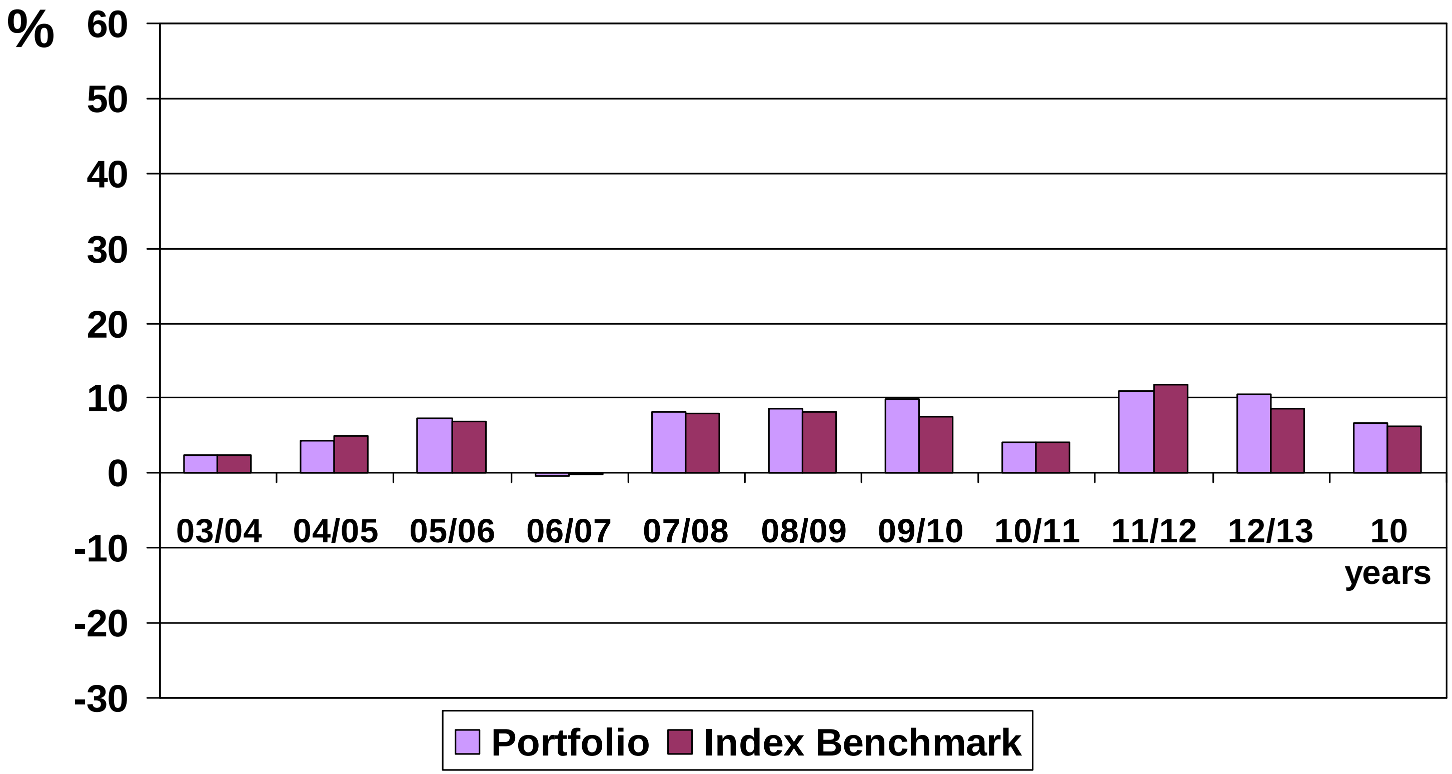
**Fund's Statement of Investment Principles**

'Contribution income currently exceeds benefit payments… This makes it unlikely that assets will have to be realised in order to meet pension benefits and allows the Fund to implement a long term investment strategy'.

- This is still the case
- So what have long term returns been like?

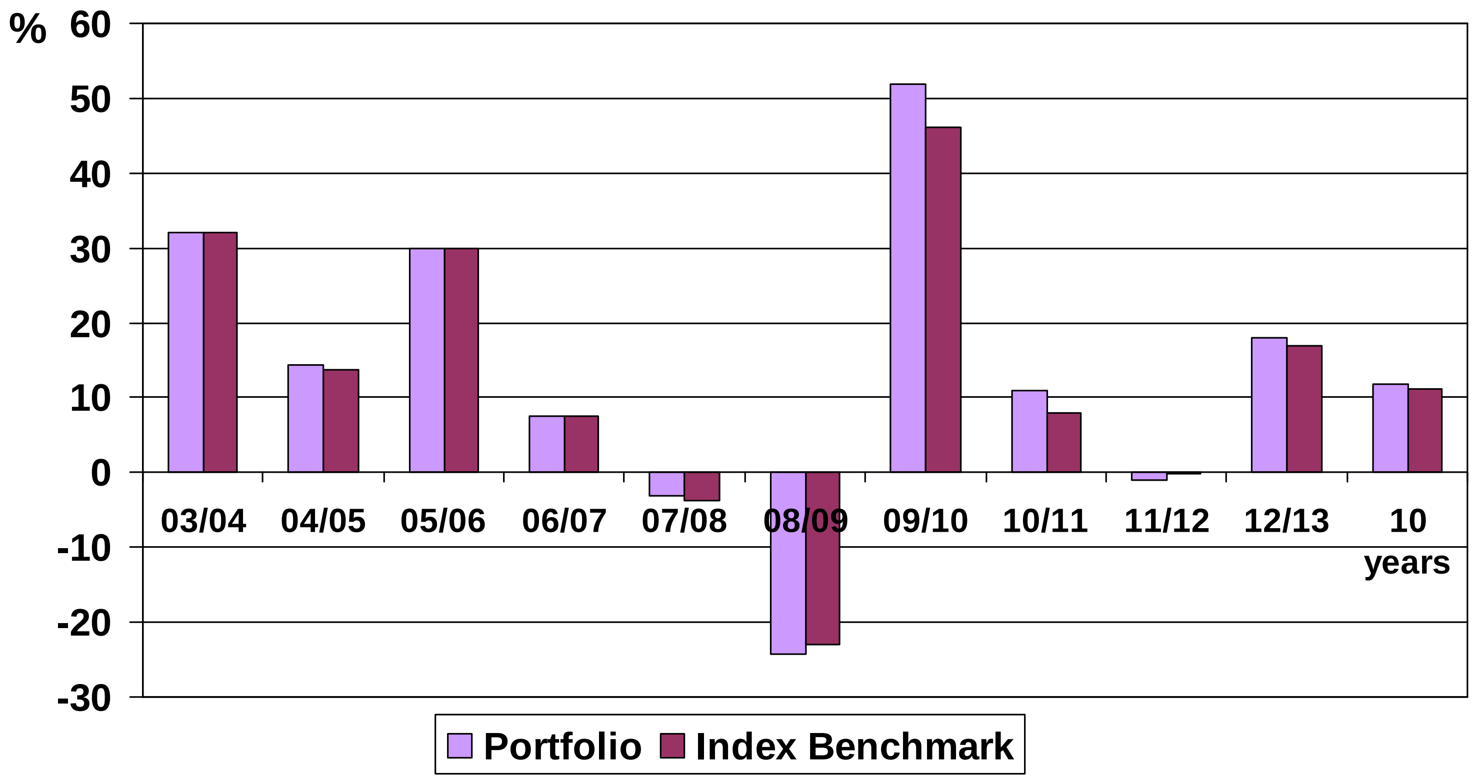
# Bonds

## (Aegon/Kames since July 2005)



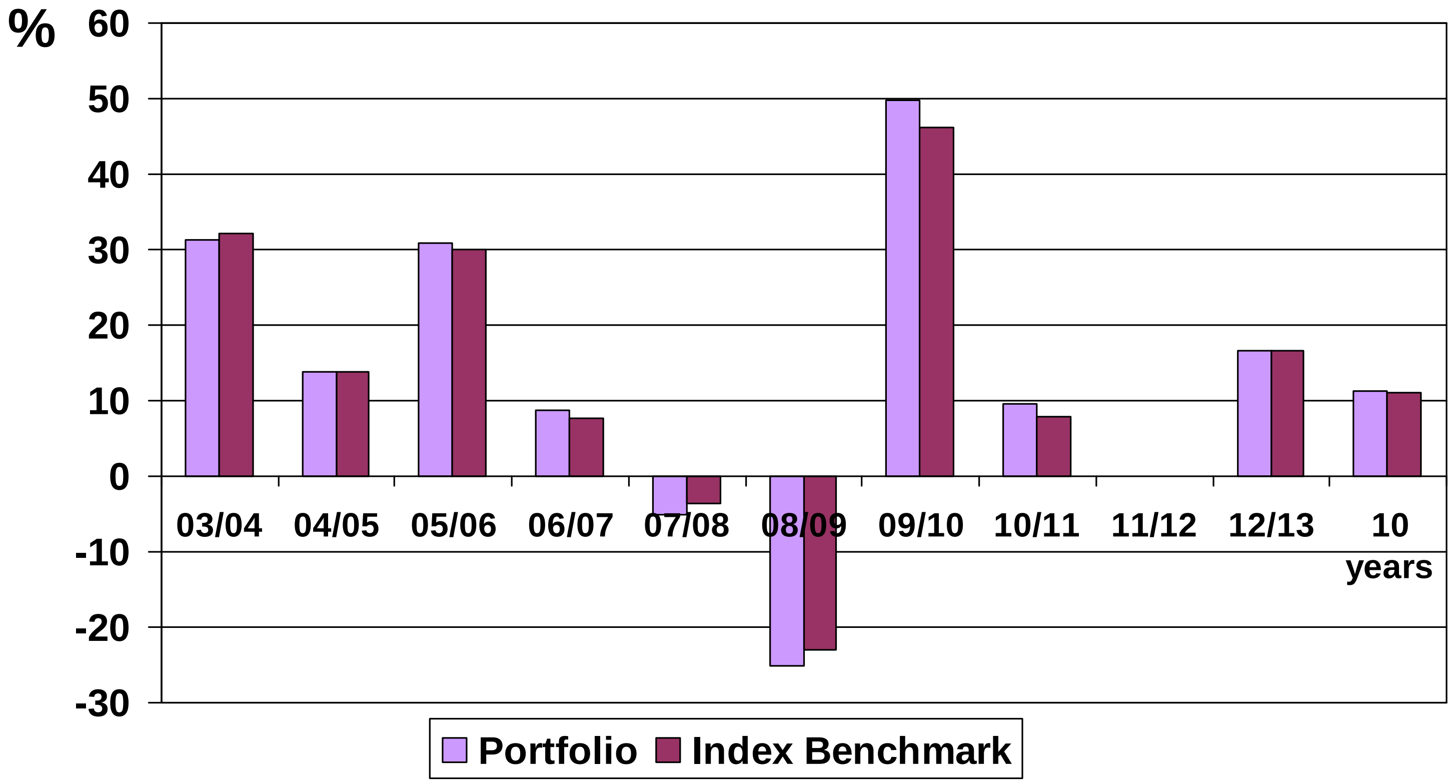

Performance target – to beat benchmark by 0.75% over rolling 3 year periods

# Schroders – Equities



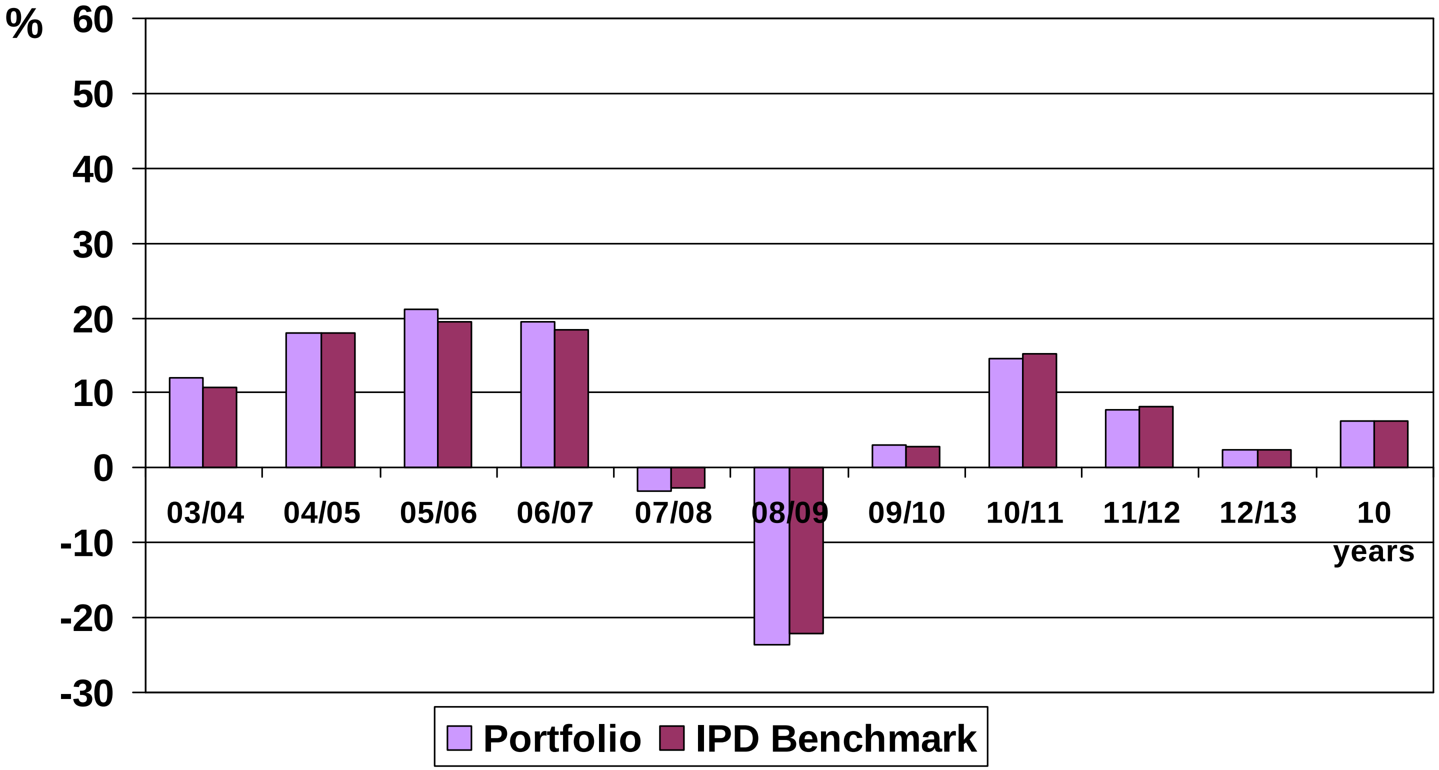

Performance target – to beat benchmark by 0.8% over rolling 3 year periods

# In-house – Equities



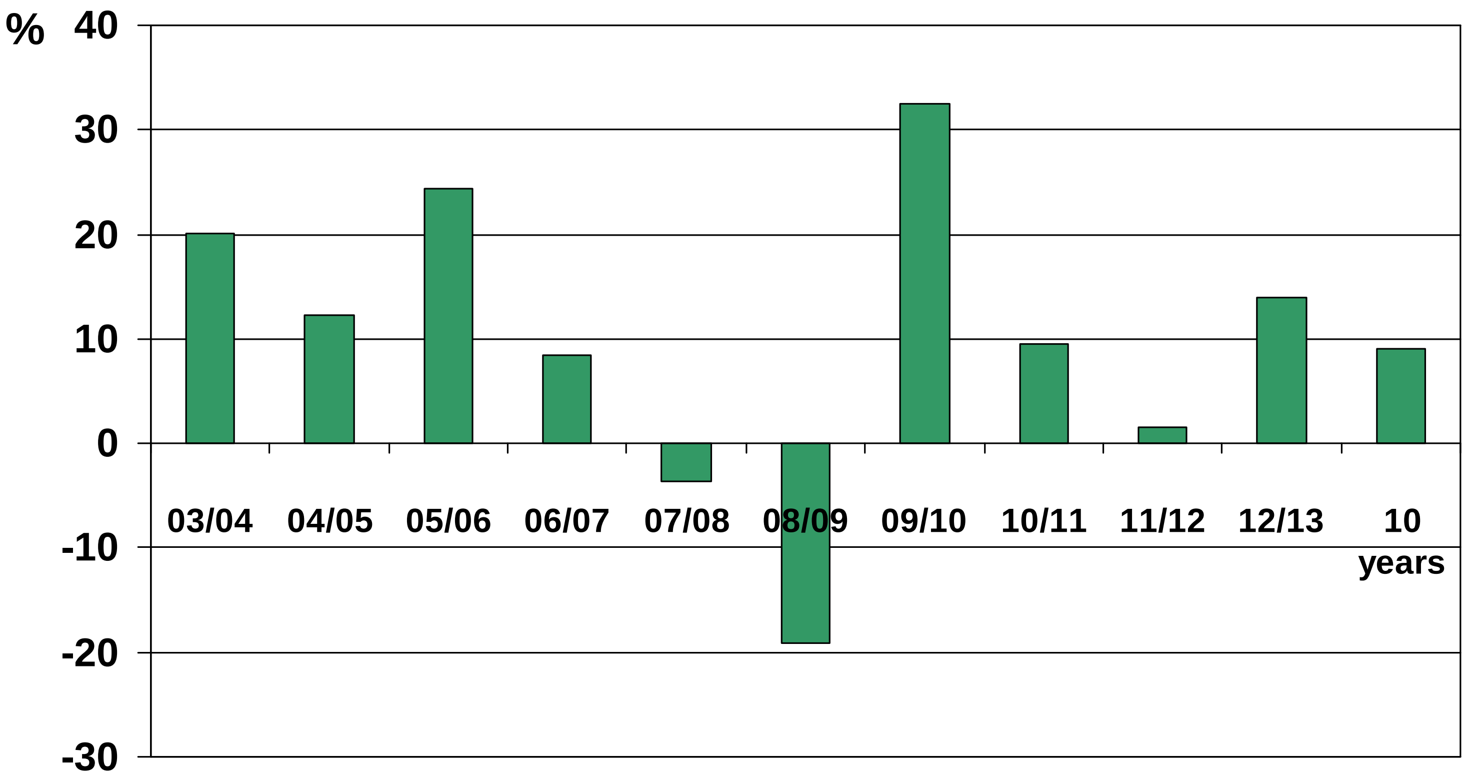

Performance target – to be within ± 0.3% of benchmark

# Aberdeen – Property




Performance target – to beat benchmark by 0.25%

# Fund 10 year returns



# Long term returns

10 year annualised returns are:

| | |
|---|---|
| – Kames | 6.6% |
| – Schroders | 11.8% |
| – In-house | 11.2% |
| – Aberdeen | 6.3% |
| – **Fund overall** | **9.0%** |

Long term returns from equities & property are still expected to be higher than bonds

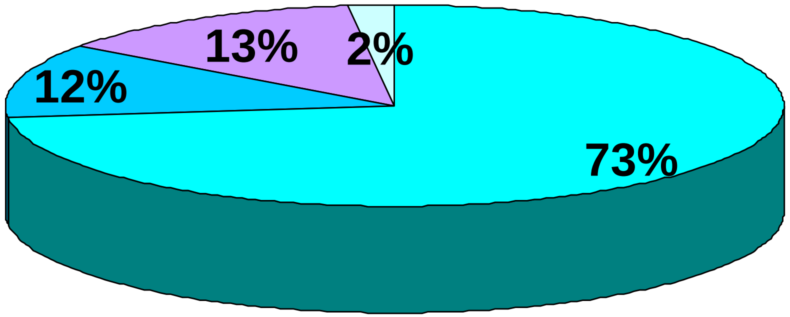
=> Strategy continues to favour these assets

# Fund Asset Allocation

Asset allocation ranges:

| | |
|---|---|
| Equities | 55% to 75% |
| Property | 5% to 25% |
| Bonds | 10% to 25% |
| Cash | 0% to 10% |

Actual Allocation
31 March 2013



# Conclusions

- Investment returns continue to be important
- Assets have performed well since last valuation
- Long term returns have been strong
- Asset allocation still favours growth assets

A long term strategy is vital and cash flow is key to enable this to continue.

# Annual Pension Fund Meeting
# October 8th 2013 2pm

# Changes to the Local Government Pension Scheme from 1/4/2014.


John Fairbanks - Acting Pensions Manager (Technical)

Sarah Marshall - Acting Pensions Manager (People)


**Disclaimer:** The information contained within this presentation, is intended as a guide and is based upon our best understanding of the intention of the existing and forthcoming regulations and can in no way override the content of the full regulations and official interpretation of such.

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# Annual Pension Benefit Accrual

- Up to 31/3/2008:
  - **1/80 x** membership **x** final salary on leaving.
    (w/t or p/t) (w/t equiv.)
  - *(plus a 3/80th lump sum accrual)*

- From 1/4/2008 to 31/3/2014:
  - **1/60 x** membership **x** final salary on leaving.
    (w/t or p/t) (w/t equiv.)

- From 1/4/2014
  - **1/49 x** actual salary during year **x** CPI to leaving.
    (w/t or p/t)

# Members' Contribution Rates

| From To | Current | April 2014 Rate |
|---|---|---|
| **Up to £13,500** | 5.50% | ⇨ 5.50% |
| **£13,501 to £13,700** | 5.50% | ⇧ 5.80% |
| **£13,701 to £16,100** | 5.80% | ⇨ 5.80% |
| **£16,101 to £20,800** | 5.90% | ⇩ 5.80% |
| **£20,801 to £21000** | 6.50% | ⇩ 5.80% |
| **£21001 to £34000** | 6.50% | ⇨ 6.50% |
| **£34000 to £34,700** | 6.50% | ⇧ 6.80% |
| **£34,701 to £43000** | 6.80% | ⇨ 6.80% |

# Members’ Contribution Rates

| | | |
|---|---|---|
| **£43001 to £46,500** | **6.80%** | **8.50%** |
| **£46,501 to £60000** | 7.20% | 8.50% |
| **£60001 to £85000** | 7.20% | 9.90% |
| **£85001 to £87,100** | 7.20% | 10.50% |
| **£87,101 to £100,000** | 7.50% | 10.50% |
| **£100,001 to £150,000** | 7.50% | 11.40% |
| **More than £150,000** | 7.50% | 12.50% |
| | | |
| **Average** | 6.50% | 6.50% |

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# Other Key Changes

- **Contribution rates –** now linked to actual pay rather than w/t equiv.
- **Pensionable Pay** – to be redefined to include overtime
- **Normal Pension Age** – now linked to new SPA (min 65).
- **Early retirement** – member may opt for reduced benefits from age 55.
- **50/50 option** – member may opt to pay half rate contributions for a half rate benefit accrual.

# Other Key Changes Cont.d.

- **AVCs** – the 50% cap is to be removed.
- **Vesting period** – increased from 3mths to 2yrs.
- **Life Time Allowance** – will reduce from £1.5M to £1.25M
- **Annual Allowance** – will reduce from £50k to £40k

# Protections for existing members

- **Final salary link** - for pre April 2014 benefits.
- **85 year rule –** existing protections are carried forwards.
- **2008 benefit underpin -** for those within 10 years of age 65 at April 2012, and who retire at 65 or over.
- **Existing deferred or pensioner members** – no changes to entitlement.

All protections are subject to the conditions set out in the forthcoming transitional regulations.

# Annual Pension Fund Meeting
# October 8th 2013 2pm

# Employer Responsibilities

lgps 2014

Nottinghamshire County Council

# The Nottinghamshire Pension Fund

- Number of Scheme Employers increased from approx.

  140 in 2008 to +230 currently

- Result of Academy conversions and TUPE arrangements
- Main role of the Pensions Office:-
  - Maintain records for
  - Calculate, process & pay benefits
  - Approx. 38000 active scheme members
- In line with Regulations

# Employer Responsibilities

- Role of Pensions Office to support Scheme Employers to undertake responsibilities in line with regulations:-
  - Payment of pension contributions
  - Notifications of Starters/Leavers/Changes etc. in line with processes
  - Supply required Year End Information
- Client Liaison Team:-
  - Meetings for new Academy Employers
  - Year End meetings
  - Employers' Website/Full Guide

# LGPS 2014 – Main Impacts for Scheme Employers

- Separate records per job
- Two sections of the scheme
  - Main Scheme
  - 50/50 Scheme
- Pensionable Pay
- Assumed Pensionable Pay (APP)
- Employee and Employer contributions
- Year End requirements

# Separate Records Per Job

- Each post held separately on payroll system
- Ability to assess separately re:-
  - Employee contribution bandings
  - Employee contribution payments
  - Cumulative Pensionable Pay
  - Cumulative Assumed Pensionable Pay (APP)
- Ability to report above separately (e.g. at year end)

# Two Sections of the Scheme

- Main Section (full scheme)
  - Employee joins main section initially
- 50/50 Section (half contributions/half benefits)
  - No limit on movement between sections
  - Applicable from next available pay period
  - Same Employer Contribution rate applies
- Payroll systems must provide for movement between sections during year
- Separate cumulative pensionable pay and contribution information held for each section (and job).
- Separate start and end dates held for each section.

# Pensionable Pay

- From 01/04/2014:-
  - non-contractual overtime will be pensionable
  - excess hours worked will be pensionable
  - only items of pay listed on the exclusions list would be non pensionable (travelling, payments in lieu etc.)
  - Benefits accrue based on pensionable pay received* rather than pensionable pay due
    - See *APP slide

# Assumed Pensionable Pay (APP)

- APP is added to cumulative Pensionable Pay where:-
  - Pay reduced or zero due to sickness
  - Maternity, Paternity or Adoption leave (paid)
  - Reserve Forces leave
- Based on last complete 3 months or 12 weeks pensionable pay (excluding lump sum payments e.g. bonus)
- Add back any regular lump sum in last 12 months
- CPI applies if APP applies over 2 years

# Employee and Employer Contributions

- Nine contribution bands
- Band determined by actual pensionable pay
- Employer can determine to change band due to employment or material change
- Employee/er contributions deducted on any pensionable pay received
- Employer contributions deducted on APP for child related leave (paid)
- Employer contributions deducted on reduced or zero pay for sickness

# Year End Information

- Minimum requirements defined in the Regulations
- Cumulative pensionable pay
- APP
- Cumulative contributions
  - Employee
  - Employer
  - Additional
- Start/leave dates
- 50/50 scheme information
- FTE pay (pre 2014)
- Hours changes and breaks in service (pre 2014)
- Guidance/specification will be required

# Support Available

- Client Liaison Team
  - client-liaison.lgps@nottscc.gov.uk
  - Supply updates to employer contacts
  - Employer meetings
- Full Employers' Guide
- Year End Guide including specifications/templates
- Employers Website
  - http://employers.nottspf.org.uk

# LGA Employers support programme

- Meetings with payroll & pensions software providers
- Employer briefing note at
  http://www.local.gov.uk/web/lgaworkforcepensions/lgps2014comms
- Payroll on HR specification at http://www.lgpsregs.org/
- High level regional employer briefings
- Workshops / seminars
  http://www.local.gov.uk/web/lgaworkforcepensions/training-and-events

northgate

SAP

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CREATING VALUE THROUGH YOUR PEOPLE

# Any Questions?

# Notts County Council Pension Fund AGM

UK Actuarial Advisory Firm of the Year

## Outlook for 2013 Actuarial Valuation…and beyond……

**alison.hamilton@barnett-waddingham.co.uk**

October 2013

# Agenda

- Purpose of the valuation
- How do we do it - reminder
- Funding models and assumptions
- Where have we got to?
- Summary and Conclusions
- Questions and discussion

# Purpose of valuations

| | |
|---|---|
| **Approach depends on question being asked** | • Many questions! |
| **Ongoing triennial funding valuation** | • How much do employers need to pay in future to have enough assets to pay benefits? |
| **Annual accounting valuations (IAS19/FRS17)** | • Help accountants compare<br>• If we were a plc how much would we need to borrow to finance liabilities? |
| **Cessation valuations** | • Have we enough assets to meet liabilities?<br>• How much risk do we leave on the table?<br>• Different approaches depending on employer situation |

# Triennial Funding Valuation

| | |
|---|---|
| Set out in LGPS Regulations | • to *certify* levels of employer contributions to secure the *solvency* of the Fund |
| Also have to look at Funding Strategy Statement | • As determined by administering authority<br>• With some actuarial help! |
| Actuary to "have regard to desirability of maintaining as **stable** a contribution rate as possible" | • Function of Funding Model / investment strategy<br>• Spreading and stepping |
| Different approaches possible for different employer types | • Statutory/non statutory bodies<br>• Open or closed admission agreements |

# Annual Accounting Valuations

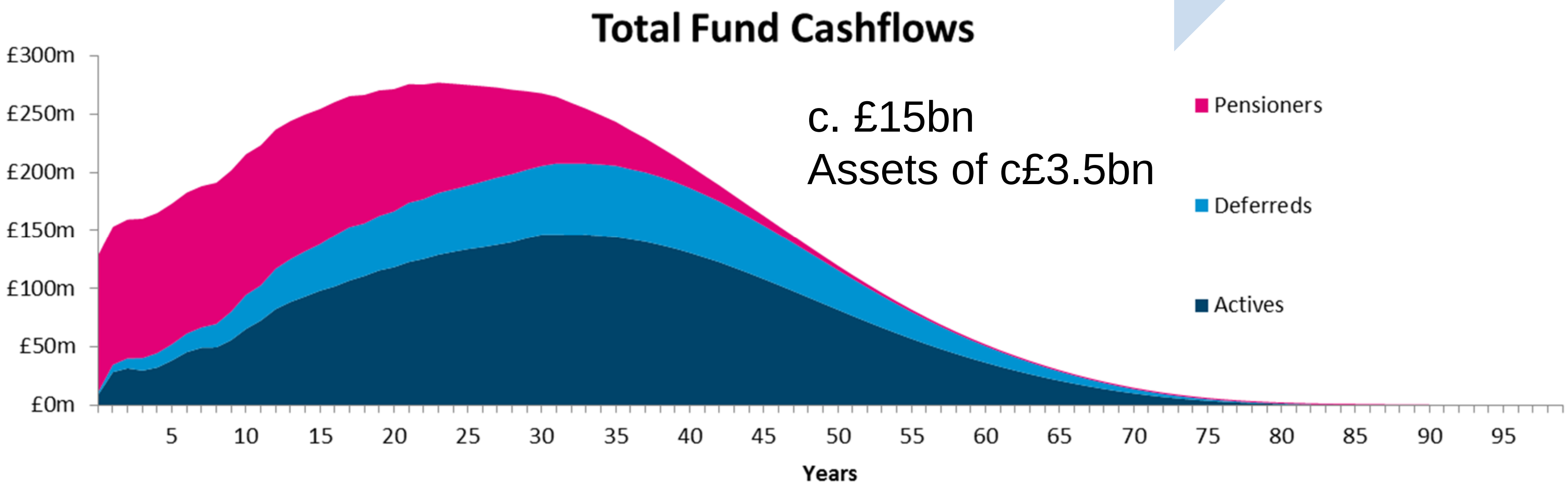
| | |
|---|---|
| **FRS17 or IAS19** | • Essentially the same |
| **Key objective is consistency of measurement** | • Help accountants compare |
| **Some hard coding of assumptions** | • Discount rate |
| **Inconsistent asset and liability valuations** | • Lots of volatility<br>• Some counter intuitive results sometimes |

# How do we do it?

**Step 1**
- Projection of all possible benefit payments for each member

**Step 2**
- Attach probabilities to each possible payment to get “expected” payments

**Step 3**
- Discount “expected” payments to obtain “value”






Barnett Waddingham

# How do we do it?

Look at accrued benefits and future benefits separately

Past Service

- Compare assets with value of accrued benefits

Future Service

- Determine contribution required to meet value of annual accrual of benefits

Calculations completed at

- Whole fund level
- At individual employer level to identify any outliers and for accountants!

But maybe pool similar employers to help with stability

- Price of stability is some cross subsidy

# Assumptions

## Price Inflation (RPI)

- Usually difference between fixed interest and index linked gilts
- CPI adjustment required

## Salary Increases

- Usually 1-2% pa more than price inflation
- Short term adjustment?
- Long term adjustment?

## Discount rates

- Depends on purpose and objectives of valuation

## Statistical assumptions

- Investigate past experience
- Use national data
- Adjust for actual experience

# Discount Rates

## Accounting valuation

- Corporate bond yields / cost of borrowing

## Minimum risk cessation

- Gilt yields

## Ongoing funding valuation

- Expected future investment returns from actual investment strategy

## Gilts and bonds – easy….

- Redemption yields

## Equities – less easy….

- Fixed risk premium over gilts (Gilt + model)
- Economic model (BW model)

## Property/alternatives – keep it simple

- Somewhere between equities and gilts

# Discount Rates / Equity Returns

## Gilt Plus models

## “Risk based” approach based on alleged tPR approach

- **Doesn’t apply to LGPS!**

## Value liabilities on minimum risk gilts basis

- **Increase risk factor via fixed risk premium**
- **Discount rate then gilts plus something**
- **Based on asset strategy and employer covenant**
- **Seems quite sensible and nice and simple**

## But liability values then behave like gilts

- **Potential for lots of volatility**
- **Equities and gilts not well correlated especially in short term**

## Problems with quantitative easing

- **BoE making pensions “more expensive”**
- **Government taking an interest**

# Discount Rates / Equity Returns

## Our economic model

- Been using and developing for 15 years
- Specifically designed for LGPS

## Assumes equity returns function of

- Dividend income plus
- Economic/dividend growth

## Returns then risk adjusted

- If more than 75% in equities
- Minimum and maximum real discount rates as well

## Valuation results assessed over 6 month period spanning valuation date

- Essentially some smoothing
- Helps meet stability objective

## More complex model

- But more robust and stable valuation results

# Where were we?

**2010 Valuation**

**Average ongoing employer cost**

- **13.5% of payroll**

**Funding Level**

- **84%**

**Deficit Contribution**

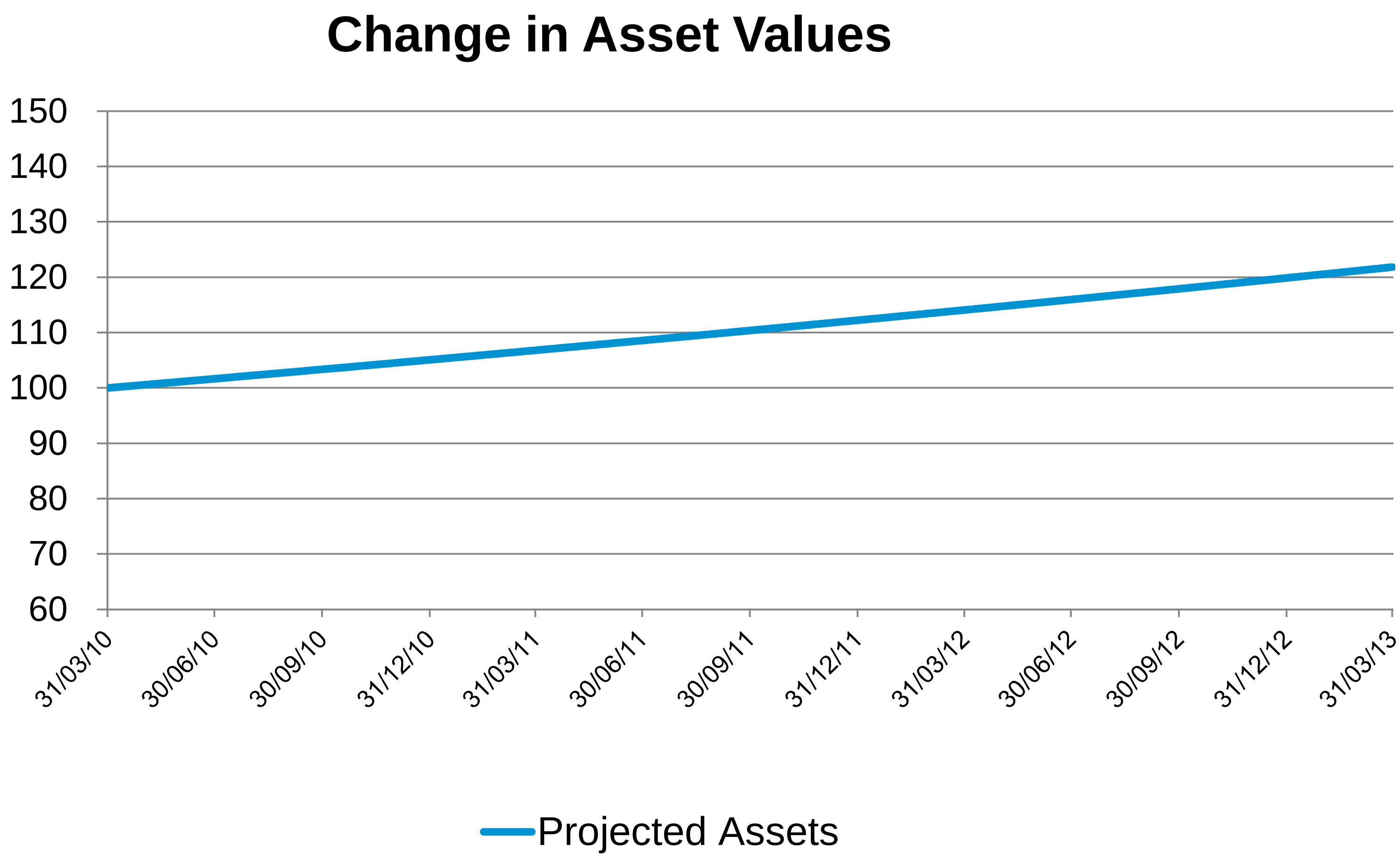
- **4.5% of payroll for 20 years**

**Total Average Employer Contributions**

- **18% of payroll**

**Individual employer recovery periods and funding strategies**

# What's happened since then?



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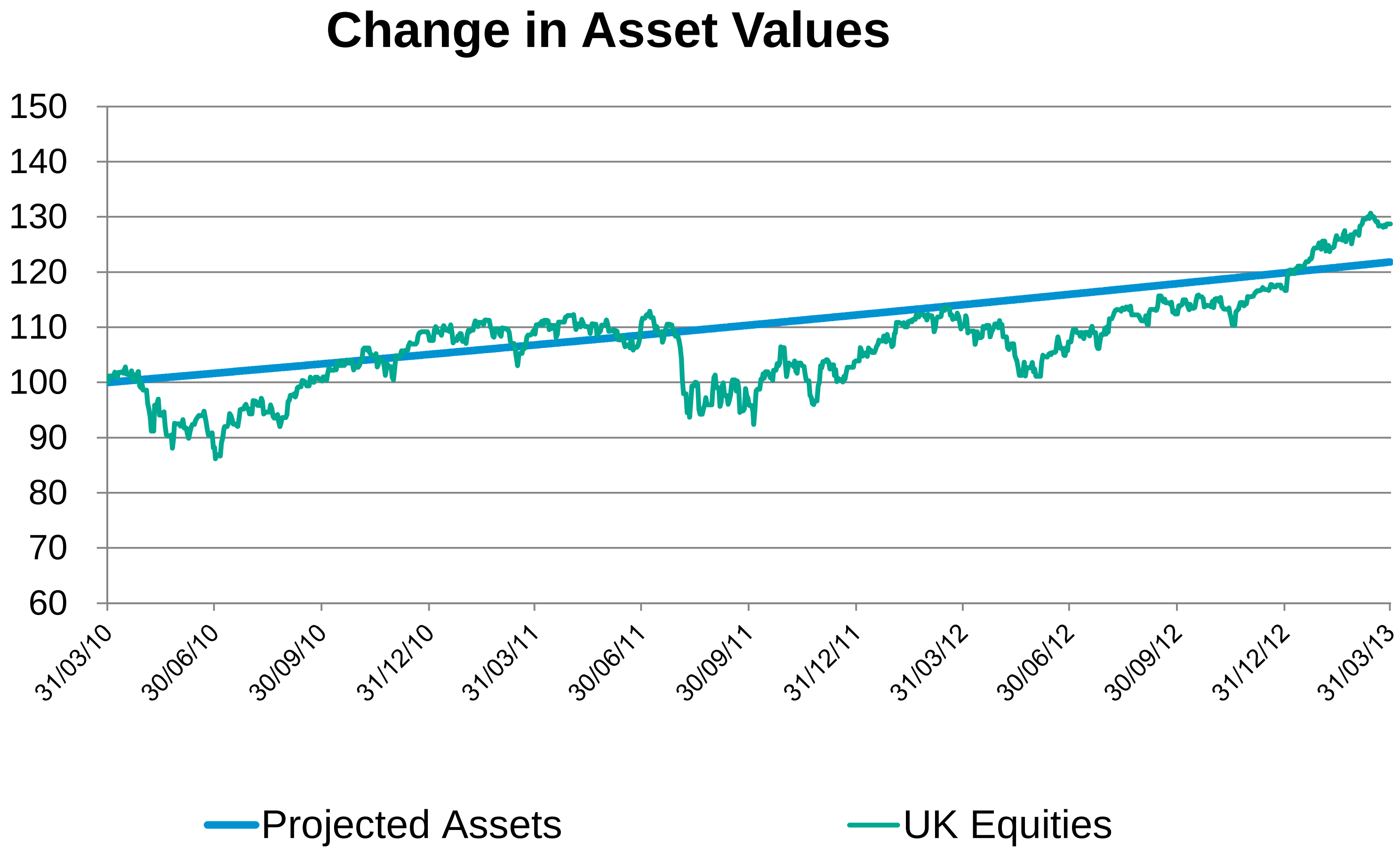




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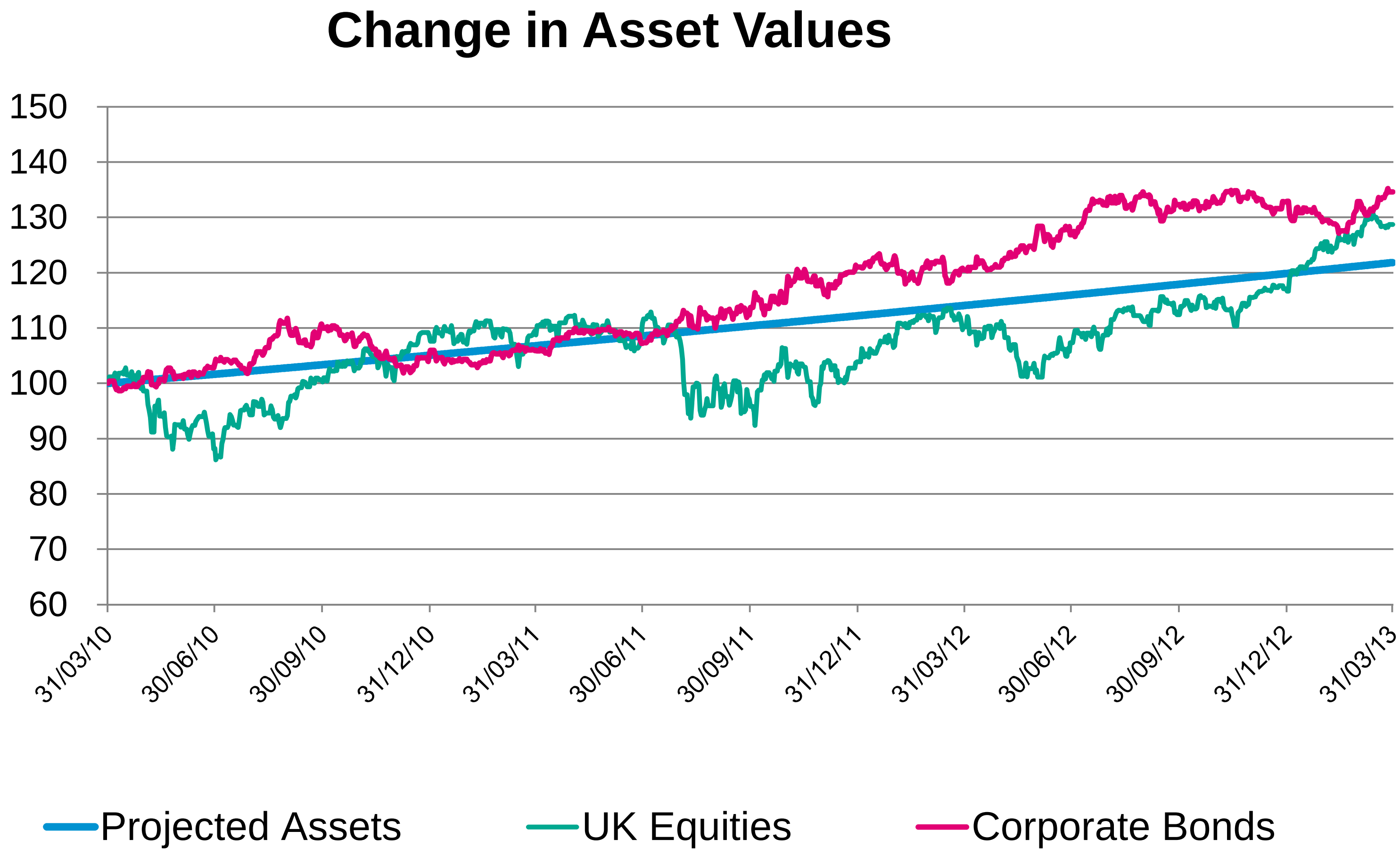

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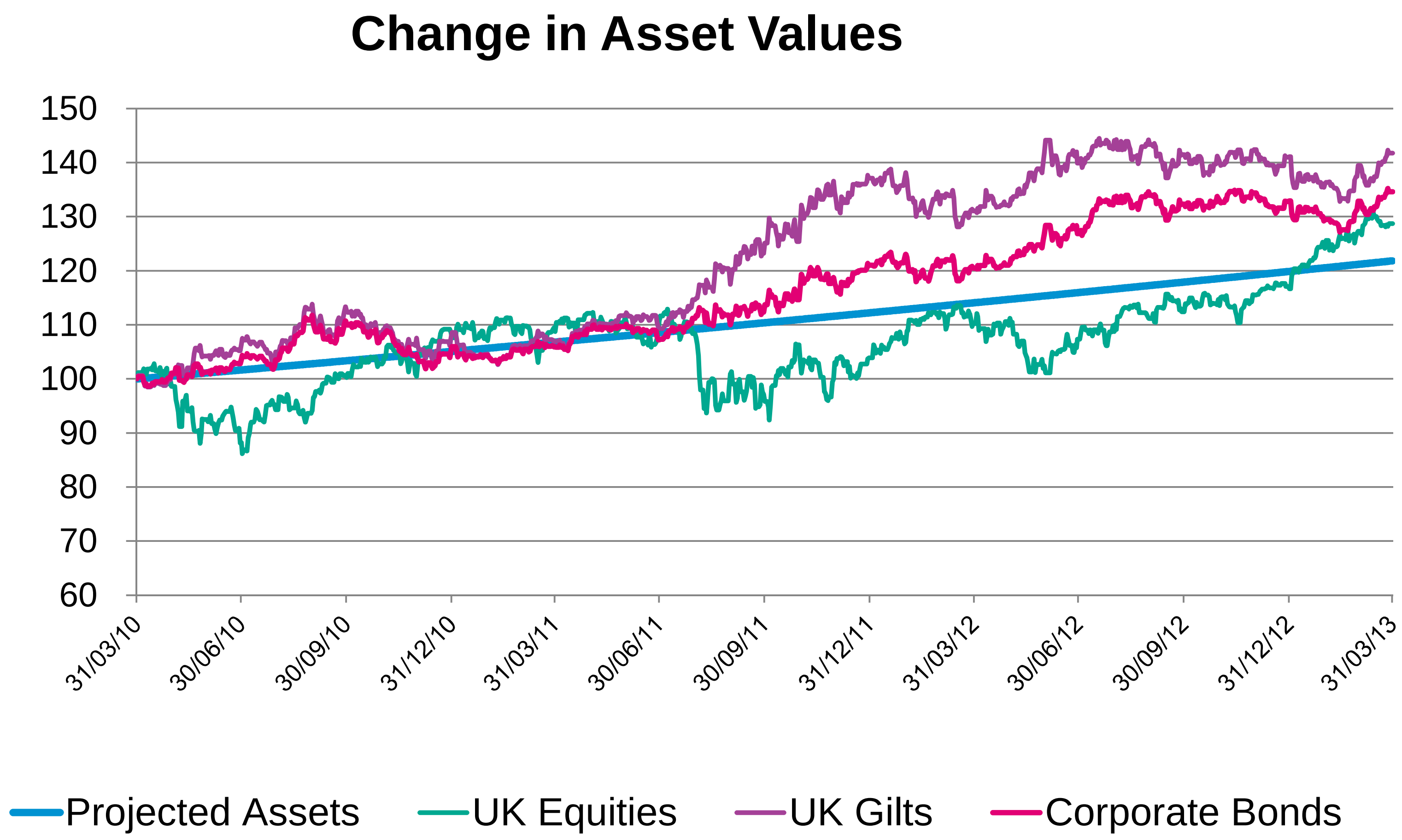

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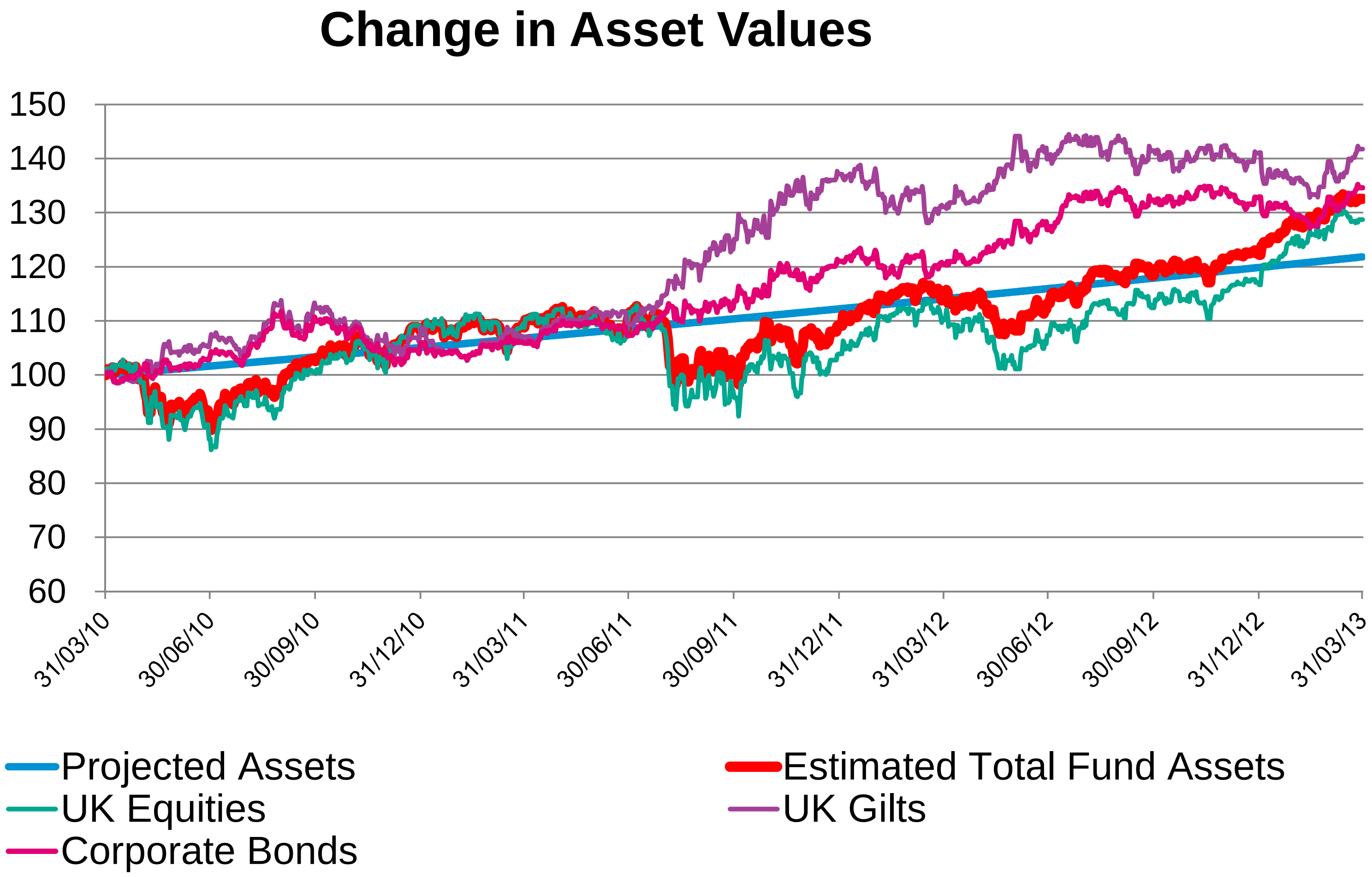




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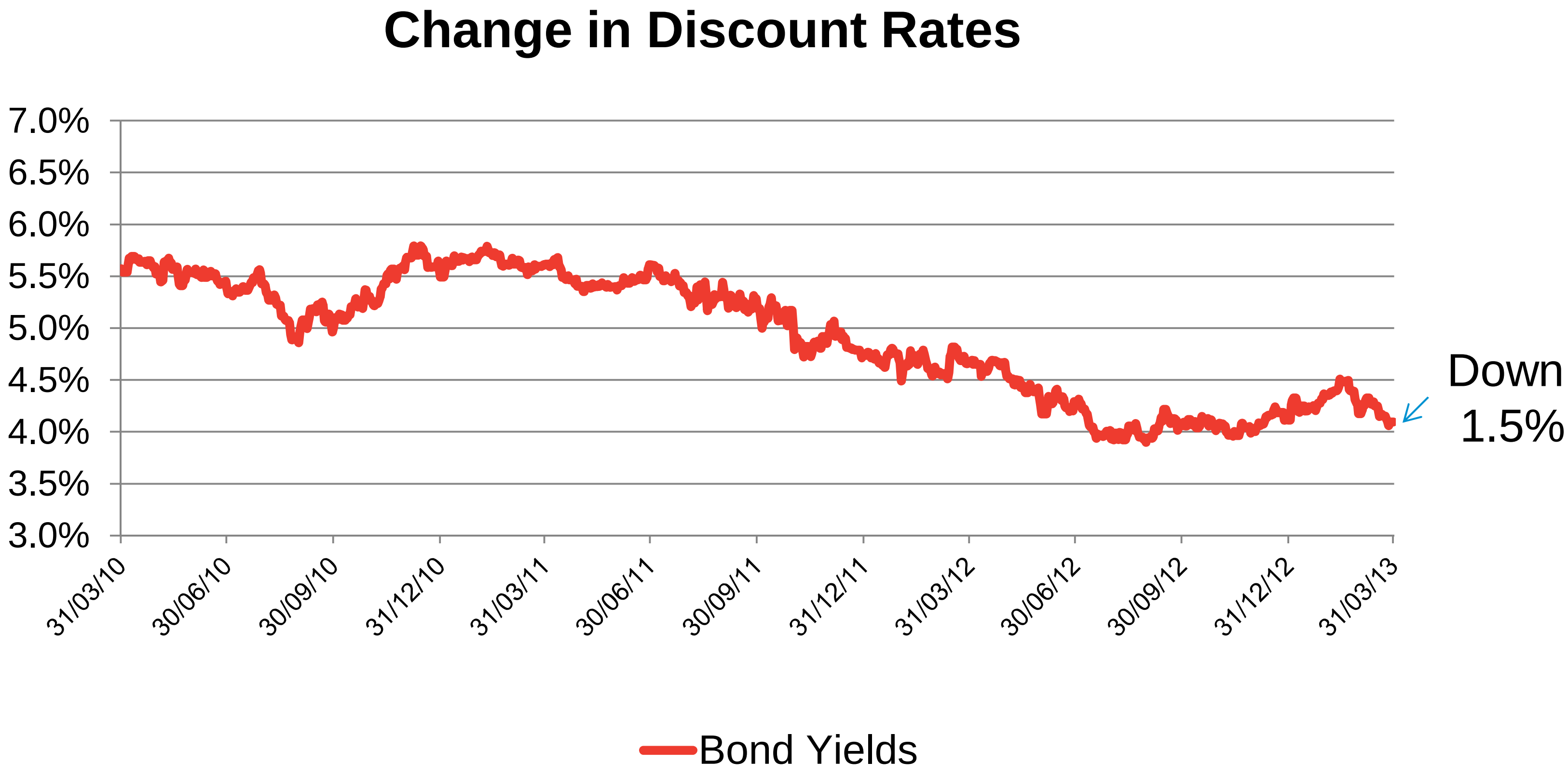
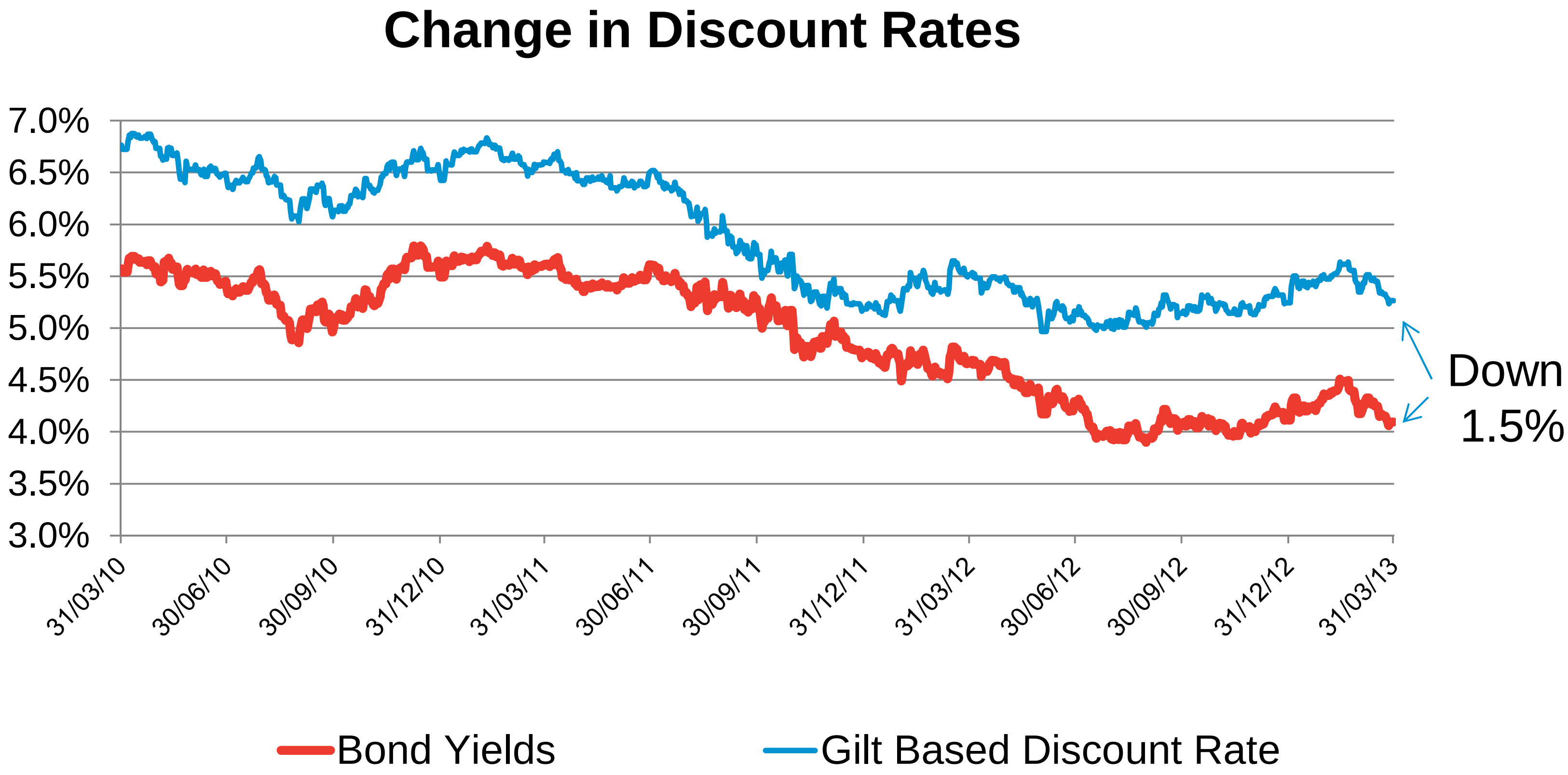
# Changes in Yields / Discount Rates




1% reduction in discount rate increases liability value by ~20%

# Changes in Yields / Discount Rates

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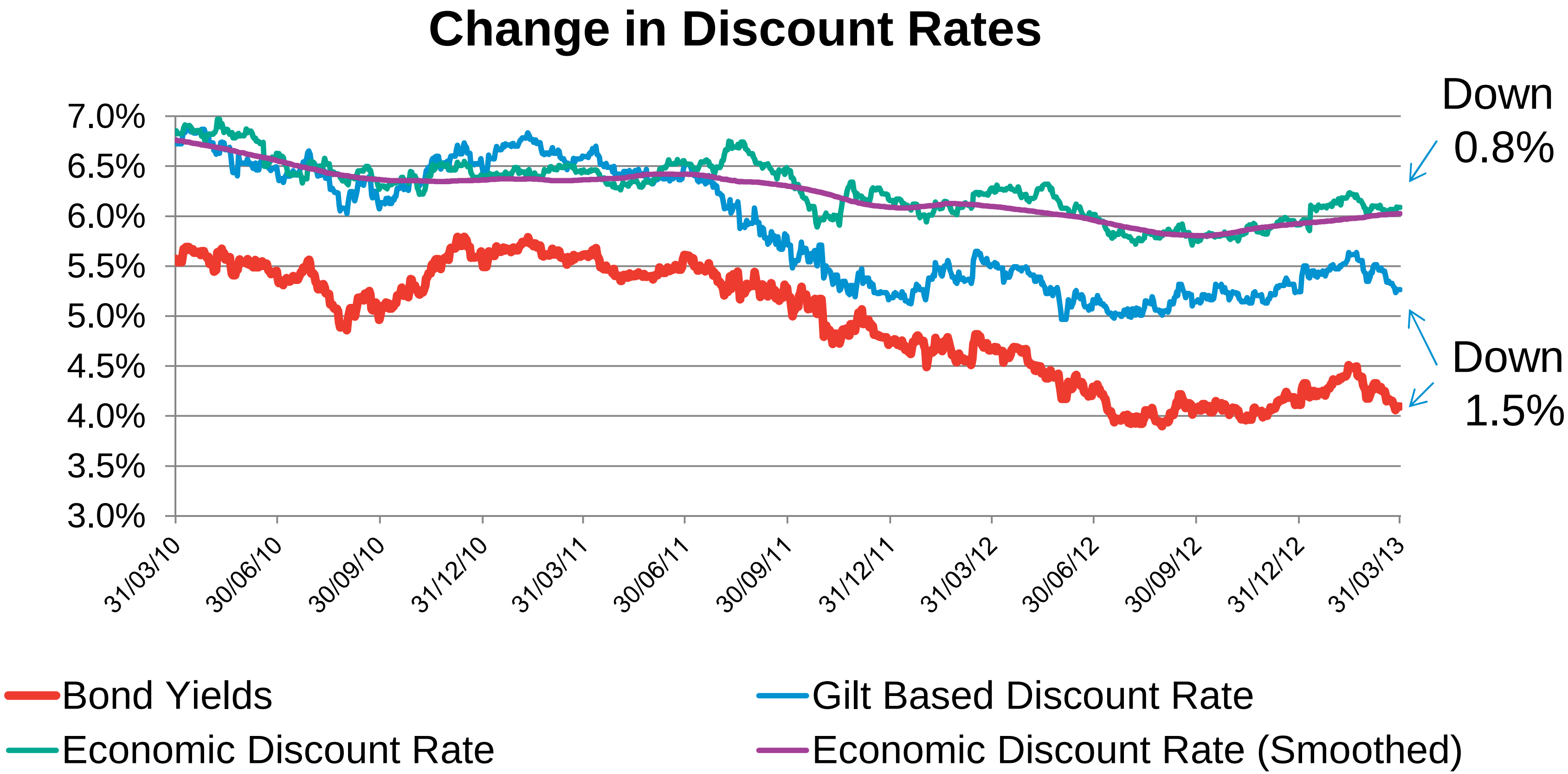


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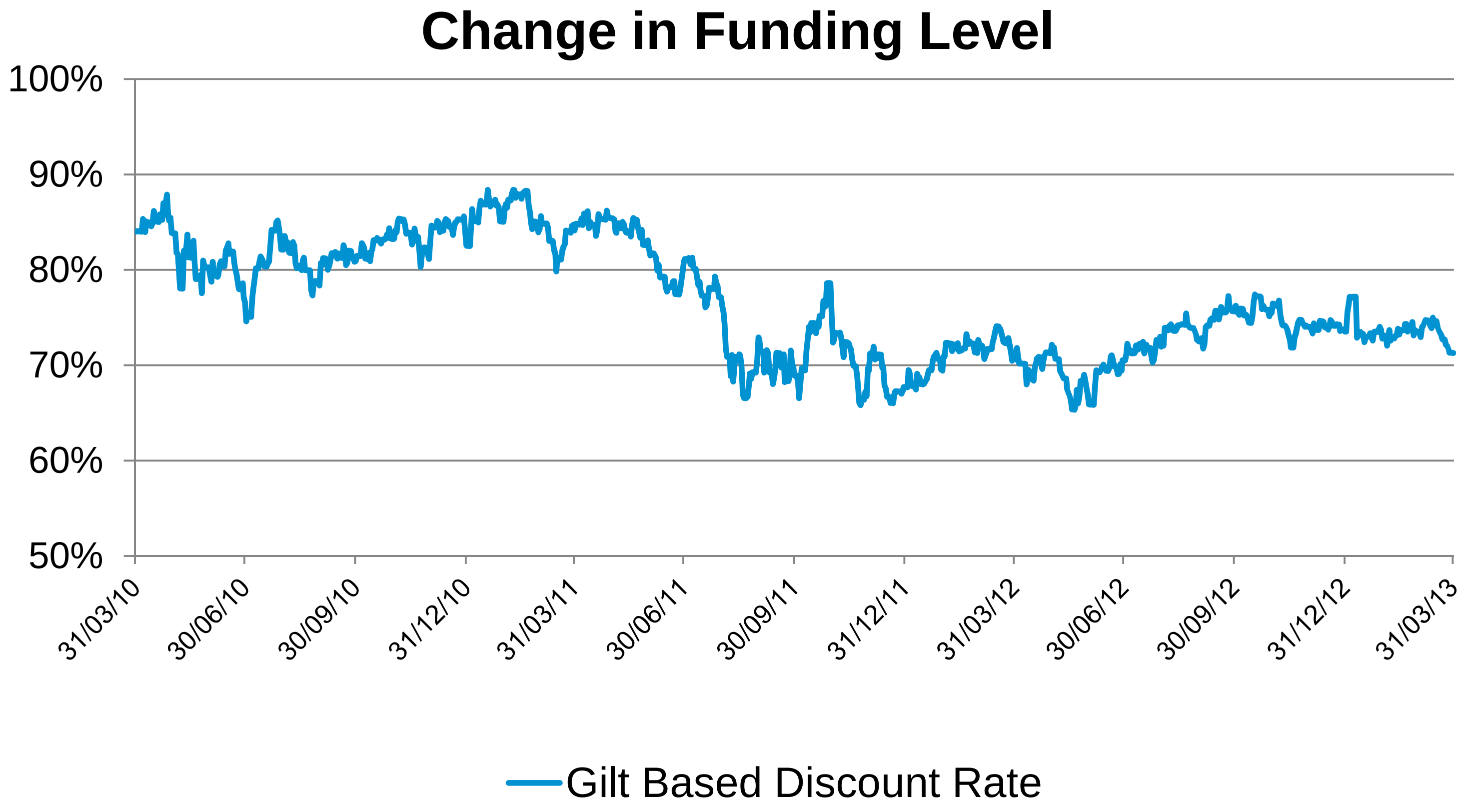
# Change in Funding Levels



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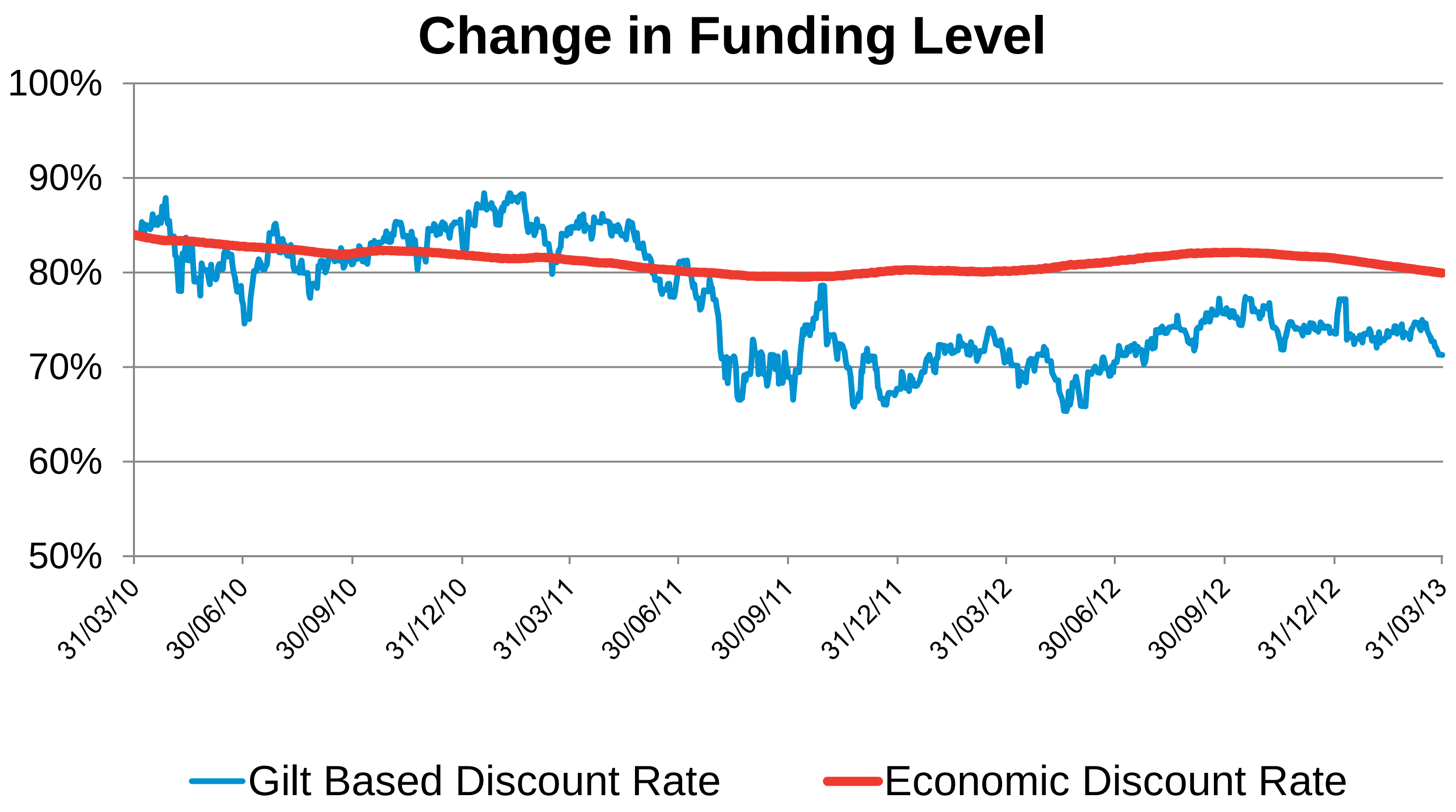
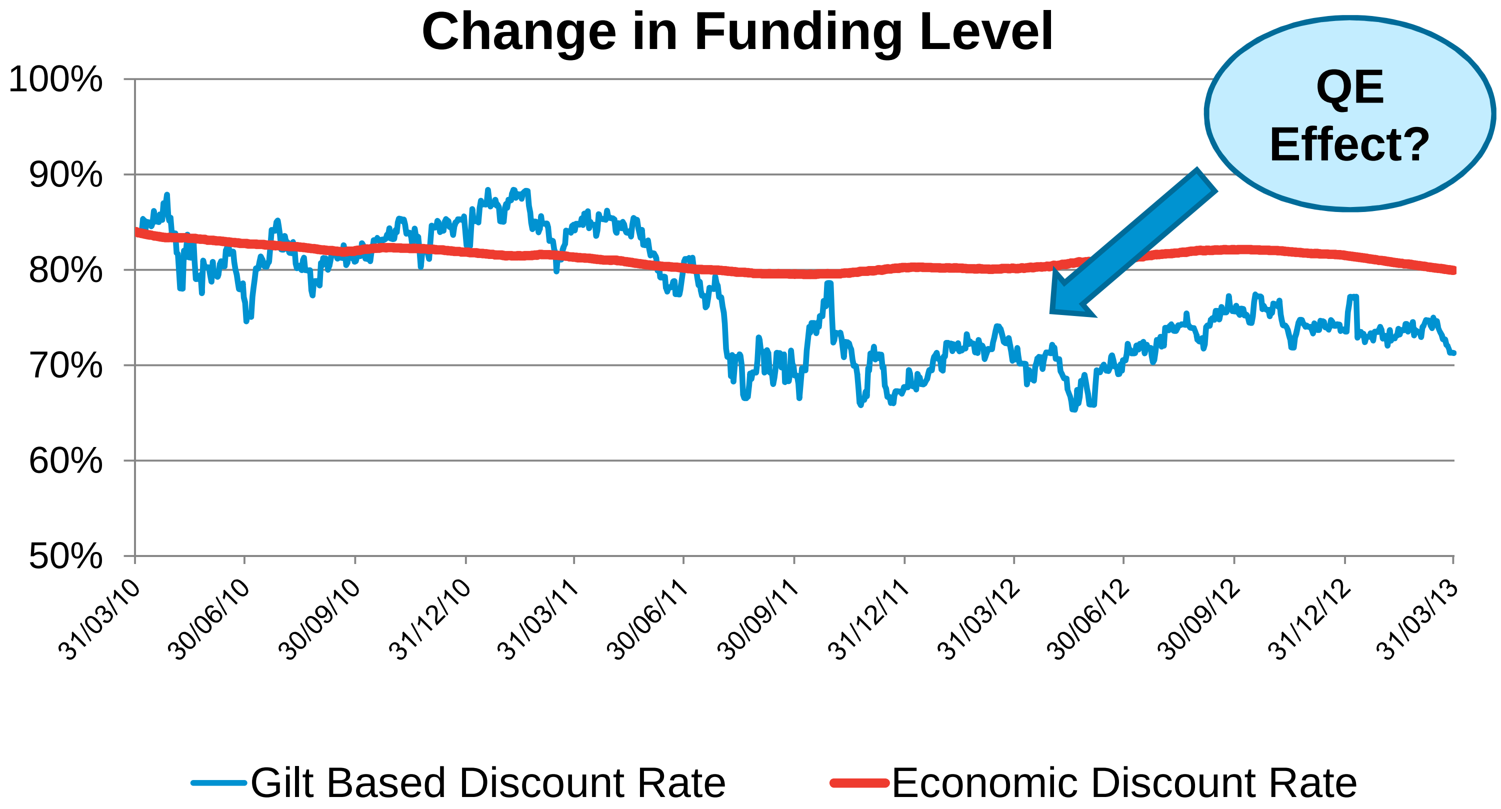


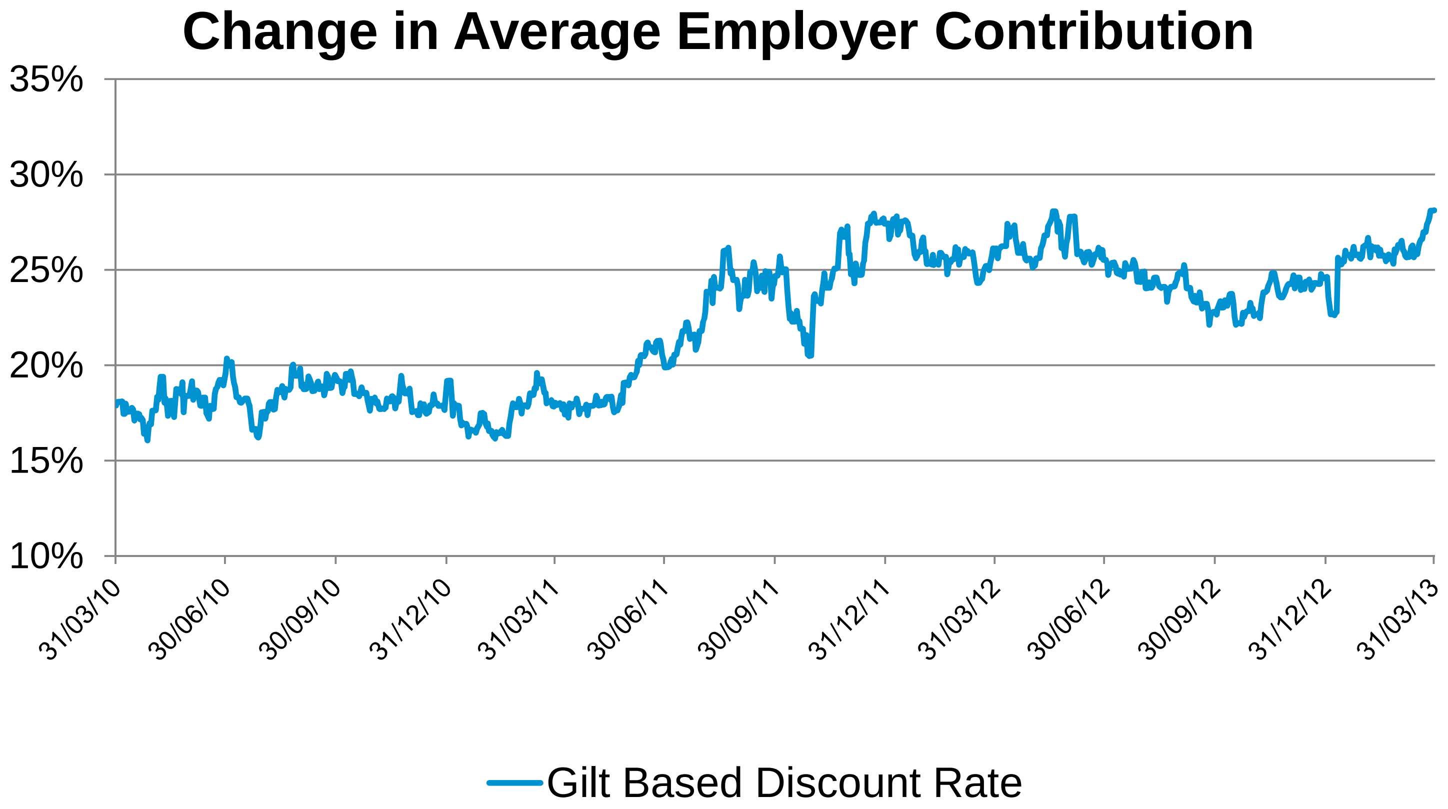
# Change in Funding Levels



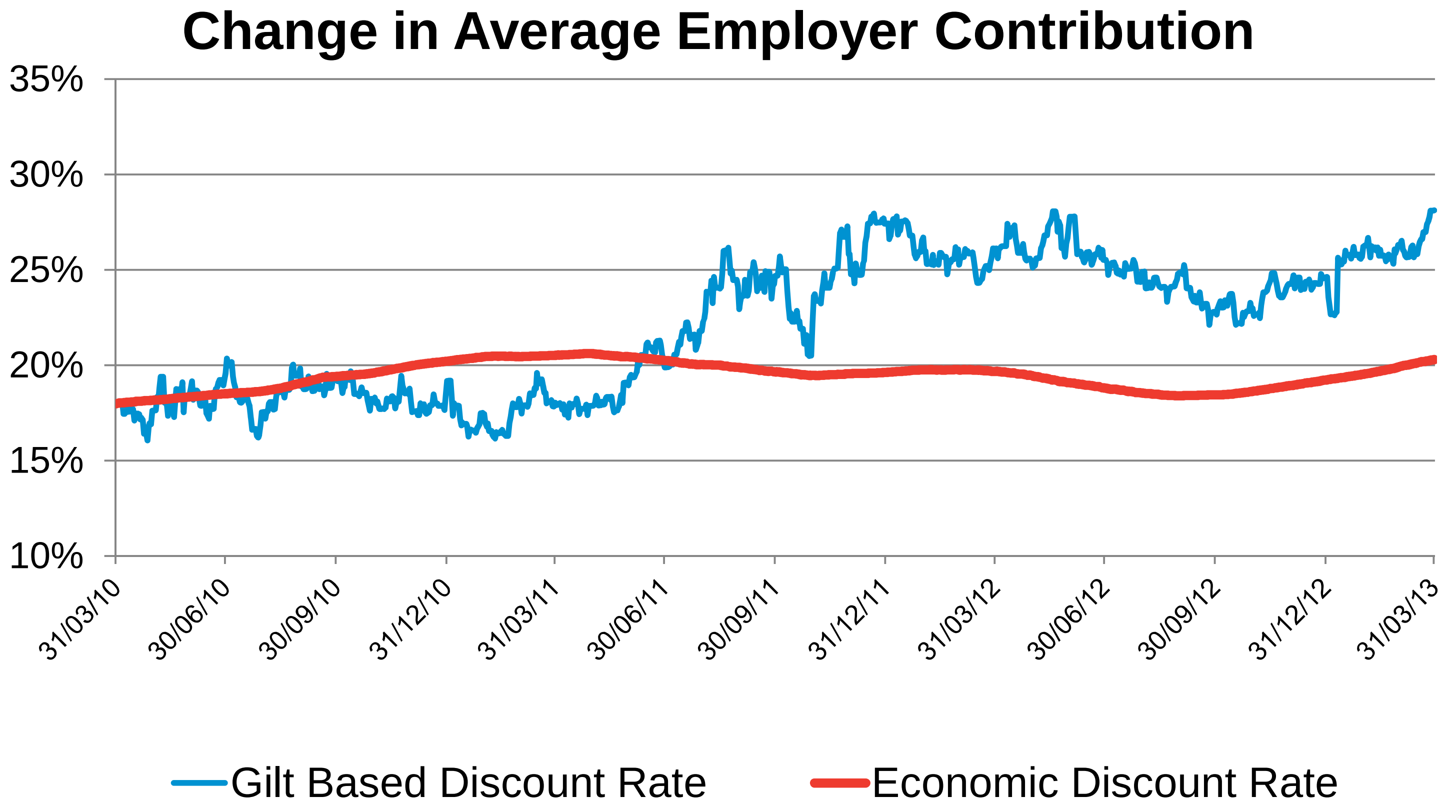



Barnett Waddingham

# Change in Employer Contribution



# Change in Employer Contribution



# Conclusions

## Accrued benefits

- Funding level down a little
- Cash deficit up a bit

## Ongoing Employer Contributions

- Average employer contributions up a little
- But LGPS 2014 will save a little for some

## Total Employer Contributions

- All else equal - up a little
- But payroll reduced
- So deficit contributions (as % of pay) up a bit

## Overall

- Probably more cash required
- Phase in any increases
- Will vary by employer

# Changes to LGPS

## New benefits and contributions from 2014

- Move to average pay scheme
- Change in pensionable pay definition
- Change in member contribution rates

## Public Sector Pensions Act 2013

- Change to current structures
- Re-naming of existing bodies
- Creation of new bodies with new duties and responsibilities
- Increase in regulation
- Greater focus on governance of schemes
- Biggest impact on locally administered schemes – local government, police and fire

# Who’s Who?

## “Responsible Authority”

- DCLG

## “Scheme Manager”

- Administering Authority

## “Pensions Board”

- New local body
- Employer representatives
- Member representatives

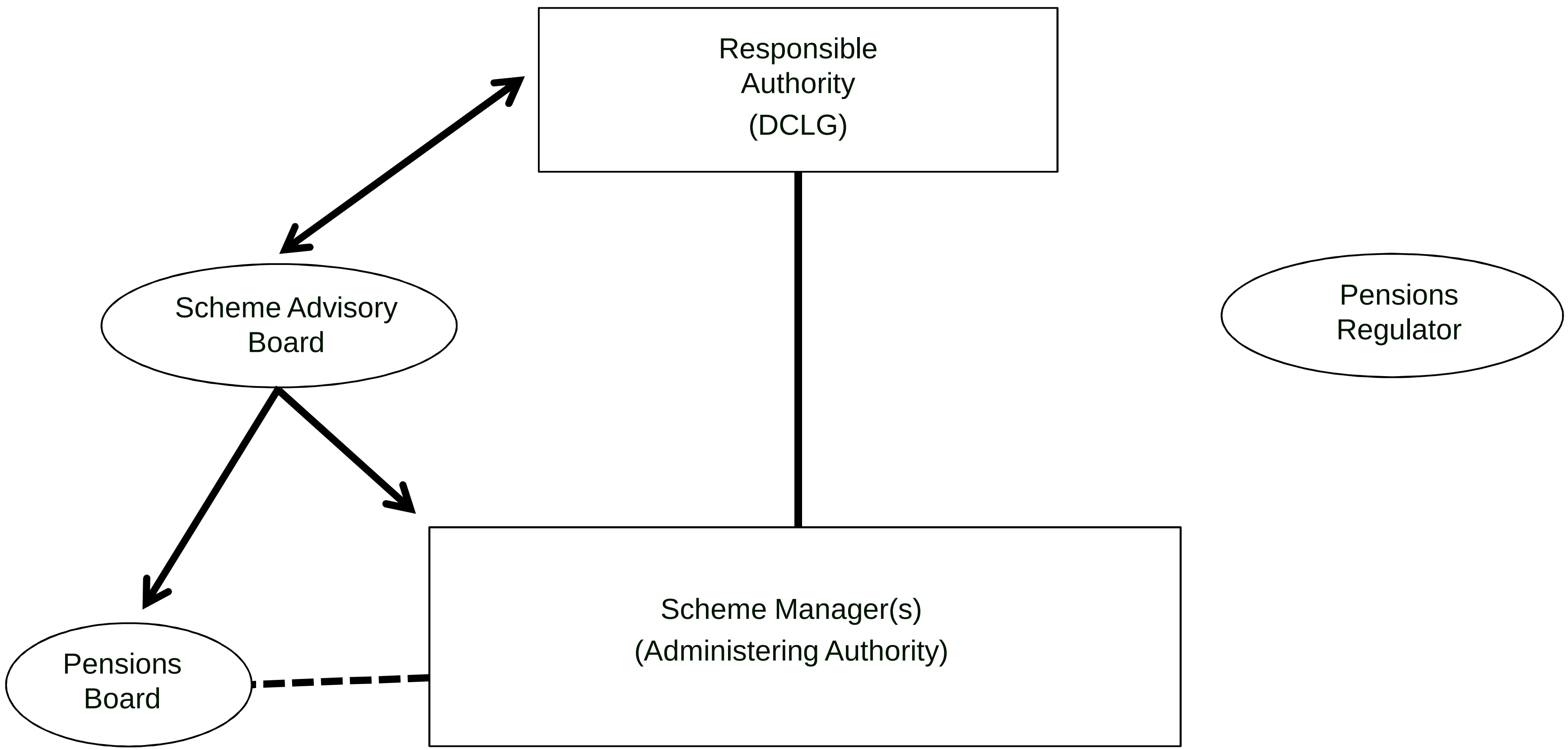
## “Scheme Advisory Board”

- New national “oversight” body

## “The Pensions Regulator”

- Existing body but new scope

# New Governance Structure (LGPS)




Any questions?