



meeting

PENSIONS INVESTMENT SUB COMMITTEE

date

12 DECEMBER 2008

agenda item number

REPORT OF THE SERVICE DIRECTOR (FINANCE)

LGE PENSIONS CONFERENCE - OCTOBER 2008

Purpose of the Report

1. To inform Members of the main areas covered at the annual Local Government Employers (LGE) Pensions Conference.

Information and Advice

2. In accordance with the Pension Fund's training policy and the need to maintain current levels of investment and general pension scheme knowledge, the LGE Conference, held in Cardiff on 5-7 March 2008, was attended by one member of the Sub Committee and one officer. The Conference covered a wide range of pension issues and the most relevant points from the Conference sessions are summarised below:-

- a) Ill Health Retirements

The New Look Scheme implemented from April 2008 introduced changes to the ill health retirement procedures. Greater focus has been placed on the individual's capacity to take up gainful employment in a wider scope of Local Government work. Ill Health Retirement is now seen as a last resort with more emphasis on rehabilitation, retraining and redeployment. The aim of the new scheme is to be fair, firm and frank but it is not without its problems and difficulties have arisen for Doctors assessing eligibility to ill health retirement. In particular, Doctors can have different interpretations and varying approaches to their assessments and the DCLG is attempting to address this by providing further guidance to improve the consistency of the scheme.

- b) Actuarial Valuations 2007

The outcomes from the 2007 valuations were described with the average Local Government Pension Fund now 85% funded as

at the end of March 2007. This represents an improvement of approximately 10% on the 2004 valuations. The majority of Employer contribution rates are in excess of 18% with a typical deficit recovery term of 20 years. The speaker reviewed the assumptions made by different Actuaries and compared these to what actually happened. On inflation, four actuarial firms had assumed inflation rates of 3.3%, 3.1%, 3.2% and 3.2% respectively while the actual rate was 4.8%. Similarly, investment returns were estimated as 6.8%, 5.8%, 6.5% and 6.3% but actually achieved 16% in the period concerned. Market conditions since the valuation had proved very volatile and current estimates suggested that many funding levels have fallen to the 60% mark. Nevertheless, the speaker stressed the cash positive nature of Local Government schemes and felt that investment in equities should continue and that, long term, the LGPS Funds were well placed to ride out the prevailing market volatility.

c) New Scheme – Legal Developments

The introduction of the new scheme has caused a number of problems from a legal perspective particularly due to the drafting of the legislation and the late availability of the guidance. Several areas of contention are now being clarified and further developments can be expected in the following:

- a) scheme amendments involving consultation on the existing Investment Regulations
- b) a review of Admission Agreements with consequent consultation
- c) cost sharing proposals with consultation planned for 2009 and implementation by 31-3-09 though many commentators have questioned whether the timescales involved are achievable.

d) Myners Principles 2008

The process to update the Myners Principles is drawing to a close with the likely outcome being the adoption of the six high level principles proposed by NAPF namely:

- a) effective decision making
- b) clear objectives
- c) risks and liabilities
- d) performance assessment
- e) responsible ownership
- f) transparency and reporting

In addition, the Principles are likely to be 'owned' by an Investment Governance Group to be chaired by the Pensions Regulator with a representative from the LGPS. There is also likely to be a separate public sector sub group to ensure that public sector pensions governance issues are properly reflected

within the Governance Group. The comply or explain approach will also be retained.

e) Ecological Investment

Sustainable investment was defined as integrating social, ecological and economic criteria into investment decisions. Responding to these challenges offers investment opportunities, allowing investors to contribute positively to the environment without compromising investment returns. The emergence of ecological funds allows Pension Funds to invest in a number of assets across several green themes. Such ecology funds are becoming more prevalent with some portfolios reporting impressive returns.

3. Overall, the Conference provided a very useful opportunity to receive updates on current issues and to learn from others' investment and pension scheme experiences.

Statutory and Policy Implications

4. This report has been compiled after consideration of implications in respect of finance, equal opportunities, personnel, crime and disorder, human rights and those using the relevant service. Where such implications are material, they have been described in the text of the report.

Recommendation

5. That the Conference report is noted.

**ALAN SUMBY
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Background Papers Available for Inspection

Nil