report

Meeting	PENSIONS AADMINISTRATION SUB-COMMITTEE –
Date	25th February 2005
	agenda item number

REPORT OF THE CHIEF EXECUTIVE

PENSION FUND ANNUAL MEETING – 1st OCTOBER 2004

Purpose of Report

To provide information on the recent Annual Meeting of the Pension Fund.

Information and Advice

Members will recall that this years Annual Meeting of the Pension Fund was held at the offices of Newark and Sherwood District Council on 1st October 2004. A copy of the Minutes of that meeting are attached for the Sub-Committee's information.

Statutory and Policy Implications

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

RECOMMENDATION

That the Minutes of the 2004 Pension Fund Annual Meeting be noted.

Roger Latham
Chief Executive

Background Papers Available for Inspection

None.

NOTES OF PENSION FUND ANNUAL EMPLOYERS AND TRADE UNIONS MEETING HELD AT THE OFFICES OF NEWARK AND SHERWOOD DISTRICT COUNCIL, KELHAM HALL, NEWARK, NOTTINGHAMSHIRE ON FRIDAY, 1ST OCTOBER 2004 AT 2.00 PM

Present:

Members of the Pensions Committee

Councillor J Carter (Chair)
Councillor T H Butler
Councillor M J Cox
Councillor Sheila Place
Councillor D E Pulk
Councillor David Taylor

Members of the Pensions Investment and Administration Sub-Committees

Mr R E Bowater – East Midlands Valuation Tribunal.

Mr A Ackerman	)	
Mr J Dunstan	)	Trade Union representatives
Mrs B Bradford	)	
Mr T V Needham	)	Pensioner representatives

Representatives of Employers and Trade Unions

A Mellor	)	Ashfield District Council
L Matthews	)	
J Brooks	-	Bassetlaw District Council
A Pullen	-	Mansfield District Council
D Dickinson	-	Newark and Sherwood District Council
D Desai	)	
A Cross	)	
M Evans	)	
V Groves	)	Nottingham City Council
B Nuttall	-	Newark Town Council
A Butlin	-	Bilborough College
A Macdonald	-	South Notts College
M Hyland	)	

P Nair) West Notts College

R J Clark - Ashfield Homes

R Jarvis - Rushcliffe Homes Ltd

T Lewis - Nottinghamshire Rural Community Council

D E Cope - Nottinghamshire Deaf Society

S J Broadhead - Newark Area IDP

S Newbold - Nottinghamshire Probation Board

H Wills - National College for School Leadership

M Weedon - CYWU

J Bouchard - TGWU

H Parkes) Nottingham Trent University
F Sketchley) UNISON retired members

W Rickles - Nottingham City UNISON retired members

M Martin - Nottingham Trent University UNISON

Mr & Mrs B Cast

Note:-

1. J Pickering and representatives of the Catholic Childrens Society, Nottingham and NECTA were also in attendance at the meeting.

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

Representatives of the Director of Resources

Mr A Deakin
Mr P Hurford
Mr J Pearson
Mr J Brown
Mr N Dowey
Mr P Bradley
Ms J Denton

Clerk to the Panel

Mr P Robinson – Chief Executive’s Department

Invited Speaker

Mr T Hazlewood – Local Government Pensions Committee Training and Development Manager.

1. WELCOME AND OPENING REMARKS

Councillor J Carter, Chair of the Pensions Committee, opened the meeting and welcomed representatives to this year's Annual Meeting. In addition to the usual reports on Pension Fund administration, accounts and investment performance, the intention of the meeting was to impart to representatives information on proposed changes to the Local Government Pension Scheme (LGPS). Despite these changes, he felt that the LGPS was an excellent scheme and that all those connected with it needed to work together to maintain this position.

He reported that apologies for absence had been received from Councillors Mrs V A Smailes and Maureen Tewson and reminded representatives that questions on matters raised throughout the meeting would be taken at the end of the agenda.

2. MINUTES OF THE ANNUAL MEETING HELD ON 3RD OCTOBER 2003

The minutes of the 2003 meeting, circulated with the papers for the meeting, were agreed as a true and correct record.

3. CHANGES TO THE LGPS AND IMPLICTIONS FOR EMPLOYING AUTHORITIES

Mr Hazlewood reported on the role of the Local Government Pensions Committee (LGPC) in terms of policy formulation, interactive training and guidance to its constituent members.

He said that the focus of his presentation was on the LGPS response to the widely reported pensions crisis. To date this had tended to focus on private sector schemes where there had been a shift from defined benefits to defined contributions, where the risk associated with schemes had been transferred from the employers to the employee and where, typically, employers’ contributions had dropped from around 12% to around 6%. In terms of the LGPS, the “crisis” manifested itself in the continual increase in employers’ contributions and the fact that longevity was increasing costs as pensions were now paid out longer than was originally envisaged when the scheme was created (for example, at the last valuation in 2001 male life expectancy was assessed at 77 years). These issues would be taken into account in the 2004 valuations, the results of which would soon be published. He reminded the meeting that in order to address the longer term sustainability of the LGPS, the Government had undertaken two reviews/stock takes. The first of these had resulted in changes implemented from April 2004 dealing with such matters as simplifying existing rules, enhancing benefit administration, providing immediate vesting after three months service, changing the arrangements for the Internal Dispute Resolution Procedure from 1st June 2004 and the publication of funding strategy statements by 31st March 2005. The second phase, to be implemented from April 2005, dealt with more controversial issues concerning the phasing out of the 85 year rule and the raising of the earliest retirement age, subject to transitional protection. He understood that the associated Regulations confirming these proposals would be published in November. He reported on examples of how these changes would affect typical members of the Scheme.

Mr Hazlewood felt that the changes to the LGPS, particularly those in stock- take 2, presented a communications challenge to all employers. He hoped that this could be approached by a pro-active stance fully explaining the implications of the changes and emphasising the many remaining positives of the Scheme (not least that current pensioners were not affected in any way by these changes). He felt that by being pro-active then it would head off misleading media reports of changes which had recently taken place. For its part, the LGPC was organising a number of regional seminars in the new year in an attempt to get across the messages he had mentioned above to employers.

Finally, he reported on associated matters such as proposed Inland Revenue rule changes on the treatment of pensions, other related issues such as the changes to age discrimination proposed for 2006 and the possibility, in the longer term, of a totally new LGPS with new benefits packages, new health arrangements, new employees contribution rates and new partners pensions, all of which some had speculated, might lead to one public sector scheme.

4. <u>PENSION FUND ADMINISTRATION</u>

Reports to previous Annual Meetings had emphasised that Nottinghamshire’s administration costs compared very favourably with those of other Funds up and down the Country. Mr Dowey was pleased to be able to report that this trend continued with administration costs per member in Nottinghamshire in 2003/04 of £15.16 which, benchmarked against 28 other Administering Authorities, was the fourth lowest figure. This figure also compared very favourably with the 2002/03 amount of £17.30 per member. Mr Dowey reported further on the standards and performance of his staff in terms of achieving targets in relation to a number of tasks; in this connection, the establishment of Employee Services Centre and its relocation to Ruddington in the year in question had proved to be a drag on performance. He was pleased to be able to report, however, that early figures for the 2004/05 year showed improvements in meeting targets as new working practices and the “bedding in” of establishment changes at Ruddington had taken effect.

One of the crucial changes in working practices had been the establishment of virtual teams which was a system of directing resources to areas where targets were not being met and which was assisting in providing a more efficient service.

Mr Dowey assured the meeting that every effort was made by pensions staff to provide a more efficient service and that this would continue for the challenges in the year ahead including the provision of benefit illustrations, keeping pace with changes to the LGPS and communicating information on changes effectively to the membership.

4. ACTUARIAL VALUATION

Mr A Deakin, Director of Resources, advised the meeting that his presentation was based on the assumption that the proposed changes to the LGPS reported on earlier in the meeting would take effect and also that it presented a general picture about the Main Fund.

Mr Deakin reminded the meeting that an actuarial certificate was required every three years with a new valuation due with effect from 31st March 2004. The work that had been undertaken on this latest valuation aimed to put the Fund in a position to meet all its liabilities having regard to a medium term view. He reported briefly on the process of the valuation which concerned past service liabilities (pensions being paid, deferred benefits and service accrued for existing staff) together with the future service contribution rate (that is how much pay is needed to cover benefit earned on future service, which broadly suggested a rate of 6% for employees and 11.2% for employers). In addition, he advised the meeting of changes which had been taken into account in this valuation including an analysis of which investments out performed other investments over time, spreading the cost forwards with an assumption that liabilities would have to be met after 20 years, phasing in the employers increase, predicted at 2 - 2½%, over the next three years and raising the retirement age. Mr Deakin said that the current valuation suggested an outcome of a funding level of 75 – 80% (compared to a solvency level of 91% in 2001) and a total employers’ contribution rate of around 16/17%. Finally, Mr Deakin commented on the requirement to produce a Funding Strategy Statement which linked actuarial valuation assumptions with investment policy with the aim of demonstrating that the LGPS was both well run and prudent. Locally, work had begun to produce such a statement for the Fund by March 2005.

5. ACCOUNTS FOR 2003/04

Mr Hurford referred to the booklet on the Pension Fund Accounts and Investments for 2003/04 circulated with the agenda for the meeting, which contained the detail referred to in his presentation. The main issues that he wished to bring out were under the headings of overall size, annual surpluses, contributions and investment income.

He reported that at the close of 2003/04 the Fund was valued at £1.5 billion with annual surpluses for the Main Fund continuing to increase and in the year in question by a sum of £30 million. Although the annual surplus for the Admitted Bodies Fund had fallen slightly from the previous year it was still at the healthy figure of £3.6 million. Contributions for both Funds (with the exception of employers' contributions for the Admitted Bodies Fund) continued to grow year on year with there being a 7½% increase in the number of Main Fund members from the previous year.

The second source of income to the Fund was investment income and the return for the Main Fund was of the order of just under £54 million; at the same time investment expenses for the Main Fund had fallen in 2003/04 representing £17 in investment expenses for every £10,000 spent which was a low figure when compared to other Funds.

In summary, Mr Hurford said that he wished to leave the Meeting with the message that the annual surplus was increasing, employers' contributions had risen faster than those of employees', investment income had been maintained and increased, administration and investment expenses were low but that the value of the investments was a critical factor in terms of the actuarial valuation referred to earlier in the meeting.

6. INVESTMENT PERFORMANCE IN 2003/04

Mr Brown reported that in 2003/04 the value of the Fund had increased by 20.1% which was not as good as some of the Fund's peers. Performance was ranked in only the 7th decile which did not compare favourably with 2002/03 where performance had been in the first decile, although Fund value had then fallen by some 16.1%. The reasons for this under- performance were the same as the reasons for out- performance in the previous year and this was around being overweight in property and underweight in the overseas equity markets of Japan and Europe which had rebounded from the huge declines of 2002/03. Whilst the Fund's overweight stance in property continued to provide positive returns they were, unfortunately, eclipsed by the returns in overseas equities in 2003/04.

Mr Brown acknowledged that some employers might want to know why the Fund could not be in the top decile every year. His response to that would be that property is a relatively illiquid asset class, it was always very difficult to time the markets to perfection, volatile asset class changes were a very short term and a very high risk strategy (which the Fund did not wish to venture into) and finally that investments recognised the long term nature of the LGPS. As far as the future was concerned, Mr Brown said that the Fund was positioned to maintain its overweight stance in property which had been the best asset class over the last three, five and ten years, maintain and, where appropriate increase, its exposure to equities in accordance with the asset allocation and increase exposure to private equity and equity engagement funds which target higher returns.

7. QUESTIONS

The following questions/comments were raised:-

a) Ms Martin was disappointed that Mr Hazlewood had asked employers to "sell" the proposed changes to the LGPS and also with a suggestion that media reports were factually incorrect. UNISON's view was that it was precipitate to make any changes now to the LGPS and it had sent a strong message to Government to suspend the proposed amendments to the Scheme, a view which had been supported at the recent TUC. She hoped that the meeting could support this position.

The Chair referred the Meeting to his recent statements and to articles in Nest Egg which set out the position of the County Council's Pensions Committee which opposed the proposed changes. He further reported that these views had been communicated to Government.

b) Mr Jarvis – was the Admitted Bodies Fund also subject to an actuarial valuation?

Mr Deakin confirmed that this was the case and that a process identical to the one he had reported on earlier in the Meeting in respect of the Main Fund would be followed for the Admitted Bodies Fund.

c) Mr Needham – sought an explanation for the Fund's position on property and also further information on the performance of individual managers.

Mr Hurford commented that the Fund had taken the view for many years that it would benefit from being overweight in property due to its yield and diversification and had maintained this view at times when other commentators, and indeed the Actuary, had suggested that other asset classes would prove more beneficial.

With regard to the performance of individual managers, Schroders and Henderson's (Bonds) were both 0.1% below the index and the Environmental Fund managed by Henderson was 2% below the index. The performance of individual managers was reviewed by Trustees on a quarterly basis and, in connection with the Environmental Fund, this investment had been undertaken for a five year trial period which would shortly come to an end and an independent review of the benefits of this investment was to be commissioned.

d) Mr Dunstan expressed his disquiet on the proposed changes to the LGPS and wondered how, and if, decision makers had been made aware of this disquiet. He also expressed his support for the Trustees' position on investments for the reasons described to the Meeting.

Mr Hazlewood said that his organisation had been copied in on responses to Government which in general seemed to suggest an acceptance of the position that the Scheme had to be modified to meet new demands placed upon it. The principal point of concern seemed to be the fact that changes for Local Government would be in place in 2005, a year in advance of all other public sector scheme changes.

e) Mr Jarvis advised the meeting that alternative pension schemes were now available to some Admitted Bodies since their employees had joined the LGPS. Bearing this in mind, he wondered if it would be bad news for the LGPS if members migrated to other schemes?

Mr Dowey did not think that this development would be to the detriment of the LGPS

f) Mr Needham wondered if the proposed amendments to the LGPS and the suggestion of Mr Hazlewood of one public sector scheme foreshadowed a "raid" by other schemes on the LGPS and its status as a funded scheme when others were not so funded?

The Chair suggested that there was an element of having to "wait and see" but that pensions matters now undoubtedly had a higher profile and theres was an increased awareness than some years ago.

g) Councillor M J Cox sought confirmation of Mr Deakin's earlier presentation that employers' contribution rates would increase from around the current 14% to around 16/17%?

Mr Deakin confirmed that this was likely to be the case.

h) Mr Parkes commented that although employees contribution rates were fixed the actual contributions made would increase over time as salaries increased.

Mr Deakin commented that wage inflation was one of the factors which the Actuary took into account in his calculations and that if wage rises were in excess of the RPI then this was a factor in terms of the Acturarial Valuation exercise.

There being no further questions, the Chair thanked Officers for their presentations and for both their work and that of their backroom colleagues over the last year. He also thanked representatives of Trustees, employers, Trade Unions and other organisations for their attendance and closed the meeting at 3.45 pm.

Chair