

NOTES OF THE PENSION FUND ANNUAL EMPLOYERS AND TRADE UNIONS MEETING HELD AT COUNTY HALL, WEST BRIDGFORD, NOTTINGHAM ON FRIDAY, 6TH OCTOBER 2006 AT 2.00 PM

Present

Members of the County Council's Pensions Committee

Councillor Chris Baron (Chair)
Councillor M J Cox
Councillor Jim O'Riordan
Councillor Sheila Place
Councillor Ken Rigby
Councillor Stella Smedley
Councillor David Taylor

Members of the Pensions Investment and Administration Sub-Committees

Mr M. Evans – Nottingham City Council

Mr. J. Dunstan – Trade Union representative

Mrs. B. Bradford)
Mr. T. V. Needham) Pensioner representatives

Mr. M. Timms - Scheduled Bodies representative

Mr. J. M. Corlett - Independent Advisor

Representatives of Employers and Trade Unions

P. Adcock - Broxtowe Borough Council

P. Cook - Mansfield District Council

A. Cross - Nottingham City Council

S. Graham)
S. Vincent) Castle College

A. Straw - North Notts College

N. Charlesworth – Djanology City Academy

C. Slim – Newark Town Council

S. Broadhead) Newark Area IDB
S. E. Winter)

V. Marrone)
P. Simpson) NCSL

F. Parsons – NORSACA

P. Buckley – Meden Valley Making Places

C. Blatherwick – Nottingham City Transport

N. Willey)
J. Wilson) Nottinghamshire Police

S. Newbold – Nottinghamshire Probation Board

R. Jarvie - Rushcliffe Homes Ltd

J. Bouchard – TGWU

M. Weedon – CYMU

W. Rickles – Nottingham City Unison Retired Members

H. Parkes – Nottingham Trent University Unison Retired Members

D. Giles - Pensioner

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.

Representatives of the Strategic Director (Resources)

Mr. S. Cunnington
Mr. N. Dowey
Mr. J. Nash
Mr. J. Pearson
Mr. A. Sumby

Clerk to the Panel

Mr. P. Robinson – Chief Executive’s Department

Invited Speaker

Mr. P. Scales – Chief Executive of the London Pension Fund Authority.

1. WELCOME AND OPENING REMARKS

Councillor Chris Baron, Chair of the Pensions Committee, opened the meeting and welcomed representatives to the Annual Meeting which this year had returned to County Hall. He hoped that representatives would find the issues set out on the agenda to be both interesting and informative and drew attention to a number of matters that had been of importance in 2005/06, another busy year. These issues included the highest investment performance for many years, the record numbers of members in the Scheme, the Government's Pensions White Paper, the debate over the "85 Year Rule" and consultations on a new look Scheme from 2008.

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

Councillor John Carter) Members of the Pensions Committee
Councillor Darrell Pulk)

Councillor Michael Cowan) Members of the Pensions Investment
Executive Mayor Tony Egerton) Sub-Committee

Rebecca Rance – Chief Executive of Newark & Sherwood Homes

Angela Clayton – South Notts College.

He asked representatives to put any questions that they might have to Officers at the end of each section on the agenda.

The Chair said that many representatives would remember Peter Hurford, a regular presenter to previous Annual Meetings. He added that Peter had very recently retired and that the various Pensions Committees and Sub-Committees to which he reported had wished him a very long, happy and well deserved retirement.

2. MINUTES OF THE ANNUAL MEETING HELD ON 7th OCTOBER 2005

The Minutes of the 2005 meeting, circulated with the papers for the meeting, were agreed as a true and correct record.

3. 2005/06 PENSION FUND ACCOUNTS

Mr. Nash referred to the booklet on the Pension Fund Accounts and Investments for 2005/06 circulated with the agenda for the meeting, in particular pages 5 and 6 which contained the details referred to in his presentation.

The close of the year had seen the value of the Main Fund rise to around £2.2 billion, with the Admitted Bodies Fund being at around £67 million. The year in question had been a very good one on nearly all fronts. He also commented (with regards to both Funds) on the annual surpluses, the amount of contributions made by employees and employers, transfer values and, in

relation to the Main Fund only, investment income, investment expenses and the change in the market value of investments. Arising from his presentation, he drew attention to the fact that the annual surplus for the Main Fund was around £9 million less than in 2004/05 and he explained that the reasons for this was the amount of transfer values both received and paid out.

In conclusion he wished representatives to be aware that the annual surplus was lower than the previous year but was still very healthy, employer contributions had risen faster than employee ones, investment income continued to increase, the administration and investment expenses were low and that the market value of the investments had increased significantly. He concluded by saying that representatives should be pleased with this report for 2005/06.

4. 2005/06 INVESTMENT PERFORMANCE

Mr. Pearson's presentation dealt with index returns, asset allocations, equity performance (and the performance of specific managers), fixed interest performance, performance of Main Fund bond managers and Admitted Bodies Fund managers.

He referred to the 2005/06 Index returns of 30.6% for equities, 6.9% for fixed interest, 22.2% for property and 4.5% for cash which he felt represented an extraordinary return, the like of which he thought is unlikely to be seen for some time. In the asset allocations he drew attention to the overweight position adopted in terms of investment in property, which was a decision of the Pensions Committee and one that had proved to be extremely successful in terms of investment returns. Although the figure for cash in the Admitted Bodies Fund of 5% looked high, he assured representatives that the majority of this had been invested in the new financial year.

With regard to equity performance he drew attention to the below par performance of Schroders in the year, which was unusual. This had been down to under performance in the UK and the Pensions Committee had discussed these issues with Schroders. In response to questions on the size and nature of the holdings with Martin Currie and Hermes, Mr. Pearson commented that it was to be expected that these investments would be volatile due to the small number of stocks held (in the case of Martin Currie 22 and for Hermes an even smaller number). These investments represented the riskier end of the Fund's activities and the amounts invested (£120 million with Martin Currie and £100 million with Hermes) were small when compared with investments of £800 million in-house and £600 million with Schroders.

A further question was raised as to why Schroders' equity performance was worse in the Admitted Bodies Fund than in the Main Fund. Mr. Pearson replied that Schroders would advance the argument that this was down to the use of unit trusts for investment in the Admitted Bodies Fund, which were not used in other investments.

5. THE NEW LOOK LOCAL GOVERNMENT PENSION SCHEME (LGPS)

In introducing his presentation Mr. Dowey reminded the meeting that the LGPS seemed to have been in a constant state of change since 2002. In this respect he referred to the stocktake exercise which was intended to provide “simplicity, security and choice” leading to a Green Paper in December 2002 and a White Paper in 2003. He also referred to draft regulations of 2004 which proposed controversial changes to minimum retirement age, phasing out the 85 Year Rule and bringing in a higher employee contribution rate for new joiners. These draft regulations had led to actual Regulations that were intended to be implemented from April 2005 but which, in the event, were revoked in July. This provided the background to the issues he wished to discuss.

Despite the revocation of Regulations last year, further amendment Regulations had been issued in 2006 which varied the current Scheme in the following ways:-

- removal of 85 Year Rule from October 2006 with an improved level of protection
- minimum retirement age of 55 from 2010
- changes to the Councillors’ scheme
- removal of limits on contributions
- contributions could be paid up to age 75 and
- flexible retirement for over 50s

He added that some of these proposed changes had been driven by external legislation namely, Age Discrimination (October 2006), Discretionary Compensation Regulations and simplification of tax rules from April 2006.

In terms of proposals for a new look scheme from 2008 consultation had been undertaken on a number of proposed options, all of which proposed different benefits and had different costs (the details of these proposals were included in the handouts of the presentation). Mr. Dowey referred to the major proposed changes as under:-

- employee contribution rates – it was proposed to adopt a two tier structure to make the Scheme more attractive to the lower paid and also that average employee contribution rates must rise to at least 6.6%
- an increase in the death in service lump sum

- partners' pensions co-habitees
- flexible retirement arrangements
- non-fixed employee rates and
- two-tier ill health provisions (details of which were again included in the handouts circulated).

Mr. Dowey added that the position of the County Council's Pensions Committee in response to these proposals was that option A in his handout should be adopted as being the least disruptive, that employee contributions were an issue, that membership of the Scheme should be compulsory and that current ill health arrangements should not be changed.

Arising from the presentation the following questions were raised:-

- in view of the current surpluses in the Funds (as previously reported) and the savings associated with the phasing out of the 85 Year Rule, why was it necessary now to contemplate increasing employee contributions? – Mr. Dowey said that the argument put forward by the employers was that immediate action needed to be taken in this respect to protect the longer term viability of the LGPS and
- what were the next stages in the consultation for the new look Scheme in 2008? – Mr. Dowey said that he understood that by November of this year responses to the consultation would be analysed and Government proposals would then be issued which would not be subject to further consultation and that it was the intention that the Regulations would be laid in April 2007.

6. CASE STUDY: THE LONDON PENSION AUTHORITY'S INVESTMENT STRATEGY – PRESENTATION BY PETER SCALES

The Chair welcomed Mr. Scales to the meeting. Mr. Scales presented a case study of how the London Pension Fund Authority had taken urgent action to address deficits exposed at the last valuation in respect of the Authority's Active and Pensioner Sub-Funds. This had involved the Fund's trustees completely redefining the Fund's strategy and taking urgent action to address the liability issues facing both of the Sub-Funds referred to. As there was a heavy reliance on investment returns then the trustees had, after assessing the risk, taken positions at the riskier end of investments for example concerning hedge funds and derivatives. Early indications had shown that the decisions of trustees had produced a positive effect with returns increasing.

The Chair thanked Mr. Scales for his presentation.

There being no further questions or issues raised, the Chair thanked Officers for their presentations and for both their work and that of their colleagues over

the last year. He also thanked representatives of trustees, employers, trade unions and other organisations and Mr. Scales for their attendance and closed the meeting at 3.25 pm.

CHAIR

Notes of AGM – 6 Oct 06