

East Sussex Pension Fund

Local Government Pension Scheme (LGPS)

ESFOA Pensions Update

January 2019

East Sussex Pension Fund External Investments

The first ACCESS ACS sub-fund was launched on the 16 November which is expected to achieve savings of £2.3m through investment manager fee reductions and tax efficiencies. Work is progressing to launch the second tranche of ACCESS sub-funds between January and February 2019. East Sussex will be part of this tranche and will be looking to achieve savings of £0.2m from this investment. A further tranche of sub-funds is due to be launched in April 2019 with East Sussex again being part of this tranche. Once these tranches are completed this will mean approximately £10bn will have been transferred into the ACCESS sub-funds.

The Pension Fund has completed the removal of some of its investment risk in November 2018. This was achieved by removing 10% of the total value of the Pension Fund out of its equity investments and into its bond and absolute return mandates.

East Sussex Pension Fund – current structure

The table below sets out a portfolio summary of each fund manager:

Manager	Mandate	Investment Style	Date Appointed	Value £m November 2018
M&G	Bonds	Value	01/01/97	375.1
Ruffer	Multi Asset	Absolute Return	11/05/10	402.5
Newton	Multi Asset	Absolute Return	11/05/10	402.9
Schroders	Property	-	20/02/10	362.0
Longview	Global Equity	Neutral	19/04/13	279.3
UBS	Passive	Passive	12/01/18	1,406.4
Alternative * Investments	Various	-	Various	242.9
Northern Trust	Cash	-	01/09/02	73.5
Total				3,544.6

* Includes Infrastructure & Private Equity

Fund Value at 31 March 2018	Fund Value at 31 March 2017	Fund Value at 31 March 2016	Fund Value at 31 March 2015
£ 3,377.1m	£3,334.8m	£2,766.6m	£2,741.7m

Draft MHCLG guidance on LGPS asset pooling - informal consultation

The Ministry of Housing, Communities and Local Government's (MHCLG) has issued an informal consultation re guidance on LGPS asset pooling, which sets out the requirements on administering authorities in relation to the pooling of LGPS assets, building on previous Ministerial communications and guidance on investment strategies, and taking account of the current state of progress on pooling. It is made under the powers conferred on the Secretary of State by Regulation 7(1) of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the 2016 Regulations). Administering authorities are required to act in accordance with it. The consultation closes on 28 March 2019.

Scheme Advisory Board (SAB) update

A [summary note](#) of the SAB meeting held on 10 October 2018 is available at www.lgpsboard.org. The main action points and agreements from the meeting are in relation to cost management, academy and tier three employer projects, separation project, code of transparency-compliance system project, responsible investment guidance and the Pensions Regulator.

SAB cost management process

Cost management for the LGPS in England and Wales is taking place in the context of a public service pension scheme wide cost cap review under HM Treasury directions. The LGPS in England and Wales has a separate cost management process which is completed prior to finalisation of the HMT cost cap calculations.

The LGA on behalf of the Scheme Advisory Board have provided administering authorities with an update on the cost management process:

The Board sub group consisting of the Chair, Vice Chair and an employer representative have considered a package of benefit improvements sufficient to return the total cost back to 19.5% and such further changes to employee contributions within that total cost necessary to obtain the support of both employer and employee representatives of the Board.

The Board agreed that options for changes to benefits should be limited to Third Tier Ill Health, Lump sum death grants, Early Retirement and Commutation. These being elements which were both of interest to scheme members and affordable within the 0.5% target cost increase. Any changes to employee contribution rates were to be targeted principally at the lowest bands but also seeking to address existing anomalies with regard to pension tax relief at both the personal and higher rate allowance points. The package of benefit improvements and employee contribution reductions were submitted to the Secretary of State on 16th November. The package included a recommendation to change the contribution bands, creating new lower bands starting at 2.75%.

It was hoped that agreement could have been reached with MHCLG on these recommendations and a consultation launched before Christmas. For a number of reasons this has not proved possible, however, it is anticipated that such a consultation will be published in late January/early February for regulations to take effect from 1st April 2019.

The Board has made representations to MHCLG and HM Treasury that meeting the implementation date of 1st April 2019, will be significantly challenging for administering authorities and have proposed putting back the implementation date if possible. However, indications are that due to the requirements placed on all public service pension schemes the 1st April 2019 implementation date will not be changed.

As soon as the Fund receives more information on this process and the proposed changes, particularly to the employee contribution rate bands, we will share this with Employers.

SF3 data published

Ministry of Housing, Communities & Local Government (MHCLG) have published "Local government pension scheme funds for England and Wales: 2017 to 2018" (SF3) statistics.

Highlights include:

- Total expenditure was £12.7 billion. Removing the effect of mergers and large transfers in 2016-17 and 2017-18 there was a like-for-like increase of £0.8 billion or 7.4% on 2016-17.
- Total income was £17.4 billion. Removing the effect of mergers and large transfers in 2016-17 and 2017-18, there was a like-for-like increase of £3.0 billion or 21.4% on 2016-17. This is mainly due to an increase in employer contributions in 2017-18.
- Employer contributions amounted to £9.5 billion, up 27.7% on 2016-17, and employee contributions to the scheme were £2.1 billion. Employer contributions increased due to some large upfront pension contribution payments (deficit contributions) by some employers and higher contribution rates following the triennial valuation.
- The market value of the Scheme at the end of March 2018 was £270.9 billion, an increase of £12.1 billion or 4.7%.
- Membership encompassed 5.8 million people at the end of March 2018 (5.6 million 31 March 2017). Of this number, 2.0 million are employees who are still contributing to the scheme, 1.7 million are pensioners and 2.1 million are former employees who are entitled to a pension at some time in the future.
- The number of people leaving the Scheme due to redundancy reduced by 19.9% from 2016-17 to 10,847. A number of funds reported there were special redundancy exercises or restructuring in 2016-17 and that the large reduction in 2017-18 was a consequence of that.

Guaranteed Minimum Pension (GMP) reconciliation exercise

With the introduction of the single State Pension and abolition of Contracting-out in April 2016, all public service pension schemes including the LGPS were advised to reconcile their GMP values and dates that they hold for their members with those calculated by HMRC.

The application of incorrect GMP's has an impact on pensions in payment and future pension payments along with having an impact on the liabilities of the Pension Fund.

The financial implications of failing to undertake this exercise can therefore be extremely significant.

The Administering Authority, with an external provider is carrying out a GMP reconciliation exercise taking into account applicable guidance. The HMRC deadline for the completion of this reconciliation exercise is the 31st March 2019. Update project progress reports are presented to both the ESPF Pension Committee and Pension Board in readiness of necessary decisions for the completion phase of the project.

Pass-through arrangements

The Pension Committee at its February 2019 meeting will consider an amendment to the Fund's policy on admitting new contractors using pass-through arrangements. Pass through arrangements are now very common in the LGPS for new contractor admissions with traditional "full pension risk transfer" arrangements in the minority. Options on pass through will be offered within the Funding Strategy Statement with a preferred option of a fixed contribution rate, this is where the contractor pays fixed contribution rate for the term of the contract. This change in

policy will not affect any outsourcing procurement exercises underway currently or existing contracts. The Fund is proposing an implementation date of 1st April 2019 and will share the Funding Strategy Statement with employers accordingly to communicate in more detail these changes.

Employer Forum

We were delighted to welcome Employers of the East Sussex Pension Fund to the Annual Employer Forum on 23rd November 2018 at the Amex Stadium in Falmer.

Presentations on the day were held on the following topics:

- The East Sussex Pension Board activities
- The current investment market environment (UBS)
- The latest developments in the Fund's Investment Pool (ACCESS)
- Pensions Governance (the Pensions Regulator)
- Preparations for the 2019 Valuation of the Fund (Hymans Robertson)

Slides from the day can be accessed [here](#) for anyone wishing to view them.

MHCLG open consultation on technical amendments to benefits

MHCLG opened an eight-week policy consultation called 'LGPS: technical amendments to benefits' which closed on 29 November 2018. It looks at three areas:

- Survivor benefits – introducing changes to provide that pensions paid to survivors of civil partnerships or same-sex marriages will be equal to those provided to widows of male members. The changes will be backdated to the date civil partnerships and same-sex marriages were implemented, this means that LGPS administering authorities will need revisit all awards made under the current rules to civil/same-sex partners and pay any additional sums due.
- Introducing a general power for MHCLG to issue statutory guidance.
- Correcting the unintended error in the LGPS (Amendment) 2018 Regulations to provide that deferred members who left under the 1995 Regulations are able to take payment of their LGPS pension without the need for their former employer's consent from age 55, with the appropriate reduction for early payment.

We will share the outcome of the consultation with Employer once published.

SCAPE discount rate – impact on actuarial guidance

The Chancellor of the Exchequer confirmed the reduction in the SCAPE discount rate from CPI + 2.8% to CPI + 2.4% in the 2018 Budget. The reduced rate is effective from 29 October for the calculation of actuarial factors in the LGPS.

LGPC Bulletins & Circulars

The latest LGPC [Circular](#) and [Bulletin](#) contain information on a wide range of issues, some of which has been covered within this update.

Pensions Board update

At the Pension Board meeting held on the 5 November 2018, agenda items considered included; Internal Audit Report – Pensions Administration, GMP Reconciliation Project Update,

Pension Fund Risk Register. The next meeting for the Pension Board will be held on the 4th February 2019.

Full agenda and minutes of these meeting are available on ESPF website following the link:
<https://www.eastsussex.gov.uk/jobs/benefits/pensions/download/>

Contact Details:

Any queries concerning the contents of this ESFOA update should be directed to:

Wendy Neller

Pensions Strategy and Governance Manager

East Sussex County Council,

St Anne's Crescent, Lewes,

East Sussex BN7 1UE

Email: Pensions@eastsussex.gov.uk