PENSION BOARD

MINUTES of the meeting of the Pension Board held on Thursday 22 October 2020 commencing at 2.00 pm at the .

PRESENT MEMBERSHIP:

John Abbott	Jones
Sean Collins	Cllr Nigel Moor
Hunt	Jon Topping

Apologies: Annette Benson

1. NOTES

Resolved

The Board received the notes of the previous meeting held on the 14th November 2019.

2. PENSION COMMITTEE MINUTES

Paul Blacker, Director of Finance advised the Board the new Head of Pensions, Matthew Trebilcock would be in post as of the 9th November 2020. It was noted that a pen portrait had been circulated to all board members for information.

Resolved

The Board received the Pension Committee minutes of the 25th September 2020.

3. MARKET VALUATIONS AND QUARTERLY PERFORMANCE REVIEW

The Director of Finance explained that the first six months of 2020 had been an unprecedented time and was a volatile period and was reflected in the financial markets. Members were referred to the investment performance spreadsheets for Quarter one and two. It was noted that the first quarter saw one of the largest quarterly drops in stock market valuation in recent decades and a significant bounce back occurred as of the 30th June in the value of the fund.

In order to give the board a greater understanding of what had happened in the last six months, John Arthur, Independent Investment Advisor to the Pension Committee gave the board a detailed presentation.

The Independent Advisor informed the Board of his financial background and expertise and proceeded to present a detailed presentation.

He explained what had been an incredibly volatile last six months into perspective, as the funding ratio had dropped to 90% in Quarter One and the last figure for Quarter 2 was for the end of June 2020 had recovered to 97%.

He explained that the fund was roughly fully funded and revaluation would be conducted on 31st of March 2022. Therefore, there wouldn't be any changes to the payments from admitted bodies until there was a revaluation of the liabilities and assets in the fund.

He advised the board that he was actively looking at what the cost in terms of the pandemic were, in the context of this being a once in a generation event. The Board were referred to the last five quarters for comparative data.

It was explained that equity portfolio had fallen the most and there were two reasons for that, firstly as it was the biggest portion of the fund and the secondly as it was the most volatile asset class. Members were advised that in terms of property it was regarded as a liquid asset class. The turmoil in property prices was immediate during the pandemic, as this related to big commercial office blocks and therefore only in the second quarter the values began to catch up with reality.

The Board noted in the meantime the fund would move slowly towards the new strategic asset allocation. The fund included an exposure to UK gilts which was UK debt issued by the government, this was regarded as the least risky form of debt the problem was UK gilts were yielding zero return given the current climate.

It was noted that existing equity portfolios were very diverse and therefore reduced volatility. Management of the Pension Fund's equity portfolios and property funds had now transferred to Brunel.

In terms of ESG (Environmental, Social and Governance) issues, Brunel had a very strong manager in this area. In response to a question, it was noted that Brunel selected managers for their portfolios and they regularly challenged managers on how they managed ESG investments.

Resolved

That the Board received the detailed presentation

4. ACTUARIAL UPDATE

The Director of Finance advised the Board that over the last six months there had been significant developments in Local Government Pensions schemes, many of which were very complex.

Paula Hicken, Hymans Robertson summarised the key issues which were detailed at Page 29 of the report.

Members were advised that the McCloud judgement referred to when schemes were changed out from final career average and protections were put in place for any members within 10 years of retirement to make sure they were not any worse off when they came to retire. So if a person were age 55 or over at 31st of March 2012, when they came to retire they would receive the better of the either the benefit in the care scheme or what they would have earned in the final salary scheme.

It was evident that most members would benefit in the care scheme because of the scheme generosity. The Board were advised that it was a member of the firefighter scheme that took the government's to court to state that the transactional protections were age discriminatively.

It was a long process and the Government lost the initial case, the government appealed and lost, they sought to appeal again and there were no further grounds for appeal. So that case remained and the proposed remedy for that case was to make those transitional protections in place for all of the staff in the scheme at 31st March 2012, so they would get the better of that benefit. From an actuarial point, in terms of the pension fund liabilities Hymans expected the impact to be small. Obviously, there was an increase in benefit and because they didn’t expect there to be that many cases and did not expect a significant impact on pension fund liabilities.

However, there would be an impact on the administration of the scheme. Every member of the scheme who was eligible for that benefit, when they come to retire there would have two benefit calculations carried out. The Actuary didn’t feel this was an issue for the Gloucestershire fund, but would be an issue for many funds throughout the country. Since the care schemes had been in place there was no requirement to collect some of the data that's was necessary to calculate that benefit underpin. There was now a large admin task to go back and seek that data from employers and this was expected to be a significant project for pension fund admin teams, probably for the next two years with some dedicated resource required to resolve this issue alone.

The Director of Finance advised the Board that the actuarial value would be quite small, the big issue would be the administrative issue. As it would be necessary to produce calculations for all employees and that's was quite a significant burden. Fortunately, GCC had kept its records up to date, so it was anticipated that the burden could be managed with some extra resources. He added that this would be a task for the new Head of Pensions, when he was post and the issue would be reported back to the Pension Committee in due course.

The Actuary summarised the cost of management valuations, as the scheme being was changed from final salary to care average, one of the original recommendations in Lord Hutton’s report was to put in place a cost cap mechanism. This was to make sure that the cost of this scheme couldn't go onto it, so this was in a period where life expectancy increased and the scheme was being reformed to limit the costs and his recommendation was to ensure that that cost couldn't keep increasing and there was a mechanism to bring it back in line.

The scheme mechanism had also been put on hold until the McCloud judgement was rectified and had been on pause, so the outcome was yet unknown. However, any benefits would be retrospective to the 1st April 2016, as the outcome was unknown this could also potentially be another administration challenge.

It was noted the Goodwin case was a similar discrimination case to McCloud and referred to survivor's benefits and discrimination on the grounds of sexual orientation, male dependent of a female member was entitled to less of a pension, or a female dependent of a male member, or a female dependent on the female member. The Government just lost that case and similarly to McCloud it would involve a rectification of benefits for the resolution of that, it was expected to be an even smaller liability impact than McCloud but again significant in terms of admin.

The actuary gave a detailed explanation of the £95K cap, as it could be significant in terms of local authorities, some academies and potentially colleges. The Government had put in place at cap on the exit payment, so if you were aged over 55 they would eligible for immediate receipt of the pension. So any other payments that members may get, when made redundant plus the pension stream cost and if that exceeds £95,000 then they would have their pension reduced.

Another part of that consultation was going through parliament and there was an unexpected part of which was to limit the exit payments of all in people that were being made retired. So the stream cost would be less and employees would receive smaller benefits and may come into force by 2021.

The Director Finance explained that the Authority would continue to monitor the situation and would report back to the Pension Committee in due course. He added that changes in LGPS regulations would be needed to ensure they were in line with the new legislation. However this would take several months so would create a period of uncertainty between now and the new financial year.

Resolved

The Committee noted the report.

5. EXIT CREDIT POLICY

The Director of Finance explained that the policy was required to ensure that all employers who actually decide to leave the fund were treated in a fair and consistent way. It was important to note that this policy was only applicable to employers who joined the scheme after 2018. The Board noted that the Actuary was involved in advice on if a payment was due and how much. The Policy had recently received the Pension Committee's approval.

The Actuary provided further context to the report. It was explained that prior to these regulation changes, the funds and would charge a debt if anyone was in deficit when they left the scheme and after that, if there was any surplus leftover and then it would remain in the scheme. In response to a question, it was noted there was no appeal process and it was ultimately the funds decision.

A member of the Board felt that it would be useful to have some hypothetical examples so they could actually see how this worked. The Actuary gave two examples to the Board in detail. The Actuary explained that it would depend on the terms of the contractual arrangements that were in place.

Resolved

That the report be noted.

6. PENSION FUND RISK REGISTER

The Director of Finance introduced the risk register explaining that the risk register was a live document and therefore it was important for it to reflect the discussion carried out by the committee.

Members were informed that since the risk register was considered by the Pension Committee in September 2020 and was now being presented before the Board. It was noted that a number of changes had been made, these were highlighted in yellow and the new narrative was shown in bold red, in the risk register.

The Committee noted that a new risk A/R5 had been entered on the risk register specifically relating to the COVID-19 pandemic. This was:
- COVID-19 pandemic having a detrimental impact to the Pension Fund service provided to members and/or to the collections of pension fund contributions and implementation of new investments.

It was explained that a combination of home working and socially distancing working was taking place within the office on a rota basis, the two pensions teams had been able to continue to deliver the core service. The Director of Finance explained that the Pension Team had responded well to the challenges and had provided an effective service throughout the pandemic period to date.

All of the risk ratings within the risk register had been reviewed and the residual risk ratings for risks F1, relating to investment returns, F2, relating to the implementation of the long-term investment strategy, and F4, relating to the Pension Fund deficit, had been increased due to the impact of COVID- 19.

The Board noted that risk G5, related to the lack of relevant expertise, knowledge, skills and resources at officer and member level in relation to administering the LGPS, had also increased with the residual risk rating of 16, i.e. a high residual risk. It was noted that this risk level would reduce once the newly appointed Head of Pensions started in post in on the 9th November 2020.

The Director of Finance referred to the challenges ahead in terms of administration, in relation to G5 risk, therefore it was necessary to ensure that all our staff were well trained and understood these implications.

In response to a question about the administrative burden caused by the changes discussed earlier in agenda , the Director of Finance explained that he would have to assess this as more information became available and would report back to the Board in due course.

Resolved

That the Board noted the risk register.

7. PENSION ADMINISTRATION REPORT

The Director of Finance explained that it had been an incredibly difficult time during the pandemic and the team had responded to the challenge very well. He wished to personally thank the Pension Team for their hard work and the fact that they've continued to provide an effective and efficient service during this time. It was noted that in some cases the team had improved on performance, compared to previous years.

The Chair of the Pension Board wished to endorse the Director of Finance statement and thanked the Pension Team for all their efforts.

Resolved

That the report be noted.

8. PENSION FUND BUSINESS PLAN 2020/21

The Director of Finance, Paul Blacker, gave an update on the Gloucestershire Local Government Pension Fund Business Plan 2020-21 and advised Members that the Pension Committee approved the Business Plan at its September meeting.

The Board noted that Cllr Moor attended the Pension Committee and was happy to feedback any views of the Board.

In response to a question relating to the exposure to equities and volatility in light of the Covid pandemic. The Director of Finance explained that Brunel managed the property portfolio on behalf of the GLPS. It was suggested that perhaps the Pension Committee should consider investing in property locally.

During this discussion it was suggested that in light of the pandemic and the recovery of Gloucestershire, and perhaps there were some areas in specific property infrastructure assets the Pension Fund could invest in locally. The Director of Finance explained that it was not something that had been done in the past, because the fundamental objective of the Pension Fund was to maximise returns rather than invest in regeneration within the area. Cllr Moor agreed to relay this point to the Committee.

Resolved

That the report be noted.

CHAIRPERSON

Meeting concluded at 3.40 pm

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