Contents

Gwasanaeth Democrataidd
Democratic Service
Swyddfa'r Cyngor
CAERNARFON
Gwynedd
LL55 1SH

Cyfarfod / Meeting

PWYLLGOR PENSIYNAU

PENSIONS COMMITTEE

Dyddiad ac Amser / Date and Time

2:00pm, DYDD MAWRTH, 17 MEHEFIN 2014

2:00pm, TUESDAY, 17 JUNE, 2014

Lleoliad / Location

YSTAFELL GWYRFAI,
SWYDDFEYDD Y CYNGOR / COUNCIL OFFICES,
CAERNARFON

Pwynt Cyswllt / Contact Point

Lowri Haf Evans

(01286 679878)

lowrihafevans@gwynedd.gov.uk

PWYLLGOR PENSIYNAU
PENSIONS COMMITTEE

AELODAETH / MEMBERSHIP

Plaid Cymru (3)
Y Cynghorwyr / Councillors
Peredur Jenkins
Dafydd Meurig
W. Tudor Owen

Annibynnol/Independent (2)
Y Cynghorwyr/Councillors
Trevor Edwards
John Pughe Roberts

Rhyddfrydwyr Democrataidd / Liberal Democrats (1)
Y Cynghorydd/Councillor Stephen Churchman

Llais Gwynedd (1)
Y Cynghorydd/Councillor Peter Read

Aelodau Cyfetholedig / Co-opted Members

Y Cynghorydd/Councillor Margaret Lyon, Cynrychiolydd Cyngor Bwrdeistref Sirol Conwy /Conwy County Borough Council Representative

Y Cynghorydd/Councillor Hywel E. Jones, Cynrychiolydd Cyngor Sir Ynys Môn/Isle of Anglesey County Council Representative

Aelodau Ex-officio / Ex-officio Members

Cadeirydd ac Is-gadeirydd y Cyngor
Chairman and Vice-chairman of the Council

AGENDA

1. ELECT CHAIRMAN

To elect a Chairman for 2014/15

2. ELECT VICE – CHAIRMAN

To elect a Vice-chairman for 2014/15

3. WELCOME AND APOLOGIES

To receive any apologies for absence

4. DECLARATION OF PERSONAL INTEREST

To receive any declaration of personal interest

5. URGENT BUSINESS

To note any items which are urgent business in the opinion of the Chairman so that they may be considered

6. MINUTES

The Chairman shall propose that the minutes of the meeting of this committee held on 17 March 2014 be signed as a true record.

(copy herewith – ***white*** paper)

7. WESTMINSTER GOVERNMENT (DCLG) CONSULTATION ON THE OPPORTUNITIES FOR COLLABORATION, COST SAVINGS AND EFFICIENCIES IN THE LGPS

To submit a report by the Head of Finance

(copy herewith – ***green*** paper)

8. POLICY ON ABATEMENT OF PENSION BENEFIT

To submit a report by the Head of Finance

(copy herewith – ***yellow*** paper)

9. EXCLUSION OF PRESS AND PUBLIC

The Chairman shall propose that the press and public be excluded from the meeting during the discussion on the following item due to the likely disclosure of exempt information as defined in paragraph 14, Part 4, Schedule 12A of the Local Government Act 1972. The report relates to the financial matters of the Pension Fund and one of the companies in which it invests. Disclosing the information now could affect the company's ability to compete and there is no public interest in disclosing which outweighs the company's right to keep its financial matters confidential.

10. PROPERTY INVESTMENT

To submit a report by the Investment Manager

(separate copy for committee members only)

PENSIONS COMMITTEE, 17.03.14

Present: Councillor Peter Read (Chairman)

Councillors Trevor Edwards, Hywel E Jones (representative of the Isle of Anglesey County Council), Margaret Lyon (representative of Conwy County Borough Council), Dafydd Meurig and Peredur Jenkins.

Officers:- Dilwyn Williams (Corporate Director), Dafydd Edwards (Head of Finance Department), Caroline Roberts (Investment Manager) and Lowri Haf Evans (Member Support and Scrutiny Officer).

Apologies: Councillors Stephen Churchman, W Tudor Owen, John P Roberts.

1. WELCOME AND APOLOGIES

Everyone was welcomed to the meeting by the Chairman, Councillor Peter Read. The above-mentioned apologies were noted.

2. DECLARATION OF PERSONAL INTEREST

No declarations of personal interest were received from any members present.

3. URGENT ITEMS

None to note.

4. MINUTES

The Chairman signed the minutes of the previous meeting of this committee, held on 20 January 2014, as a true record.

5. EMPLOYERS' RESPONSE TO THE CONSULTATION ON THE FUNDING STRATEGY STATEMENT

On 20 January 2014, a report had been given to the committee noting that there was a statutory requirement to review and publish a Funding Strategy Statement by 31.3.2014. As part of the review, the administering authority was required to consult with all scheme employers, the fund actuary and advisers and any other persons they considered appropriate.

On 24 January 2014, a consultative letter had been sent to all scheme employers, the fund actuary and advisers and Unison, TGWU and the GMB, consulting on the policies agreed upon. The consultation period ended on 28.2.2014.

It was reported that no response had been received. It was explained that, although disappointing, it was not surprising as the majority of the Funding Strategy Statement had been unchanged since the previous version and those elements which had changed, such as the actuary presumptions, had been explained to and discussed by employers at the Fund Valuation meeting on 07.11.2013.

RESOLVED
To adopt the proposed Funding Strategy Statement (FSS).

6. TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY FOR 2014/15

Submitted – the report of the Head of Finance Department recommending that the Pensions Committee should make a request to the Council to allow the Pension Fund's surplus cash balances to continue to be pooled with the Council's general cash flow from 1 April 2014 onwards and approve the Treasury Management Strategy Statement and the Annual Investment Strategy.

In accordance with the Welsh Assembly Government's statutory guidance on Local Government Investments, the Council was required, as part of its function in treasury management, to prepare an Annual Investment Strategy. As good practice, it was considered that the Gwynedd Pension Fund should adopt the Gwynedd Council Treasury Management Strategy Statement for 2014/15, as amended for the purpose of the Pension Fund.

In the context of investing money, it was outlined that the main advantages of combining the cash flow arrangements of the pension fund and the Council was to attract higher interest, minimise bank costs and avoid duplicating work.

In response to a question, it was confirmed that *Arlingclose* had been the Council's independent advisers since 2009. It was noted that the Finance Department was very happy with the quality of service and that the advisers communicated in a clear and coherent manner. It was further noted that the Council's contract with the advisers had been renewed after a period of three years in 2012, and it would be reviewed again in a year's time.

RESOLVED:
a) **To approve the Treasury Management Strategy Statement and the Annual Investment Strategy.**
b) **To make a request to the Council to allow the Pension Fund's surplus cash balances to continue to be pooled with the Council's general cash flow from 1 April 2014 onwards.**

7. LGPS GOVERNANCE STRUCTURES – PUBLIC SERVICE PENSIONS BILL

The Investment Manager reported on the significant changes to the Local Government Pension Scheme which would come into force on 1 April 2014. These changes would be enacted by the Public Service Pensions Bill and were the result of the review of the LGPS carried out by Lord Hutton and the recommendations in his report.

As a result of these amendments, changes would appear in the governance requirements, role and structure of the Local Pension Boards specifically. The current situation in Gwynedd was that Gwynedd Council acted as 'Scheme Manager' and the Pensions Committee was responsible for assisting the Council to ensure compliance. It appeared that the review would recommend a Pension Board, with a specific duty of scrutinising the work of the Scheme Manager rather than operational support.

It was reported that the final details of the review had not been released but that the Committee was required to consider how these arrangements should be implemented in practice in Gwynedd in order to respond to the consultation. The final structure would be statutory and Gwynedd must therefore find a way of responding to the change.

Possible options:

i) Creating a Pension Board to scrutinise and hold an additional Panel to manage administration and investments. Fund members and unions would need to be invited to nominate members for the Board as the membership needed to be equal.
ii) Continuing with the existing system and amend the constitution in order to allow staff representatives to be members of the Pensions Committee.

RESOLVED

a) To await the final details of the review and make a decision on what will be required.

b) To delegate the right to officers to respond to the consultation, seeking to influence

- **i) the minimisation of the possible changes to the existing system**
- **ii) the continuation of the existing, effective system that Gwynedd has.**

****

In response to a question regarding press coverage of a possible slump in the stock market, it was proposed that the Member's concerns would be highlighted in a letter to Hymans (independent investment advisers).

The meeting commenced at 2:00pm and concluded at 3:00pm

MEETING	**PENSIONS COMMITTEE**
DATE	**17 JUNE 2014**
TITLE	**WESTMINSTER GOVERNMENT (DCLG) CONSULTATION ON THE OPPORTUNITIES FOR COLLABORATION, COST SAVINGS AND EFFICIENCIES IN THE LGPS**
AUTHOR	**CAROLINE ROBERTS, INVESTMENT MANAGER**

1. INTRODUCTION

1.1 Members of the Committee will be aware that the eight LGPS funds in Wales have been investigating options for savings and efficiencies. The results of project indicated that collaboration was the way forward and the intention was to produce a business case for this option. This was put on hold when it became clear that the Government would be producing a consultation document.

1.2 In May 2014 the Department for Communities and Local Government issued a consultation document on opportunities, cost savings and efficiencies for the LGPS in England and Wales. The Government believes that there is scope for significant savings, of £660 million per annum, to be achieved through reform of the LGPS.

1.4 The consultation is aimed at all parties with an interest in the LGPS and the closing date for responses is 11 July 2014. The responses will be analysed and a Government response published. Should any legislative changes be needed, a further consultation will follow.

2. SUMMARY OF THE PROPOSALS

2.1 The consultation paper sets out a package of proposals including:

- Establishing common investment vehicles to provide funds with a mechanism to access economies of scale, helping them to invest more efficiently in listed and alternative assets and to reduce investment costs.
- Significantly reducing investment fees and other costs of investment by using passive management for listed assets, since the aggregate fund performance has been shown to replicate the market.
- Keeping asset allocation with the local fund authorities, and making available more transparent and comparable data to identify the true cost of investment and drive further efficiencies in the Scheme.
- A proposal not to pursue fund mergers at this time.

2.2 In addition to reducing fund costs the consultation paper requests respondents to consider fund deficits and how funding levels could be improved.

3. PROPOSAL 1: COMMON INVESTMENT VEHICLES

3.1 The Government believes that there are clear advantages to funds in pooling their assets in common investment vehicles for all asset classes, but that all asset allocation decisions should remain with the fund authorities.

3.2 Evidence supplied by Hymans Robertson in their study for the Government shows that there were slightly higher returns over ten years if the funds were organized through one common investment vehicle for listed assets and a second for alternatives, rather than a greater number. This suggests that savings will be maximized by the creation of two vehicles: a single common investment vehicle for listed assets organized by asset class (e.g. UK equity, European equity, UK bonds and so on) and a second vehicle for alternative assets.

3.3 Concentrating the Scheme into two common investment vehicles may increase its exposure to risk. Capacity constraints may begin to apply if a fund became too large. However, the Government believes that the exposure to risk should be mitigated if the asset allocation remains as diversified as at present. The Hymans Robertson report noted that the capacity constraint would not apply to the common investment vehicle for listed assets if it were invested in passive funds.

Q1. Do you agree that common investment vehicles would allow funds to achieve economies of scale and deliver savings for listed and alternative investments? Please explain and evidence your view.

Q2. Do you agree with the proposal to keep decisions about asset allocation with the local fund authorities?

Q3. How many common investment vehicles should be established and which asset classes do you think should be separately represented in each of the listed asset and alternative common investment vehicles?

3.4 The term collective or common investment vehicle can be used very broadly and take different forms. The Government is seeking views on the specific type of common investment vehicles to be used. Careful consideration of the governance arrangements for any common investment vehicle would be needed before any more detailed proposals are developed.

Q4. What type of common investment vehicle do you believe would offer the most beneficial structure? What governance arrangements should be established?

4 PROPOSAL 2: PASSIVE FUND MANAGEMENT OF LISTED ASSETS

4.1 LGPS funds use both passive and active equity managers with active management used more extensively than passive with the aim of achieving returns in excess of the market. The report produced for the Government by Hymans Robertson showed that there was no clear evidence that the Scheme as a whole had outperformed the market in the long term. They concluded that listed assets such as bonds and equities could have been managed passively without affecting the Scheme's overall performance.

4.2 Hymans Robertson reported that fees savings achievable from moving to passive management of listed assets would be £230 million per annum and that the one-off cost of transition from active to passive could be around £215 million which is similar to the savings achieved in one year.

4.3 The Hymans Robertson report concluded that if the Scheme acts collectively and moves all listed assets into passive management, investment fees and turnover costs could be reduced by up to £420 million per annum. This would represent a significant saving for the funds, employers and local taxpayers.

4.4 Having considered this analysis the Government believes that funds should make greater use of the passive management for all listed assets such as bonds and equities. Alternative assets such as property, infrastructure or private equity would continue to be managed actively through a separate common investment vehicle.

4.5 The Government wishes to explore how to secure value for money through use of passive management while not adversely affecting investment returns. There is a number of options to achieve this:

- Requirement to move all listed assets into passive management
- Requirement to invest a specified percentage of their listed assets
- Requirement to manage listed assets passively on a "comply or explain" basis
- Expectation to consider the benefits of passively managed listed assets

Q5 In light of the evidence on the relative costs and benefits of active and passive management including Hymans Robertson's evidence on aggregate performance, which of the options set out above offers the best value for taxpayers, Scheme members and employers?

5. RESPONSE TO CONSULTATION

5.1 Following up on the work between the eight pension funds in Wales a joint response from the eight funds has been proposed based on the results of the collaboration project. In addition, Gwynedd Council, as administering authority, will also respond.

The Committee is asked to consider any views or issues that they wish to include in the response from Gwynedd Council.

LGPS focus special edition

The future of the LGPS – our beliefs

May 2014

John Wright
Partner and Head of Public Sector Consulting

Linda Selman
Partner and Investment consultant

The purpose of this briefing is to set out Hymans Robertson's views on some of the key issues under debate following publication of DCLG's further consultation on the future structure of the LGPS and the analytical report that Hymans Robertson were commissioned to produce for DCLG in late 2013. Of course different readers will have different views on the appropriate way forward based on the same data. The purpose of this briefing is to clarify our beliefs and views.

Our beliefs

Ideas in the current consultation, and others emerging from the Call for Evidence, should be explored because there is potential for significant cost savings and performance improvement that can support the long term aim of an affordable and sustainable LGPS. These are our beliefs:

1. It is worth considering further the idea of Common Investment Vehicles ("CIVs") because they have the potential to achieve benefits of scale and good governance relatively quickly and cost-effectively.

"Affordability and sustainability must be the key long term aims."

2. There is scope to increase the element of passive investment because some characteristics of active management can be replicated "passively" (or systematically) at significantly lower cost (e.g. using fundamental indexation to create a value bias).

"Savings of hundreds of millions of pounds are achievable – that's something we can't afford to ignore."

3. Active management does have a role particularly for more complex and less liquid asset classes where in many cases it may be the only option. Active management of listed assets can also be worthwhile, particularly in sectors or regions where there is evidence of an ability to consistently add value.

"We believe there is a place for active management."

4. We believe that "comply or explain" (for the potential move to more passive) is the best option because it provides the opportunity to retain the stronger elements of performance across the LGPS. We should not throw the baby out with the bath water.

5. Above all we believe that good governance is key, both at local level where responsibility for the significant decisions on investment strategy will remain and in relation to any CIVs that are established. There is some evidence globally[1] (and it makes sense intuitively) that good governance leads to better investment performance

[1] 'Is Bigger Better? Size and Performance in Pension Plan Management', Alexander Dyck, Lukasz Pomorski

Conditions for success

CIVs

There are hurdles to overcome to get CIVs up and running not least being reaching a specification that will meet the needs of all of the potential investors.

CIVs should not be pursued blindly if simpler methods of aggregation can be identified (e.g. frameworks, pooled funds designed for the LGPS and hosted by fund managers).

CIVs have the potential to free up Committee time to focus on strategic allocation and implementation where we believe there is scope to add value.

Passive Management

All elements of a Fund's investment strategy should be consistent with the investment beliefs held by those responsible and accountable for the Fund's performance. Specifically, the extent of passive management should be consistent with the strength of conviction in the ability to identify managers who can consistently outperform.

We expect most investors would benefit from having a material part of their listed assets passively managed, with time focused on identifying return opportunities that have a greater certainty of delivering excess returns than can be expected from active management within listed markets.

Active Management

The extent of active management must be consistent with investment beliefs and the governance capability.

Passive management should act as a default and active management only be used where there is sufficient conviction that value can be added net of fees and other costs relative to the passive alternative. All managers are vulnerable to periods of poor performance. To reap full benefit of the potential added value from active management good governance is required to avoid "hiring and firing" at the wrong points in the cycle of performance.

Comply or Explain

A robust regime must be agreed, built on pre-defined criteria and objective metrics (including for example measures of risk-adjusted performance and consistency with individual Fund objectives and governance arrangements).

Governance

There is a better chance of achieving good governance if there is a strong alignment of interests between the management of the assets and the investment beliefs of those accountable for performance. Internal management can achieve that alignment but scale and depth of resourcing is critical to success. The approach adopted by any individual Fund must take into account its governance resources.

The Bigger Picture

The Government is focusing on relatively accessible cost savings which if achieved will improve the net investment return for the aggregate LGPS. This improvement will help to chip away at the deficit but will not solve it.

However, we believe that the current deficits pose a significant challenge which must be addressed. We maintain that consistent, realistic measurement of deficits across the LGPS and demonstrating the credibility of funding plans are critical to tackling deficits successfully. Unfortunately there is no magic solution; deficits can only be repaired by a combination of paying more contributions, controlling costs and achieving consistently good investment performance.

Local Government Newsletter
May 2014

Aon Hewitt

Hi everyone. Welcome to the May edition of our Newsletter.

After the slight delay in last month's edition I'm delighted that we're back on track! This month's edition includes our thoughts on DCLG's consultation on the opportunities for collaboration, cost savings and efficiencies in the LGPS, planning for the forthcoming governance changes including pension boards and much more. I hope you enjoy reading it.

Alison

People news

Firstly, we're delighted to announce that on 11 May, Arek's wife Kate gave birth to a perfect wee boy, Leo. Arek is now back at work following a period of paternity leave. Despite the sleepless nights he can't keep the smile off his face, awww! Secondly, we're really pleased that Loren Payne and Oliver Parry passed their Imperial exams, taking them even closer to qualifying as actuaries. We hope you'll join us in congratulating Arek, Loren and Oli.

Finally, to celebrate the end (well almost!) of what has been an exceptionally busy period, with the 2013 valuations closely followed by the accounting work, not to mention the actuarial exams, the team sought to blow away the cobwebs with a quick hike up Pen-y-Fan. Thankfully the rain largely stayed away and with Dan in the party there was no shortage of food (!).
Sadly they picked a day when I was at the NAPF Local Authority Conference and I suspect I was probably quaffing wine at dinner when this photo was taken!

DCLG's Consultation on the opportunities for collaboration, cost savings and efficiencies in the LGPS

DCLG's consultation was circulated just as we pressed *send* on last month's Newsletter. Our investment team recently issued a brief summary of our thoughts on the proposals. For those of you who haven't seen these, they are set out below. This will be one of the main topics covered at our conference on 4th June – if you haven't already registered, we'd love to see you there so please get in touch with your usual contact.

- We welcome increased collaboration as we believe that it has the potential to improve net investment returns, thus improving funding levels and the long term sustainability of the LGPS. Indeed, LGPS funds have already taken a variety of steps to increase collaboration, generating cost savings and greater efficiency already.
- At Aon Hewitt, we believe that there is a role for good active investment managers in all asset classes, and not least in the area of alternative investments, which can prove difficult for some investors with smaller governance budgets to access. Therefore, we especially support the potential for the development of a CIV for alternative investments as this is where we believe that the greatest savings can be made and the greatest efficiencies achieved: through the pooling of assets and expertise to lower cost, increase governance and improve access.
- Perhaps the most intriguing (and potentially controversial) element of the consultation is the consideration of the role of passive management for listed assets. The consultation responses to the Government's four proposed methods by which value for money might be best achieved in this area, and indeed the way in which the Government decides to move forward on this, is likely to be the most keenly anticipated. Our own view is that compulsion is not the answer and would potentially have unintended consequences, over both the short and long term.
- Further, there are some well documented shortcomings of market cap based passive management that need to be considered, and passive management represents a much broader range of investment options and investment decisions than it did even two or three years ago. Concerns around passive investment into bonds have long been debated: many investors are reluctant to make their largest allocation to a single issuer simply because they are the most indebted in an index, for example.

Aon Hewitt will be submitting a full response to the consultation which we will share with you in due course.

Other news: Governance and Implementation of Local Pension Boards

Many of you will be waiting with baited breath for the draft governance regulations in England and Wales. We've been liaising closely with DCLG and understand these are now expected in mid-June. Unfortunately this will be too late for our own conference in June, but there will be plenty of chances for you to hear our views on the draft regulations and, more importantly, our thoughts on how to implement the requirements, for example:

- Karen McWilliam will be hosting a Governance Webinar with Bob Holloway from DCLG as soon as the consultation on the new Regulations has been issued. The arrangements remain fluid, but at the time of writing we expect the webinar to be held on 25 June. Further details will follow as soon as we have a confirmed date; and
- Dan Kanaris and Karen will be speaking on this topic at a number of forthcoming CIPFA events - the CFO Briefings on 3 and 9 June (London and Manchester respectively) and then the CIPFA Pensions Networks on 2, 4 and 15 July (Manchester, London and Cardiff). If you are interested, please contact Neil Sellstrom: neil.sellstrom@cipfa.org.

One of our key recommendations is that you shouldn't wait until the final regulations in September/October to make your plans; make sure you engage with your Democratic Services Teams and Monitoring Officers as soon as the draft regulations come out. We'd also recommend setting up a Task and Finish Group and/or other delegated responsibilities to keep things moving over the summer period.

Finally, some of you may have seen the LGPS Governance Heads of Agreement in Scotland. It can be found here - http://www.unison-Scotland.org.uk/pensions/SLGPS2015_draftHeadsof%20AgreementonGovernance_May2014.pdf
It describes an innovative approach to the creation of the Pension Boards in Scotland, with existing Pension Committees continuing to exist but meeting concurrently with the new Pension Boards. The new Pension Boards will have a minimum of eight representatives (together with Pension Committee members, this could result in rather large meetings) and the Heads of Agreement outlines a relatively prescribed process where the PC and PB cannot reach agreement.

On your radar?

This month's hot topics are set out below, so you can see what has interested other administering authorities.

2013 valuation results

As indicated in last month's Newsletter, we are working on an analysis of the valuation reports published on the Shadow Board's website, some of which we will be presenting at our LGPS conference next week. We have received several requests for an indication of the valuation results on a like-for-like basis and this is one element of the work we are doing. Do watch out for our valuation special over the next couple of weeks.

Asset-liability modelling and cashflow projections

Some administering authorities reviewed their investment strategy alongside the 2013 valuations but others are now turning their attention to their strategic asset allocation and considering whether the results of the 2013 valuation suggest that anything needs to change. As you might expect, there is a wide variety of approaches – from a detailed and sophisticated analysis incorporating a huge range of asset classes to more simple modelling of different allocations to equities and bonds, and even a high level look at the projected cashflows to and from the Fund.

Review of the Funding Strategy Statement

We have been in discussion with DCLG regarding the requirement in the 2013 Regulations for Funding Strategy Statements to be in place by 31 March 2015. As it stands, our understanding is that administering authorities will have to review their statements and consult with employers, despite having only very recently reviewed these as part of the 2013 valuations. The expected consultation on Miscellaneous Amendment Regulations may provide an opportunity to persuade DCLG to amend this requirement but obviously that's not a given. In the meantime, this is something administering authorities should be including in their planning for the year. As ever, if you would like our help with this please let us know.

Factor reviews

Now that the 2013 valuations are complete and the new benefit structure is in place, now is a good time to review the factors in use by the Fund, including strain factors in particular. We are already in discussions about this with some of our administering authority clients and hope to offer a portfolio-wide service to deliver greater efficiency. Please look out for further details.

Conferences and Meetings

Administration and Communications Sub Committee – Dan Kanaris attended the latest Administration and Communications Sub Committee meeting on 8 May. There were plenty of interesting discussions and opinions, particularly around the structure of ill-health benefits and how they are applied in the LGPS, which will all be fed back to the next meeting of the Shadow Scheme Advisory Board. The sub-committee's next meeting is scheduled for early September.

NAPF Local Authority Conference – Karen McWilliam, Dave Lyons, Chris Archer and I attended the NAPF LA Conference on 19-21 May at the Four Pillars Hotel at the Cotswolds Water Park. It was a very busy event as always and it was great to catch up with so many of you there. The conference title was "The Changing Face of the LGPS", and the topics covered included delivery of the new benefit structure, proposed governance changes and the aforementioned DCLG consultation following responses to the Call for Evidence. The most popular session (in terms of attendance anyway) was the Minister's speech on the future of the LGPS. If the audience reaction is anything to go by he should be expecting some robust responses to the consultation!

See you at.... **Aon Hewitt's Annual LGPS Conference**, various **CIPFA events** and our **Governance Webinar** (virtually), all mentioned previously.

MEETING	**Pensions Committee**
DATE	**17 June 2014**
TITLE	**Policy on Abatement of Pension Benefit**
PURPOSE FOR THE REPORT	**To amend the Fund's Abatement Policy in the context of revised Government Policy and Regulations**
AUTHOR	**Dafydd L. Edwards – Head of Finance**
RECOMMENDATION	**Change Policy to allow re-employed members to receive full pension benefits**

1. Background

1.1 Members may be aware that the Administrating Authority has the discretionary power to "abate" members' pensions, should they become re-employed within Local Government.

1.2 The Fund's current abatement policy has been in place since 1998. It states pension benefits will be reduced or suspended where the member is re-employed, and where the new salary plus pension exceeds the salary when they ceased the original employment. The intention is to ensure that they are no better off from receiving their pension and the new salary compared with the salary they were receiving when they initially retired

1.3 Changes in tax legislation from the 6th April 2006, allowed the introduction of "flexible retirement", giving employers discretion to pay pensions to employees who reduce their hours or grade after age 55, so that they receive their pension early as well as earning salary from reduced hours or pay. This became a provision of the Local Government Pension Scheme in April 2008.

1.4 There are eight pensions currently "abated" in the Gwynedd Fund, three of which relate to one person. The approximate annual value of abatement as of 2013/14 was £18,000.

1.5 Some cases have come to light a number of years after re-employment has commenced, where the re-employed member has failed to notify the Pensions Unit at the time. Such cases tend to cause emotive arguments and time consuming correspondence in agreeing measures to recover overpayments.

2 Change of Policy

2.1 Following the changes in April 2006, members who have retired under the "flexible retirement" rule (see 1.3), can now receive their benefits unaffected by abatement, whilst others who leave employment and subsequently return cannot.

2.2 The only exception is for members who were awarded additional years because they retired on redundancy or efficiency grounds, and, as such, this part of their pension would still have to be adjusted under the old abatement policy. There is no discretion available to remove the reduction or suspension rules in respect of compensatory added years.

2.3 The Fund's policy of reducing or suspending pensions during re-employment needs to be reviewed to be consistent with provisions for "flexible retirement" as outlined in 1.3, and especially now that the LGPS 2014 doesn't allow abatement of pension accruing after 31 March 2014.

2.4 Discussions with other local government funds (Flintshire, Cardiff, Powys, Torfaen, RCT, Shropshire, Merseyside, Cheshire, Staffordshire, Warwickshire and Worcestershire) have revealed that they have already amended their policies where re-employed members can now receive their benefits unabated. An exception to the above in Wales is Dyfed Pension Fund, who continues to abate tiers one and two ill health cases that are re-employed.

3. Recommendation

3.1 The Pensions Committee is asked to approve the policy change, where re-employed members can generally receive their pension unaffected by abatement. In the case of the eight pensions referred to in 1.4 this could require the re-instatement of reduced or suspended pensions from 1 July 2014.

3.2 The Pensions Committee is asked to consider excepting tiers one and two ill health retirees, and pre 2008 ill health retires i.e. such pensions that would be allowable (pre 2014 accrual only) would be abated on re-employment if the new salary plus pension exceeds the salary prior to their ill health retirement.