

COMMITTEE: PENSIONS COMMITTEE

DATE: 8 September 2015

TITLE: “Know your onions” - Local Government Pension Scheme Trustees’ Conference

PURPOSE: To advise members of the content and value of the Local Government Pension Scheme Trustees’ Conference, 25-26 June, 2015, in the Cardiff Marriott Hotel

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1. INTRODUCTION

The Local Government Pension Scheme (LGPS) Trustees’ Conference provided interesting information about several aspects regarding development of the LGPS and aspects of fund investment. The event was attended by three delegates from the Gwynedd Fund, namely Councillor Peredur Jenkins, Councillor Eifion Jones, and Dafydd L Edwards (Head of Finance).

2. “KNOW YOUR ONIONS”

This conference was titled “Know your onions”, and in the context of financial pressure facing Local Authorities, it was acknowledged from several points of view that the affordability and sustainability of the LGPS (particularly as individual funds) would be critically examined, therefore trustees must “know their onions” in order to be able to defend the LGPS.

3. LGPS – NATIONAL GOVERNANCE

The keynote speaker Bob Holloway, DCLG, focused on the “facilitative” work of the (national) Scheme Advisory Board, guidance on establishing Local Pension Boards, deficit management, key performance indicators, and funds taking undue risk. On structural reform of the LGPS, Bob Holloway confirmed that “the Government is considering its position”.

4. FREEDOM AND CHOICE

Annemarie Allen, Senior Pensions Consultant with Barnett Waddingham, outlined the sweeping new flexibility from April 2015, LGPS members’ ability to transfer to defined contribution schemes, the potential for less contributions from wages, and more enquiries to fund administrators.

Conference delegates generally supported the view that the Government’s policy of providing flexible access to cash (withdrawing pension benefits) was an irresponsible “scandal”.

5. CESSATION OF CONTRACTING OUT

Karen McWilliam and Alison Murray, both from AON Hewitt and formerly with Hymans Robertson, explained the significant additional National Insurance cost for employers (2.3% of the payroll on average), and complexity of reconciling pension scheme (“GMP”) liability with HMRC records. They outlined how this reconciliation was a huge task for Pension Fund administrative staff which must be completed before April 2018, and could not be achieved within existing staff resources.

6. PROSPECTS FOR 2016 (TRIENNIAL VALUATION)

Liam Robson and Jeff Houston of the LGA presented general investment performance over recent years, and discussed setting of future actuarial assumptions, inflation and longevity, as well as cost pressures imposed on the LGPS by HM Treasury. While funds have remained cash positive since the last valuation, HM Treasury’s revaluation methodology and ‘club transfer’ costs counter these gains.

7. INNOVATIVE WAYS TO INVEST

Andy Fox of Lancashire Pension Fund outlined their proposed partnership with the London Pensions Fund, which will mean pooling £10bn of assets to invest, but **not** fund merger.

The business case proved that collaboration in investment, would be worthwhile, purely from a (£10m pa) reduction in investment managers’ fees, while it was suggested that investment outcomes could also improve.

The business case was challenged by Gwynedd Fund delegates, inter alia, and it was established that there was no evidence to prove better returns from pooling / size, but that is the two pension funds’ aim.

A number of challenges were noted, including legal, governance, regulatory, political, and staffing issues.

8. ADDITIONAL VOLUNTARY CONTRIBUTIONS (“AVCs”)

We received a lively and interesting presentation from Richard Harrison from the Prudential on AVC provision. He confirmed that the 100% tax free option from AVCs (unique to the LGPS) mean that they remain a good way to save for retirement and suggested that funds should do more to communicate this to scheme members.

9. OTHERS

Interesting presentations were also received from Eversheds on pensions' case law, national Shadow Board members on local boards' progress, and the Pensions Ombudsman on complaints against LGPS funds.

10. INVESTMENTS ACROSS THE GLOBE

Atul Shinh from Investec suggested that the economic cycle, further to rising equities since 2008, was not yet overheating. He viewed equities continued to be good value and even Japanese equities were exciting for the first time in decades.

He continued that technology looks attractive as an asset class, but careful selection is necessary with emerging markets and property.

On the "know your onions" theme, Investec closed the conference amusingly, saying "*that's shallot*".

Gwynedd Fund delegates met Investec's Stephen Lee at the conference and secured free training (as provided at official LGPS sessions) for Gwynedd's Pensions Board.

11. CONCLUSIONS

This event included coverage of many aspects of pensions, delivered in an understandable format, and provided useful networking opportunities.

Further to all delegates' committed attendance at all sessions of the conference, Gwynedd's delegates are wiser further to attendance at the conference, and unanimously recommend that Gwynedd Pensions Committee should continue to support this event.