

# Public Document Pack



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To: Cllr Dave Hughes (Chairman)

Councillors: Haydn Bateman, Billy Mullin, Ted Palmer and Ralph Small

## Co-opted Members

Steve Hibbert, Karen McWilliam, Cllr. Andrew Rutherford, Nigel Williams and Cllr. Huw Llewelyn Jones

14 March 2019

Dear Councillor

You are invited to attend a meeting of the Clwyd Pension Fund Committee which will be held at 10.00 am on Wednesday, 20th March, 2019 in the Delyn Committee Room, County Hall, Mold CH7 6NA to consider the following items

**Following consultation with the Chair Members of the Clwyd Pension Fund are requested to note that the start time for the 20<sup>th</sup> March 2019 meeting has been changed to 10.00 a.m.**

## A G E N D A

### 1 APOLOGIES

**Purpose:** To receive any apologies.

### 2 DECLARATIONS OF INTEREST (INCLUDING CONFLICTS OF INTEREST)

**Purpose:** To receive any Declarations and advise Members accordingly.

### 3 MINUTES (Pages 3 - 16)

**Purpose:** To confirm as a correct record the minutes of the last meeting held on the 20<sup>th</sup> February 2019.

4 **ADMINISTRATION TRAINING** (Pages 17 - 38)

**Purpose:** To provide Committee Members with an overview of the benefits of the scheme, how these are delivered and the role of the Committee and Board on monitoring this.

5 **RESPONSIBLE INVESTMENTS** (Pages 39 - 42)

**Purpose:** To update Committee Members on the current Responsible Investment Policy and consider other opportunities to develop the Policy including as part of the Wales Pension Partnership.

6 **EMPLOYER CARE PAY ISSUE** (Pages 43 - 50)

**Purpose:** To provide Committee Members with an update on this project.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Robert Robins', with a horizontal line extending to the right.

Robert Robins  
Democratic Services Manager

## CLWYD PENSION FUND COMMITTEE 20 FEBRUARY 2019

Minutes of the meeting of the Clwyd Pension Fund Committee of Flintshire County Council, held at County Hall, Mold at 9.30am on Wednesday, 20 February 2019.

### **PRESENT: Councillor Dave Hughes (Chairman)**

Councillors: Haydn Bateman, Billy Mullin.

**CO-OPTED MEMBERS:** Councillor Huw Jones (Denbighshire County Council), Councillor Andrew Rutherford (Other Scheme Employer Representative), Mr Steve Hibbert (Scheme Member Representative) and Councillor Trevor Bates (Wrexham County Borough Council – substitute for Councillor Nigel Williams).

**ALSO PRESENT (AS OBSERVERS):** Mr Mark Owen (PFB Employer Representative), Mr Phil Pumford (PFB Scheme Member Representative).

**APOLOGIES:** Councillor Nigel Williams, Councillor Ted Palmer and Councillor Ralph Small.

### **IN ATTENDANCE:**

Advisory Panel comprising: Colin Everett (Chief Executive), Philip Latham (Clwyd Pension Fund Manager), Gary Ferguson (Corporate Finance Manager), Karen McWilliam (Independent Advisor – Aon Hewitt), Kieran Harkin (Fund Investment Consultant – JLT Group), Paul Middleman (Fund Actuary – Mercer).

Officers/Advisers comprising: Debbie Fielder (Deputy Head of the Clwyd Fund), Kath Meacock (Principal Pensions Officer for Communications and Regulations), Kerry Robinson (Employer Liaison Team), Nick Buckland (Fund Investment Consultant – JLT Group), and Nikki Gemmell (Actuarial Consultant – Mercer - taking minutes).

The Chairman welcomed Kath Meacock to the Committee meeting. He also informed the Committee that Helen Burnham would not be returning to her role of Pensions Administration Manager but that Kath Meacock and Kerry Robinson would be available to cover the administration items.

#### 42. **DECLARATIONS OF INTEREST (including conflicts of interest)**

The Chairman noted that all of the advisors will leave the room for item 14 due to their conflicting interests. No further declarations were made.

#### 43. **MINUTES**

The minutes of the meeting of the Committee held on 28 November 2018 were submitted.

Mr Hibbert referred to pages 5 and 6 regarding the question he had asked about what would happen in the event of a lose-lose situation. He commented that he didn't believe that an answer was provided and felt that it was needed in order for the Committee to perform their duties. In particular, if the Committee is given a proposal that offers a lower return with a higher fee than under an existing Clwyd Pension Fund manager, what actions can the Committee take bearing in mind the statutory guidance and fiduciary responsibility?

Mr Latham highlighted that one of the main aims of pooling is to implement the Fund's investment strategy in a way that gives better risk adjusted returns with reduced fees compared to investing as a single Fund. However, the fees are not the most important part and there are no guarantees with investments. Mr Latham hoped that they do not get into the lose-lose situation.

Mr Everett confirmed that the decisions on whether to transfer assets would be agreed on a case by case basis, and that he would not support any cases where the balance of risks is not in the best interest of the Fund. He noted the need that if a situation is marginal then it would be appropriate to go with the pool solution.

Mrs Fielder referred to page 6 and confirmed that she had highlighted scheme representation on the JGC with the Officers' Working Group. Mrs Fielder confirmed that they will send a response to the SAB at some point in the future.

Mr Hibbert directed the Committee to item 37 on page 12 and confirmed his question had been whether the issue had affected other Funds not just employers in the Clwyd Fund. Mrs McWilliam said that any other Funds that use that software will probably have the same problem. Mr Everett confirmed that the problem had been escalated with the provider.

The Chairman thanked Miss Fellowes for the quality of the minutes provided.

**RESOLVED:**

(a) It was agreed the minutes could be received, approved and signed by the Chairman.

44. **BUSINESS PLAN 2019/20 TO 2021/22**

Mr Latham noted that the aim of the business plan is to demonstrate that the Fund is managing its risks (financial and operational) and how this will be resourced. He noted that the majority of the items within the business plan this time are ongoing and were therefore included in last year's plan with the exception of some bespoke projects.

Mr Latham noted that the business plan contains the Fund's mission statement for the Fund and the objectives from the key policies and strategies of the Fund.

Mr Everett recommended that they should add an objective covering a specific risk relating to balancing the needs of the Fund and the pool, noting the positive and negative risks of being within the pool. Mr Latham agreed and commented that the Investment Strategy Statement would also require updating.

Mr Hibbert asked whether working with the Actuary on the valuation would be every four years rather than every three years. Mr Middleman said that this is being discussed and will be subject to a consultation and so can only be updated once the changes in Regulations come into force so it is correct that at the moment the plan refers to three years.

Mr Latham directed the Committee to the four bullet points at the bottom of page 30. He noted that the top and bottom bullet points (relating to transitioning assets to the pool and implementing benefit structure changes as a result of national changes) are external factors that affect the Fund. However, the Fund need to ensure that they still keep on top of the other key areas (e.g. continuing to promote our online facilities and finalising the roll out of improved

systems to employers) as there is a risk that the external factors take the resources away from the other areas.

Mr Latham highlighted pages 31 and 32 which show that the Fund still has a positive cashflow but that more work will be done on this as part of the actuarial valuation.

Mr Hibbert asked about the fund manager fees and whether it would be worthwhile including a footnote to explain what proportion of the fees have increased due to manager cost transparency and which are due to additional costs. The footnote could include why the fees are increasing and what the Fund are doing about it, as he knows that there are reasons which are not explained here. Mrs Fielder agreed with this comment. Mrs Fielder confirmed that most of the fee increases are due to manager cost transparency where they declare all costs given that many are now signed up to the transparency code. Mrs Fielder noted that it is difficult to estimate performance fees and that transaction costs tend to be small.

A lot of work goes into these numbers and the figures reflect the increase in the asset size of the Fund. Mr Hibbert noted his view is that the estimates of the Clwyd Pension Fund fees are better than what he normally sees. Mrs McWilliam agreed that a short note would be useful as it would reduce the potential for criticism from third parties if it explained that a significant amount of the increase is due to greater cost transparency from managers.

Cllr Jones queried the budgeted outsourcing numbers on page 32, which have increased from £300,000 to £900,000. Mr Latham confirmed that it is not an increase in cost as such. The main reason is that Project Apple has delayed some work and so some costs will come through in 2019/20 rather than 2018/19. Therefore remainder of the unused 2018/19 budget has therefore been moved to 2019/20, which relates to the GMP reconciliation and backlog outsourced projects.

Mr Latham directed the Committee to page 37 which sets out training and conference dates for their diaries and it is suggested that they attend.

Mr Latham then highlighted some of the key tasks relating to governance. He noted one of which is to develop a business continuity plan on the back of the recent continuity testing carried out by the team. Mr Everett agreed that the pension fund should develop this as part of the Council's work on business continuity.

Mr Latham discussed G6 and noted that the SAB had appointed Hymans to consider effectiveness of governance in LGPS administering authorities, particularly around avoiding conflicts between the pension fund responsibilities and other administering authority responsibilities. It was noted that the project is no longer being referred to as separation. A questionnaire will be sent to funds to collect their views on whether separation is needed.

Mr Hibbert asked about the review of co-opted and local Board members, in particular the scheme member representative for the trade unions and whether they are able to reappoint the existing representative, subject to the usual democratic processes. Mrs McWilliam confirmed that the decision is up to the trade unions who will be asked to nominate an individual, and they can choose to re-nominate and existing representative if they wish.

Mrs Fielder discussed the funding and investment items within the business plan. The Fund are looking to review their responsible investment policy. It was noted that cashflow and

liquidity will be considered as part of the valuation process when contributions are reviewed. The actuarial valuation and investment strategy review will take place this year and the asset pooling work is ongoing. Mrs Fielder will continue work on the employer risk management framework. Mrs Fielder summarised by saying it is expected to be another busy year for the Fund and advisors.

Ms Meacock discussed the key administration items; they are developing an under/overpayment policy which is also required as part of the GMP reconciliation and the review of the administration strategy which is planned for approval in June 2019.

Item A6 relates to the amendment regulations from MHCLG which change the entitlements to some partners benefits where a scheme member has died. This is a backdated change and so they need to revisit previous death benefit cases to see if their payment should increase or decrease. This project will be dealt with once Project Apple has been completed.

Item A7 relates to members where the Fund scheme members have moved and the Fund does not know the new address details. They may be reaching retirement and so need to be traced. In addition, the Regulations state that all refunds must be paid within 5 years of the member's leaving date. As the reform took place from 1 April 2014, the 5-year point of new scheme is coming up in April 2019 and so they need to try to trace those members before the period ends.

Item A12 refers to the ongoing implementation of iConnect which now has several employers on it including two of the main Councils. Moving forward Mrs Robinson and the ELT team will be working with Wrexham CBC to go transition onto iConnect.

Mrs Robinson noted that half of the ELT team are currently working on Project Apple and the other half are pushing through the priority cases, for example death cases and retirements which will require a payment. They have also been working on iConnect for Wrexham CBC. Mrs Robinson noted a longer term objective is to consider if any other employers, in addition to Wrexham CBC and Flintshire CC, could benefit taking the services offered by the ELT team.

Mr Hibbert asked if there was a paragraph on stock lending to be included in the Investment Strategy Statement. Mr Latham confirmed that this is already included.

#### **RESOLVED:**

- (a) That the Committee approved the business plan in Appendix 1 relating to the period 2019/20 to 2021/22 subject to the addition of an objective relating to asset pooling and a note clarifying the increase in investment manager fees.

#### **45. POOLING INVESTMENTS IN WALES**

Mr Latham presented this item of the agenda which covered four key areas; responsible investment, stock lending, statutory guidance and a general update on pooling:

- Responsible investment – currently the Fund has a sustainability policy within the ISS. There is a training session for the Committee on 20 March to discuss what the Fund currently does in terms of responsible investment and also what best practice was in this area. It will also include a session on what the WPP is doing in this area.

Mr Latham directed the Committee to page 117 and noted that at a national level, more guidance is expected from the SAB on responsible investment. The main purpose is to provide guidance on what the pool's should be doing as they should be able to deliver the responsible investment policies of all funds. This can be tricky as each fund may have its own policy and they could be quite different.

The WPP is developing a Pool responsible investment policy which is being drafted by Hymans as the advisor. Hymans have produced a questionnaire to gather the investment beliefs of the Funds within the pool on responsible investment. Hymans want two responses, one from an officer point of view and one from the Chair of the Committee based on the views of the Committee.

Cllr Jones commented that he would prefer the officers responding by the deadline as they better understand responsible investment, however he suggested that the Committee should respond after the training session on 20th March when they have more understanding. Mr Everett and the Committee agreed with this proposal.

- Stock lending – Mr Latham discussed the recommendation to allow the WPP to participate in stock lending. Either all eight funds within the WPP agree to it or it does not go ahead. Six of the funds have already been through their Committees and they agreed to allow it. The other funds have a lot of equity and stock lending will therefore have a bigger impact. This is low impact for Clwyd Pension Fund as they only have a 4% allocation to global equities, meaning the expected income will be £25,000 p.a from stock lending.

Mr Latham informed the Committee that stock lending is when an investor lends out a stock to a third party so they have ownership over a period of time and in return they pay a fee to the lender. The lender receives collateral in the event of failure of the borrower. The WPP as a whole will get approximately £1m in terms of income. However, the investor loses their voting rights. To partly mitigate this the WPP can hold back 5% of shares in each stock to retain the vote.

Cllr Mullin asked if there are any real risks for the Committee to worry about. Mr Latham noted that there are some risks in extreme circumstances. For example, during a financial crisis or extreme events because it is difficult to recover the stock quickly. However, those that chose not to call back the stocks did not see many losses. Mr Latham confirmed that he is not aware of many other real issues with stock lending.

Cllr Bateman asked what the collateral would be. Mr Latham confirmed that this is usually cash assets or fixed income assets which are paid if they fail to give the stock back.

Mr Hibbert questioned whether this would be low impact for the Fund. Mr Hibbert raised concerns regarding the potential short term fluctuations in assets due to the conscious movement of stocks by investors using stock lending, which could cost a lot more than the potential gain of £25,000 from participating in stock lending within the pool. He agreed that in the long term there could be a positive return but raised concerns about the short to medium term impact on the Fund. Mr Latham highlighted that there is no evidence that taking part will drive down the value of stocks.

Mr Harkin agreed with both points and noted that the pool should have a written policy on how stock lending will work to minimise the chance of the scenario Mr Hibbert had raised.

- Informal consultation on statutory guidance – Mr Latham confirmed that a response was drafted to the consultation, taking on board views from the advisors and Mr Everett. The overall tone is that the Committee agree with pooling and would like to gain from the benefits but that pooling may not always be the answer. The consultation closes on 28th March 2019 but Mr Latham asked the Committee to agree to the consultation response at today's meeting.
- General update on the WPP – Mr Latham, confirmed that they have now transitioned the global assets into the pool and can now measure the cost or saving of this using figures from the transition manager. Mr Latham noted that the last JGC meeting was deferred due to bad weather and the next meeting will now be 27th March 2019. Therefore, the fixed income recommendation will not be included until the June committee now. The transition will now be post June 2019.
- Mrs McWilliam highlighted that the Fund will need to ensure that appropriate reporting is received from the pool in relation to any assets that are transitioned and it is important this provides the level of detail officers and the Committee need and are currently used to receiving from JLT.

**RESOLVED:**

- (a) That the Committee noted the report and discuss progress being made by the Wales Pension Partnership.
- (b) The Committee agreed that the WPP can participate in Stock Lending following a vote where five out of seven members agreed with the recommendation. It was further resolved that the concerns of the Committee are fed back to the WPP with the requirement that the stock lending should be closely monitored.
- (c) The Committee discussed the informal consultation response and delegated agreed changes to be made by the Clwyd Pension Fund Manager.

46. **GOVERNANCE UPDATE**

Mr Latham confirmed that they are making progress on item 1.01 and that interviews for the Accountant and Governance Support Officer are tomorrow, they will be advertised through the graduate post shortly. Mr Everett commented that they have been working hard on the staffing restructure and posts.

Mr Latham highlighted page 117 and the work that the Scheme Advisory Board are undertaking and its importance as it impacts on the Fund.

Mr Middleman gave an update on Fair Deal, highlighting that there has been a consultation and that there is a draft response in the papers for agreement in principle. Mr Middleman gave an overview of the background on Fair Deal, noting that it is about protecting the rights of employees who are outsourced from a public sector to a private sector employer. Currently they remain in the LGPS or transfer to a scheme which offers benefits that are "broadly comparable" to the LGPS as certified by an actuary. Under New Fair Deal the broadly comparable route will disappear.



The questions asked and answered are set out from page 134. The second question discusses the definition of a Fair Deal employer, which is all public bodies with the exception of further and higher education employers. In the response, the Fund has commented that this seems reasonable but there is a potential inconsistency which needs to be clarified if it's the intention.

Question 3 relates to transitional arrangements, for example what happens to those that were in a broadly comparable scheme when the contract ends. Their pensions and rights will be compulsorily transferred back to the LGPS, which potentially increases risks and costs to employers as they will be transferred across on an individual transfer basis which can be generous for individuals due to the assumptions used versus the transfer offered. Previously they would be transferred on a "bulk basis" in a way that usually protected the employer but gave a fair outcome to the members also. Mr Middleman commented that there are not many broadly comparable schemes so in the overall scheme of things for the LGPS it may be something that can be lived with to make it simple to operate.

Mr Middleman noted that the key element of the consultation is on page 136 which discusses the introduction of "deemed employer status". If the Council outsourced services, then the Council could be the "deemed employer" and the outsourced employer would not require an admission agreement or bond.

Whilst the admitted body route would still be available, this would simplify the process in cases where the Council agrees to take all the risk. This would mean that an exit debt calculation is not required. However, Mr Middleman noted that the new employer's relationship with the Fund should be fully documented as they still need to pay contributions to the Fund. This makes it critical for employers in the Fund to have clear policies so that all parties understand their obligations and this should be part of the process for any contract between the employer and the contractor (or other entity admitted in this way).

Mr Middleman commented that the most effective route would be that employers need to compulsorily make pension considerations part of the procurement process to ensure it is dealt with immediately and fully understood. Whilst the ideal would be for the procurement Regulations to change to achieve this, it would be difficult to implement that route. Mr Everett agreed but noted that it can still be implemented through a Council's policy on transfer of services. Mr Middleman agreed whilst noting that it can be difficult to ensure this is the case.

Mr Middleman noted that the proposed consultation also includes some points about the process of merging employers. He highlighted that there should be some sort of consent for a receiving authority. For example if an employer transfers from another Fund to the Clwyd Pension Fund; if it fails then the risk has been transferred to the Clwyd taxpayers.

Mr Hibbert asked for the definition of a broadly comparable scheme and whether it could mean a defined contribution scheme with small contributions (e.g. 1%) paid by the employer and employee. Mr Middleman explained that broadly comparable could be a private sector scheme that provides benefits that replicate completely the LGPS benefit structure but not backed by taxpayers. It could also be a Defined Benefit scheme with benefits of equivalent actuarial value to ensure that the benefits are "broadly equivalent". It required actuarial certification of broad comparability. This could not be a DC scheme.

Mr Latham noted that the introduction on page 149 mentions accounting requirements. Employers have to include pension debts in their accounts which can cause them issues bidding for contracts. The deemed employer route could mean that they don't have to show this liability on their balance sheet so it is right to ask this question. However, he expects that the answer will be that they do need to include them.

Miss Gemmell talked the Committee through the cost management slides. It was noted that the cost management process is now on hold due to the McCloud judgement which is a case brought against the Government on age discrimination grounds in relation to protections given to members when public sector schemes changed their benefit structures in 2014 or 2015. The challenge was in relation to the Judges and Firefighters Schemes. The outcome was that the protections were found to be discriminatory. The Government are considering an appeal which could take more than 12 months to resolve. If Government accept the judgement or are unsuccessful in the appeal it would mean additional costs for the LGPS, backdated to 1 April 2014 at least, and a reassessment of the cost management outcomes. If Government win an appeal the cost management process would recommence and any changes could be backdated to 1 April 2019 which is far from ideal from an administration viewpoint.

Administering Authorities have been asked how it should be dealt with in the 2019 valuation. In particular, whether they would prefer to make their own judgements about how to allow for the McCloud judgement (for example, in the actuarial valuation, in exit calculations etc.) or whether they would prefer central guidance that all funds should follow consistently. A response should be sent from Funds by 1 March 2019. Mr Middleman's view is that the guidance approach would be better to give consistency across the Funds but that he does not want the guidance to be too prescriptive as each Fund needs to take into account local circumstances. Mr Middleman also noted that the costs of the McCloud judgement could well be higher than the initial cost management impact for employers and that the benefit is more valuable to the younger members.

Mrs McWilliam commented that this will be confusing for members and employers, especially if the benefits are backdated. The impact on the administration team will also be large. Mr Middleman agreed and noted that implementing the backdated employee contribution changes will be complicated. He commented that the cost management process is less of a burden than the implications of the McCloud case, if they are deemed to be unlawful.

Mr Jones asked whether this was included in the risk register. Mrs McWilliam confirmed that whilst the risk register has been intentionally kept high level, one of the sections relates to national risks and so this is therefore covered.

**RESOLVED:**

- (a) That the Committee considered the update and provided comments.
- (b) That the Committee agreed to the extension of the existing Custodian contract until it is no longer required due to asset pooling.
- (c) The Committee considered the proposed response to the Fair Deal consultation, highlighting any changes they would like to make and agreed to the response being

submitted to MHCLG, subject to delegating incorporating any further changes agreed to the Clwyd Pension Fund Manager.

47. **LGPS UPDATE**

Miss Gemmell noted that as the key points within the update were covered within the Governance items under the previous agenda item, it was not necessary to discuss the remainder of the updates within the meeting.

**RESOLVED:**

- (a) That all Committee members noted this report and made themselves aware of the various current issues affecting the LGPS, some of which are significant to the operation of the Fund.

48. **PENSION ADMINISTRATION/COMMUNICATIONS UPDATE**

Ms Meacock introduced herself to the Committee and explained that she now is the Principal Pensions Officer for regulations and communications. Ms Meacock gave an update on the main points in this item of the agenda. The aggregation project has been extended due to Project Apple and the movement of resources. The technical team have been working on 980 queries from Mercer intended to improve data quality in advance of the 2019 actuarial valuation. The work on iConnect is ongoing. Mrs Williams is on the CIPFA benchmarking group and the reporting on KPIs has been discussed and over time, the KPIs will evolve in line with discussions in the group.

Ms Meacock noted that the communications officer post has now been filled and an internal candidate has been appointed, resulting in a further vacancy within the team. One of the part-time payroll officers has retired and so there is now also a vacancy in the technical team to fill. The Principal Pension Officers will concentrate on filling these vacancies in the coming weeks.

Mr Hibbert queried the pink line in the KPIs and whether this relates to the number of jobs coming in. Mrs McWilliam confirmed that the pink line relates to the number of cases completed within the month rather than the number of new cases. For example, 340 leaver cases were completed and 63% were within the legal timescales.

Cllr Jones asked what the 24.92% relates to on page 223 as it does not tie in with the number of records in the Fund. Ms Meacock confirmed that as there are multiple records for some members, for example where they have multiple jobs, but this measure relates to the number of actual members, rather than records, that have signed up for the member self-service.

The Chairman thanked all of the officers for continuing to step into the Manager's role and keeping things moving during challenging times.

**RESOLVED:**

- (a) That the Committee considered the update and provided any comments.

49. **INVESTMENTS AND FUNDING UPDATE**

Mrs Fielder highlighted the main areas which are the delegated responsibilities and the transition of assets into the pool. There were cashflow requirements in December 2018 and so the Fund have redeemed £10m back from the collateral within the Insight mandate. Cashflow continues to be monitored.

Mrs Fielder also noted the Committee to the 2019 actuarial valuation plan and timescales.

The Chairman thanked Mrs Fielder and her team for continuing to manage the section whilst they have ongoing vacancies.

**RESOLVED:**

- (a) That the Committee considered and noted the update for delegated responsibilities and provided any comments.
- (b) The Committee noted the timescales for the 2019 valuation plan and understand the areas that will require Committee approval.

50. **ECONOMIC AND MARKET UPDATE**

Mr Harkin gave a brief update on this item of the agenda. He commented on page 257 which showed the level of volatility seen in Q4 of 2018, particularly in October and December. The US markets have been affected by contagion and some fears surrounding the end of quantitative easing plus the markets have been affected by ongoing Brexit concerns. Since 31 December, the markets have nearly recovered to the position before December. Gilt yields have fallen in this current quarter which is an issue for the UK. Mr Harkin noted that volatility is likely to continue for some time.

Cllr Jones commented on page 262 with regard to Japan becoming a target for the Trump Administration in 2019 due to the imbalance in the Autos sector. He noted the recent news regarding the Honda plant in Swindon which aligned with this.

Mr Everett noted that the growth rate for the UK has been downgraded by the Bank of England for the three years to 2022.

Mr Harkin commented that the delay on Brexit has meant that decisions have already been taken by companies on how to deal with it, despite not knowing the outcome. This itself is creating uncertainty in the economy and therefore the markets.

**RESOLVED:**

- (a) To note and discuss the Economic and Market Update 31 December 2018.
- (b) To note how the information in the report effectively “sets the scene” for what the Committee should expect to see in the Investment Strategy and Manager Summary report in terms of the performance of the Fund’s asset portfolio.

51. **INVESTMENT STRATEGY AND MANAGER SUMMARY**

Mr Buckland gave a brief update on this item of the agenda before taking questions. The first thing he highlighted was that it was a poor quarter to 31 December 2018. However, the year to 31 December was reasonably flat which shows the continued volatility in the

markets. He talked through page 277, noting that private credit is a new investment which will take time to be fully committed and that the Fund Risk Management Group, made up of JLT, Mercers and Fund officers, are currently looking at the management of the collateral of the LDI portfolio managed by Insight. In-house private markets are performing ahead of target whereas hedge funds and diversified growth are underperforming versus benchmark. Mr Buckland noted that the quarterly returns over 2018 had been particularly volatile but highlighted that the Fund is a long term investor and the three-year performance was positive at 8.8% p.a. He also noted that the returns since 31 December have been positive and that assets increased from £1,784m to £1,821m at the end of January 2019.

Mr Everett commented on the volatility in the run up to the actuarial valuation which could be a concern given the difficulties for employers' budgets, although he noted that discussions on this have assisted in the planning. He reminded the Committee that they should remember their pension fund role when making decisions at this Committee relating to this.

**RESOLVED:**

- (a) To note and discuss the investment strategy and manager performance in the Investment Strategy and Manager Summary 31 December 2018.
- (b) That the Committee considered the information in the Economic and Market Update report to provide context in addition to the information contained in this report.

52. **FUNDING AND FLIGHTPATH UPDATE**

Mr Middleman noted the level of volatility in the markets recently and how it had affected funding positions. The funding level was 86% at the end of December 2018, increased to 89% at the end of January 2019 and is currently up to 91%. Whilst the funding level is volatile, he noted that the key thing is the future outlook and what Brexit will do to the economy and returns above inflation. It is important to note that the flightpath framework is working and that equity protection contributed positively when markets fell.

Mr Middleman talked through the collateral waterfall which is about making the framework operate as efficiently as possible. They identified £100m of collateral that could be released and used more efficiently to increase expected returns. All documents were signed and it is expected that the waterfall will be implemented by the end of the month. Page 288 sets out the reasons why the Fund are doing this, which is to maintain the same level of risk control in the LDI mandate but restructure it to maximise returns. The approach is expected to generate an additional yield of £3m per year.

The report does not cover the impact of Brexit and how resilient the Fund is when thinking about what could happen. The Fund is well diversified and has protections in place which deals as well as possible with most risks except currency. However, this has been discussed at the FRMG and Steering Group and it has been provisionally agreed to implement currency hedging at a level of 50%. This will "bank" some of the gains already made. The outcome of this will be reported in more detail at future meetings.

Mr Everett asked where the term collateral waterfall comes from. Mr Middleman confirmed that the waterfall relates to holding different types of assets (the three tiers referred to in the report) which are used at different points so the highest returning assets are used last thereby increasing the overall returns.

Mr Everett asked for further information regarding what this actually is and Mr Middleman confirmed that more information will be included in future reports.

It has also been agreed that c. £30m will be removed from the Insight QIAIF to be invested in infrastructure as directed by JLT in due course.

**RESOLVED:**

- (a) That the Committee noted the updated funding and hedging position for the Fund and the progress being made on the various elements of the Risk Management Framework.
- (b) That the Committee noted that the Officers have been working with their advisers in order to implement a collateral waterfall process at Insight to better manage collateral requirements. Insight are in the process of implementing the collateral waterfall which will be in place by end February 2019. It has also been agreed that c. £30m will be removed from the Insight QIAIF to be invested in infrastructure as directed by JLT in due course.

53. **LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985 – TO CONSIDER THE EXCLUSION OF THE PRESS AND PUBLIC**

**RESOLVED:**

That the press and public be excluded for the remainder of the meeting for the following item by virtue of exempt information under paragraph(s) 14 of Part 4 of Schedule 12A of the Local Government Act 1972 (as amended).

54. **EMPLOYER CARE PAY ISSUE**

Mr Latham presented this item of the agenda but noted that Ms Robinson is leading the project. There has been good progress on the calculations and a significant number of letters have already been sent to members. They have not received any formal complaints which is a positive sign and have only received five queries from scheme members.

Mr Latham highlighted that low overall financial impact but stressed the key objective is to ensure that the scheme members are dealt with as positively as possible given the sensitivity of the issue. Mr Latham confirmed the project group have had ongoing contact with the Pensions Regulator who seems satisfied with the resolution. Mr Latham expects it to take until the end of February to complete the majority of the calculations and communications, with a small number of complex cases probably taking to the end of March. They have a call with the Pensions Regulator on 6th March and are hoping to close off the case with the TPR at that point.

Mr Latham noted a fix has been added to the payroll software which is currently being tested and they are continuing to work with the Council's payroll team on this.

Mr Everett commented that he appreciates all the work that has been completed so far and noted that the unions have been very helpful in helping the process and communication with the members.

Mrs McWilliam highlighted the latest information to the Committee. She confirmed that there are only 52 cases left to be calculated and that approximately 1,200 cases have been

completed so far. They are now at the checking phase so that communications can be issued where required. She confirmed that the largest gross reduction to an annual pension was £99 per annum .

The Chairman thanked the team involved in this major project as it is on top of their day to day job. The Chairman noted the clear excellent progress has been made since the last update and that he was comforted by the fact that no complaints have been received.

**RESOLVED:**

- (a) That the Committee noted this report.

55. **APPOINTMENT OF AN ACTUARIAL AND BENEFITS PROVIDER**

Mr Middleman, Mr Harkin, Mr Buckland, Mrs McWilliam and Miss Gemmell left the Committee room on this item of the agenda.

Mrs Fielder presented the report and discussed the process followed for the procurement of an Actuarial and Benefits provider for the Pension Fund. This included the scoring criteria and final scores for the tenders received.

**RESOLVED:**

- (a) Based on the scoring set out in the report, the Committee agreed to reappoint Mercer to undertake the role of actuary and benefit consultant to the Clwyd Pension Fund for the period 1 April 2019 to 31 March 2025 (with the option to extend for a further 12 months to 31 March 2026).

The Chairman thanked everyone for their attendance and updates at the Committee meeting and noted that the next Committee meeting is on 20<sup>th</sup> March. The meeting finished at 12:45pm.

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**Chairman**

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## CLWYD PENSION FUND COMMITTEE

<b>Date of Meeting</b>	Wednesday, 20 March 2019
<b>Report Subject</b>	Administration Training
<b>Report Author</b>	Principal Pensions Officers

### EXECUTIVE SUMMARY

The purpose of this report is to introduce the administration training that will be carried out at the Committee meeting.

### RECOMMENDATIONS

1	That the Committee note this report, note the contents of the CIPFA guidance and participate in the training session at the meeting.
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## REPORT DETAILS

1.00	CURRENT ISSUE
1.01	<p><b>Background</b></p> <p>Several administration and communication matters are included in the responsibilities of the Committee including:</p> <ul style="list-style-type: none"><li>a) Ensuring the Clwyd Pension Fund is managed and pension payments are made in compliance with the extant Local Government Pension Scheme Regulations, Her Majesty's Revenue &amp; Customs requirements for UK registered pension schemes and all other relevant statutory provisions.</li><li>b) Determining the Pension Fund's aims and objectives, strategies, statutory compliance statements, policies and procedures for the overall management of the Fund, including in relation to the following areas:<ul style="list-style-type: none"><li>i) Administration Strategy – approving the Fund's Administration Strategy determining how the Council will administer the Fund including collecting payments due, calculating and paying benefits, gathering information from and providing information to scheme members and employers.</li><li>ii) Communications Strategy – approving the Fund's Communication Strategy, determining the methods of communications with the various stakeholders including scheme members and employers.</li></ul></li><li>c) Monitoring the implementation of these policies and strategies on an ongoing basis.</li></ul>
1.02	<p>The Pension Board also has key responsibilities relating to administration and communication matters, as it has been established to assist the Administering Authority with:</p> <ul style="list-style-type: none"><li>• securing compliance with the LGPS Regulations and any other legislation relating to the governance and administration of the Scheme, and requirements imposed in relation to the LGPS by the Pensions Regulator</li><li>• ensuring the effective and efficient governance and administration of the Pension Fund.</li></ul>
1.03	<p>It is therefore critical that all Pension Fund Committee and Pension Board members have a reasonable understanding of what the scheme benefits are and how these are being administered. This is emphasized in the Fund's Training Policy which states:</p> <p><i>"In relation to knowledge and skills of those managing the Fund, our objectives are to:</i></p> <ul style="list-style-type: none"><li>• <i>Ensure that the Clwyd Pension Fund is appropriately managed and that its services are delivered by people who have the requisite knowledge and expertise, and that this knowledge and expertise is maintained within the continually changing Local Government Pension Scheme and wider pensions landscape.</i></li></ul>

	<ul style="list-style-type: none"> <li>• <i>Those persons responsible for governing the Clwyd Pension Fund have sufficient expertise to be able to evaluate and challenge the advice they receive, ensure their decisions are robust and well based, and manage any potential conflicts of interest.</i></li> </ul> <p><i>All Pension Fund Committee members, Pension Board members and senior officers to whom this Policy applies are expected to continually demonstrate their own personal commitment to training and to ensuring that these objectives are met."</i></p>
1.04	<p><b>Administration Training</b></p> <p>Training will be provided at the Committee by some of the Fund's Principal Pensions Officers. This will cover three main areas as outlined below and which will provide Committee and Board members with:</p> <ul style="list-style-type: none"> <li>• an appreciation of what benefits scheme members can receive</li> <li>• how some of the pension administration team training is carried out, and</li> <li>• an understanding of how the Committee and Board should oversee the administration of the Fund.</li> </ul>
1.05	<p><i>Scheme Benefits</i></p> <p>This session will provide Committee and Board members with an overview of the scheme benefits, including who can join the scheme and the cost to scheme members. It is the same training that is provided to scheme members at regular workshops to help them understand the benefits of being in the LGPS.</p>
1.06	<p><i>Interactive Training</i></p> <p>Over tea and coffee, Committee and Board members will work through an on-line training module on the Altair administration system. There are a number of on-line modules and these are used by the pension's administration team as part of their ongoing training.</p>
1.07	<p><i>Oversight of administration by the Committee and Board</i></p> <p><i>This session will focus on the Fund's administration aims and objectives, how administration is delivered and explaining the information that is provided to the Committee and Board.</i></p> <ul style="list-style-type: none"> <li>• <i>How the administration is delivered</i></li> <li>• <i>The role of the Committee and Board in overseeing the delivery of administration</i></li> <li>• <i>The Fund's administration strategies and objectives</i></li> <li>• <i>How these are monitored, and what other information you should expect to see.</i></li> </ul>
1.08	<p><i>CIPFA has recently published guidance to assist Committee members, Board members and senior officers in their role in overseeing the administration of LGPS funds. A copy of the guidance is attached and all members are asked to note the contents of the guidance.</i></p>

<b>2.00</b>	<b>RESOURCE IMPLICATIONS</b>
2.01	The complexity and frequent changes of administration continues to put resource pressures on LGPS funds. The team has recently been subject to some changes and new roles which are currently being recruited to and trained.

<b>3.00</b>	<b>CONSULTATIONS REQUIRED / CARRIED OUT</b>
3.01	None.

<b>4.00</b>	<b>RISK MANAGEMENT</b>
4.01	<p>The current highest scored risks relating to administration are:</p> <ul style="list-style-type: none"> <li>• Employers not understanding or meeting their responsibilities which could lead to us being unable to meet our legal or performance expectations, and</li> <li>• Poorly trained or insufficient staff numbers which could lead to us being unable to meet our legal or performance expectations – this will remain a risk while recruitment continues and new team members undergo training.</li> </ul>

<b>5.00</b>	<b>APPENDICES</b>
5.01	CIPFA – Administration in the LGPS

<b>6.00</b>	<b>LIST OF ACCESSIBLE BACKGROUND DOCUMENTS</b>
6.01	<p>No background information.</p> <p><b>Contact Officer:</b> Kerry Robinson, Principal Pension Officer  <b>Telephone:</b> 01352 702814  <b>E-mail:</b> kerry.robinson@flintshire.gov.uk</p>

<b>7.00</b>	<b>GLOSSARY OF TERMS</b>
7.01	<p>(a) <b>The Fund – Clwyd Pension Fund</b> – The Pension Fund managed by Flintshire County Council for local authority employees in the region and employees of other employers with links to local government in the region</p> <p>(b) <b>Administering Authority or Scheme Manager</b> – Flintshire County Council is the administering authority and scheme manager for the Clwyd Pension Fund, which means it is responsible for the</p>

management and stewardship of the Fund.

- (c) **The Committee – Clwyd Pension Fund Committee** - the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund
- (d) **LGPS – Local Government Pension Scheme** – the national scheme, which Clwyd Pension Fund is part of
- (e) **CARE – Career Average Revalued Earnings** – With effect from 1 April 2014, benefits accrued by members in the LGPS take the form of CARE benefits. Every year members will accrue a pension benefit equivalent to 1/49<sup>th</sup> of their pensionable pay in that year. Each annual pension accrued receives inflationary increases (in line with the annual change in the Consumer Prices Index) over the period to retirement.
- (f) **APP – Assumed Pensionable Pay** - where a scheme member has had a period of reduced or no pay child related leave, or reduced or no pay sick leave, then (in simple terms) a notional pay figure is used for CARE pay which is a higher amount than the actual pay received. This is called "assumed pensionable pay" or "APP".

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# administration in the LGPS

A guide for pensions authorities



## **About CIPFA**

CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. Our members and trainees work throughout the public services, in national audit agencies, in major accountancy firms, and in other bodies where public money needs to be effectively and efficiently managed.

## **About Aon**

Aon plc is a leading global professional services firm providing a broad range of risk, retirement and health solutions. Its 50,000 colleagues in 120 countries empower results for clients by using proprietary data and analytics to deliver insights that reduce volatility and improve performance.

Aon's public sector retirement team specialise in providing advice in relation to the Local Government Pension Scheme (LGPS), police and fire schemes and the public services schemes of offshore Governments. They also advise employers in relation to public service pension schemes including the Police and Fire schemes, LGPS, the NHS Pension Scheme, the Teachers' Pension Scheme and the Principal Civil Service Pension Scheme (PCSPS).



# \ foreword

For many years the Local Government Pension Scheme (LGPS) was relatively simple with benefits based on a final salary and the number of years an individual was a member. Changes in accrual rates, changes in taxation and the move to a scheme based on career average earnings have led to a significant increase in the complexity of the scheme. Recruiting experienced pension people has proved an added difficulty resulting in our pension administrators being placed under increasing pressure. While the management of pension fund assets and the introduction of investment pools are critically important, it often means that pensions administration does not get the attention or resources it deserves. However the LGPS only exists to administer and pay benefits to its scheme members. The member experience is paramount. The purpose of this insight is to raise the profile and awareness of the pensions administration function.

Within the public sector environment there is also continuous pressure to drive down costs and the administering authorities of local government pension funds have not been able to avoid this pressure. While there is much good practice within the LGPS, the CIPFA Pension Panel has become increasingly concerned that in some instances the pensions administration function may not be operating as effectively as it should be. The guide is timely given the increasing focus by the Pensions Regulator on the need to deliver effective and efficient administration.

This insight has been written to assist senior officers, committee and board members to better understand how they can oversee the delivery and quality of administration and communications within their administering authorities, with a view to identifying where improvements may be needed.

I welcome this insight as a key piece of the LGPS jigsaw. It has been developed by Aon and supported by Neil Sellstrom (CIPFA Pensions Technical Manager) on behalf of the CIPFA Pensions Panel.

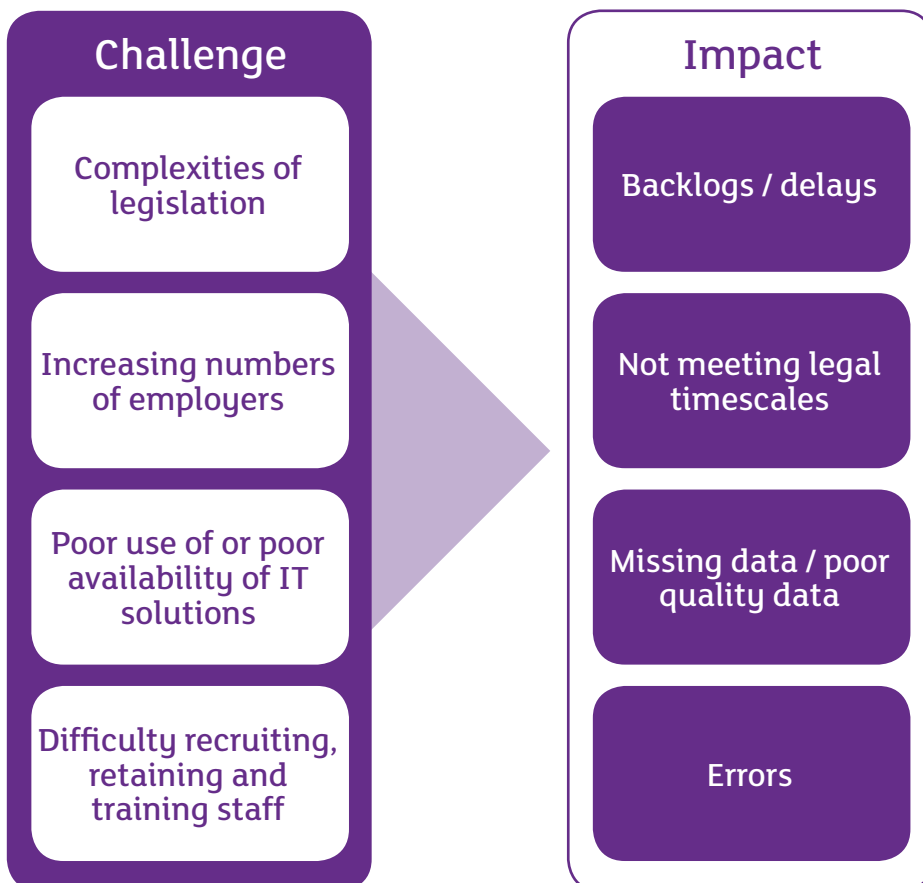
The Panel would like to thank Karen McWilliam, Catherine Pearce, Craig Payne and other colleagues at Aon for their contributions to the guidance.

**Mike Ellsmore**  
Chair, CIPFA Pensions Panel

# what are the challenges?

## What are the administration and communication challenges?

Administration teams have been faced with some major challenges in recent years. We have seen evidence from some LGPS administering authorities that the amount of 'tasks' having to be dealt with has doubled in the last two or three years. Given these challenges, it should not be a surprise that most administering authorities are experiencing some of the areas of impact highlighted below (and this is by no means an exhaustive list).



Source: Aon

## What is your role?

Each administering authority has a legal responsibility to maintain and manage their LGPS fund. This role is referred to as the scheme manager in the Public Service Pensions Act 2013. Although these legal responsibilities lie with the organisation as a whole, they are usually delegated to committees, sub-committees and/or senior officers. The local pension board has a legal responsibility to “assist the scheme manager” in securing compliance with its obligations and so is expected to work closely with those who are managing the LGPS fund ensuring that those responsibilities are met. A key part of this role is also ensuring that the Pension Regulator’s requirements are met, many of which are focused on efficient and effective administration.

Consequently, senior officers and committee and board members have a collective responsibility for the proper governance of the fund, including administration and communications matters. Key steps in dealing with these administration challenges should include:

- ensuring you have **administration and communications strategies** in place and that they are regularly reviewed, providing clarity on the fund’s aims and objectives including how these will be monitored
- **engaging** with your administration team. Encourage **transparency** and be supportive
- **identifying the current challenges** your administration teams are faced with – for example backlogs, data gaps, poor satisfaction scores or lack of time/resources to develop efficiencies and improvements
- **developing a plan** with clear actions and timescales to overcome the current challenges. This should be part of the fund’s business plan and is likely to involve some or all of the following: reviewing priorities, increasing resource, implementing new systems or procedures and outsourcing some or all of the rectification
- getting regular updates showing **progress against the action plan** to ensure your remedial work is delivering as expected
- ensuring you are provided with information on a regular basis, and you are **monitoring** against your fund’s aims and objectives as well as the legal requirements. This will mean you can more quickly identify issues as they arise, as well as seeing where performance is strong. Suggestions of what you should monitor are included in this document.

You should accept that there is no silver bullet. Existing backlogs and data problems could take many months or even years to resolve, particularly where recruitment and training are required.

But it is critical that a clear plan of action is in place with targets, timescales and resources clearly identified.

# foundations and monitoring

## Strong foundations – strategies and business planning

The fund's administration and communication strategies are critical to setting the aims and objectives that the administration teams need to focus on. The administration strategy should clarify how administration will be delivered as well as confirming the responsibilities of the various stakeholders, and particularly the employers of the fund. The communications strategy should confirm how you will communicate with the key stakeholders, as well as clarifying how much focus will be put on areas such as electronic communications. The strategies should explain how the aims and objectives will be measured on an ongoing basis. You should ensure both strategies are regularly reviewed and that achievement of the aims and objectives are regularly monitored.

The next part of the jigsaw is the fund's business plan. This should be agreed at least annually and it will set out the key steps to delivering the administration and communications strategies (as well as the other strategies of the fund) together with the associated budget. This should confirm the key projects and tasks for the administration teams in the forthcoming year or longer, including any system or process changes that may be required to meet the fund's strategies and any changes or projects required as a result of national initiatives or regulatory changes. The business plan provides direction for the administration team, so they know the areas of focus for the forthcoming period.

## Regular monitoring – what should you be looking for?

The world of administration is complicated and therefore you should be receiving regular monitoring updates to help you identify if things aren't going as planned. Here are some key areas we recommend that you ensure you receive as a minimum. The level of detail provided might vary depending on whether the information is being considered by a pension committee, a local pension board or senior officers. For example, the pension committee may wish to receive something with less detail, albeit they should still be made aware of areas of concern.

## 1. Are legal deadlines being met?

There are many legal timescales that the administration team should be meeting. There is no flexibility in these timescales and the administering authority should be doing everything it can to meet them. It may be impractical to expect reporting against all the legal timescales, but some of the key ones are illustrated below with sample data which shows the specific process, the legal timescale and the performance in the month. The data should be supplied with some context eg reasons why the legal timescale has not been met and what is being done to improve the position. This information may highlight breach situations (see 4.).

Process	Legal requirement	Total number completed	% achieved in legal deadline
		April 2018	
Send a notification of joining the LGPS to a scheme member.	Two months from date of joining the scheme), or if earlier within one month of receiving jobholder information where the individual is being automatically enrolled/re-enrolled.	256	99%
Inform a member who left the scheme of their leaver rights and options.	As soon as practicable and no more than two months from date of initial notification (from employer or from scheme member).	49	99%
Obtain transfer details for transfer in, and calculate and provide quotation to member.	Two months from the date of request.	18	95%
Provide details of transfer value for transfer out, on request.	Three months from date of request (CETV estimate).	25	100%
Notify the amount of retirement benefits.	One month from date of retirement if on or after normal pension age or two months from date of retirement if before normal pension age.	40	97%
Provide a retirement quotation on request.	As soon as is practicable, but no more than two months from date of request unless there has already been a request in the last 12 months.	33	97%
Calculate and notify dependant(s) of amount of death benefits	As soon as possible but in any event no more than two months from date of becoming aware of death, or from date of request by a third party (eg personal representative).	9	100%
Provide all active and deferred members with an Annual Benefit Statement	By 31 August each year.	12358	96%

## 2. Is the administration team meeting the fund’s agreed internal target timescales?

The majority of existing timescale monitoring that we see falls within this category. This relates to the internal timescales for work carried out by the administration team, usually focusing on the period from when all data is received (for example, from the employer or scheme member) to when the administration team complete that task. It is good practice to have specific timescales and targets for specific processes carried out by the administration team.

A range of target timescales should be determined by each administering authority and it is good practice for them to be included, or at least referred to, in a fund administration strategy. The following data illustrates some key processes, sample fund targets and performance within a month. Again, the data should be accompanied by some explanation where targets are not met.

Process	Administration team target	Target %	Total number completed	% achieved in admin team deadline
			April 2018	
Send a notification of joining the LGPS to a scheme member.	15 working days from receipt of all information	90%	256	97%
Inform a member who left the scheme of their calculated benefits (refund or deferred).	15 working days from receipt of all information	90%	49	99%
Obtain transfer details for transfer in, and calculate and provide quotation to member.	20 working days from receipt of all information	90%	18	92%
Provide details of transfer value for transfer out, on request.	20 working days from receipt of all information	90%	25	100%
Notify a member of final amount of retirement benefits (post commutation).	Five working days from receipt of all information	95%	40	95%
Providing a retirement quotation on request.	10 working days from receipt of all information	90%	33	96%
Calculate and notify dependant(s) of amount of death benefits.	Five working days from receipt of all information	95%	9	98%

### 3. Are total turnaround times being met?

Looking at the data in 1 and 2 above alone does not necessarily provide you with a true indication of what your scheme members' experiences are. For example, how long are scheme members waiting to receive the calculation of their deferred benefits if they resign? Even where the legal timescales cover the member experience, you may wish to set shorter timescales or other targets for specific processes carried out for your fund. Again, these should be included or referred to within the fund's Administration Strategy. The following data illustrates some key processes, sample fund targets and performance within a month:

Process	Overall process target	Target %	Total number completed	% achieved in overall process target
		April 2018		
Send a notification of joining the LGPS to a scheme member.	30 working days from date of joining	90%	256	96%
Inform a member who left the scheme of their calculated benefits (refund or deferred).	40 working days from date of leaving	90%	49	97%
Obtain transfer details for transfer in, and calculate and provide quotation to member.	40 working days from date of member's initial request	90%	18	94%
Provide details of transfer value for transfer out, on request.	40 working days from date of request	90%	25	100%
Notify a member of final amount of retirement benefits	20 working days from date of retirement	95%	40	91%
Providing a retirement quotation on request.	15 working days from date of request	90%	33	93%
Calculate and notify dependant(s) of amount of death benefits.	20 working days from date of death	95%	9	96%

## 4. Breaches and errors

Whenever an administering authority fails to do something it is required to do by law, it is good practice that it should be included in the fund's 'breaches of the law' register, regardless of whether the breach should be reported to the Pensions Regulator. This register should include the more commonly recorded breaches such as employers failing to pay contributions to the fund (either on time or incorrect amounts) and not issuing all annual benefit statements.

It should also include cases where a legal timescale is not met (some of which will be included in 1. above, but others could apply including HMRC deadlines such as pension savings statements) and other situations such as a result of incorrect benefit calculations. It is worth extending the reporting to include other errors and omissions, for example as identified through internal dispute resolution procedures (IDRPs), as these can highlight quality issues or a specific area of concern that needs to be resolved.

### **The Pension Regulator's requirements in relation to breaches of the law**

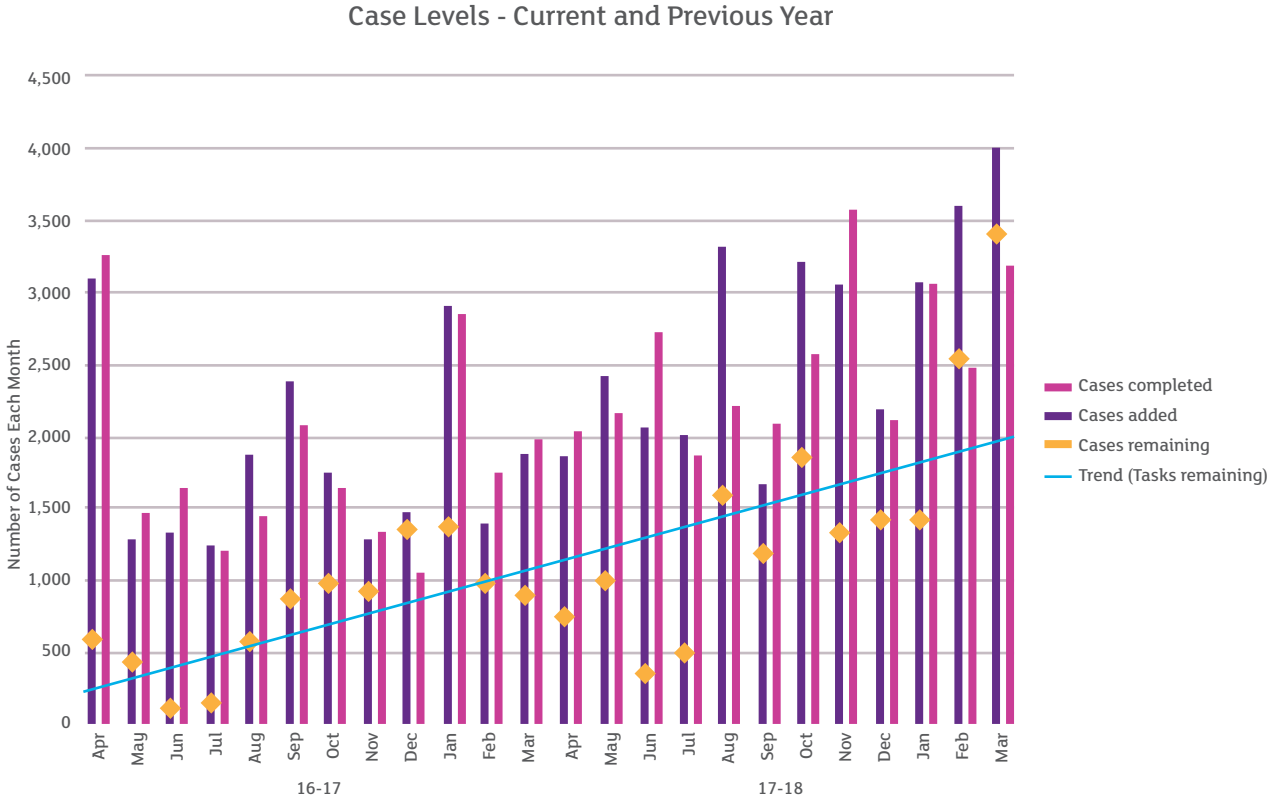
The Pension Regulator's Code of Practice 14 relating to the governance and administration of public service pension schemes places a lot of focus on the requirements to manage breaches of the law. In this regard a breach of the law relates to a legal duty relevant to the administration of the scheme under the Pensions Act 2004 which is not being complied with. This Regulator's Code of Practice reminds us that we should:

- have appropriate processes in place to consider whether a breach of the law is materially significant to the Pensions Regulator and therefore should be reported to it (which is a statutory requirement)
- have a system to record breaches even if they are not reported to the Pension Regulator.



## 5. What new tasks are coming in, how many are being completed and how many are outstanding?

The information you will receive in relation to measures 1, 2, and 3, above focus on the tasks and processes the administration team are completing. What they don't show are the cases that are still waiting to be processed; nor do they highlight the amount of work being received by the team. It is therefore important to monitor these two further areas by comparing them with the number of cases being completed each month. It is particularly important to understand any trends over time and whether there are any explanations so you can assess the likelihood of the situation continuing. One example of how this information can be reported is shown below.



Source: Aon

## 6. What do scheme members and employers think?

Most administering authorities will have administration and communications strategies with specific objectives that can best be measured by customer feedback – relating to both scheme members and employers. It is important for administering authorities to gather and consider feedback on a regular basis (at least annually, if not ongoing).

One sample of scheme member feedback against fund objectives is shown below. In this example, the fund has an objective of 80% of responses being ‘agree’ or ‘strongly agree’.

Scheme member survey		Strongly disagree	Disagree	Agree	Strongly agree	>Agree
Admin	...offers documentation, guidance and information in a professional manner?	8.7%	4.3%	52.2%	34.8%	87.0%
	...is proactive in their approach to provide a service to members?	8.7%	8.7%	52.2%	30.4%	82.6%
	...gives an appropriately timed service with regular updates?	13.0%	8.7%	60.9%	17.4%	78.3%
	...is customer focused and meets the needs of its members	8.7%	4.3%	60.9%	26.1%	87.0%
	...has provided a high quality service throughout your membership?	8.7%	8.7%	43.5%	39.1%	82.6%
Comms	...promotes the scheme as a valuable benefit and provides sufficient information so you can make informed decisions about your benefits?	15.4%	7.7%	46.2%	30.8%	76.9%
	...communicate in a clear and concise manner?	15.4%	7.7%	46.2%	30.8%	76.9%
	...use the most appropriate means of communication?	7.7%	15.4%	38.5%	38.5%	76.9%
954 surveys issues / 132 returned (13.8%)						

Source: Aon

## 7. What other data issues are there?

The Pensions Regulator is putting a lot of focus on data issues in 2018 and expects all public service pension scheme administrators to have improvement plans in place including [facilities to measure common data and scheme specific data](#).

The Scheme Advisory Board will be developing a template for LGPS scheme specific data that all administering authorities will be expected to report on from 2019, in addition to common data. In the interim, all administering authorities should have developed their own approach to scoring of the quality of their scheme specific data. Senior officers, committee and board members should ensure they regularly see the fund’s data improvement plan which should highlight all data issues and the plan of action to rectify them where appropriate, together with progress against that plan.

## 8. What other objectives and aims are in your strategies? Are you receiving reporting to identify if they are being achieved?

All administering authorities must, by law, have a communications policy in place and it is also best practice to have an administration strategy in place. Within both of these, you should have a number of aims and objectives. It is important that any aims or objectives you have are being appropriately measured and monitored. You should review those aims and objectives against the monitoring information that you receive from the administration team to ensure that is the case, and ensure that a plan is put in place where objectives are not being met.

## 9. Are employers meeting their requirements?

Many of the requirements imposed on administering authorities are only achievable if the scheme employers do their part of the process correctly and on time. Administering authorities should set out to their employers what they are required to do and when, and this is commonly included in the administration strategy. The strategy will usually also set out the fund's policy on recharging costs to those employers who cause additional work for the administering authority by sending incorrect or late data.

It is therefore important to monitor the performance of employers against the requirements set out in the strategy and you should ensure that you receive information about this monitoring and include in your action plan where an employer is not meeting requirements. This can be presented in various ways and some of it may be implicit in the reporting elements outlined previously.

## 10. Is the administration team delivering on the priorities on the business plan?

Finally, every year the pension committee should be asked to approve a business plan outlining the key priorities for the forthcoming period – best practice would be a rolling plan covering at least three years, updated on an annual basis. This should include administration and communications elements, such as:

- review of processes due to changes in legislation
- implementing new systems
- procurement of suppliers
- any other known projects (a recent example is GMP reconciliation)
- any projects to clear backlogs or other issues identified.

As a matter of course, you should receive regular information showing whether these priorities are being delivered to the planned timetable and to budget.

## What if administration is outsourced or delivered through a shared-service arrangement?

Whether your administration service is delivered internally (within the administering authority), outsourced to a private sector contractor or provided through a shared-service arrangement, the responsibility for the proper governance of the fund, including administration and communications matters, still lies with the administering authority. Accordingly, you would expect all of the points highlighted above to equally be included in reporting from any external provider or shared service partner of your administration services. A close working relationship is fundamental to ensuring that your administration provider is able to continually meet legal and other requirements, particularly given you will have no or little direct control over the resources available to deliver your administration services.

It will be extremely important to ensure that the information to be included in reporting, and the level of detail expected, is clearly set out when carrying out any tender or appointment process. This should ensure full details of all fund specific service standards or other targets (albeit noting that these may move during the period of the contract). This should also set out expectations in relation to rectification where an administration provider is failing to meet requirements.

# \ conclusion

Administering authorities should ensure they understand the administration challenges they face and meet their fiduciary responsibilities to their scheme members, as well as working with their employers to ensure they also understand and meet their responsibilities. The level of scrutiny on LGPS funds has never been higher, both from internal sources such as local pension boards but particularly from external sources such as the Pensions Regulator, the Pensions Ombudsman and the national press.

It is therefore essential that administering authorities and their fund employers have the necessary capacity to meet these challenges, otherwise there is a significant risk of censure and the subsequent reputational damage at local and national level and, more concerning, of scheme members not receiving accurate benefits paid on time. The period of time required to recruit and train staff should not be underestimated. It is hoped that this guidance informs authorities with a view to ensuring robust governance arrangements are in place in relation to administration and communications on an ongoing basis.



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## CLWYD PENSION FUND COMMITTEE

<b>Date of Meeting</b>	Wednesday, 20 March 2019
<b>Report Subject</b>	Responsible Investment Training
<b>Report Author</b>	Clwyd Pension Fund Manager

### EXECUTIVE SUMMARY

In recent years Responsible Investment (RI) has moved into the mainstream, and investors are now seriously considering the Environmental, Social and Governance (ESG) risks associated with investments as a matter of course. The Clwyd Pension Fund has long held beliefs as a Responsible Investor and these together with the Fund's Sustainability Policy are reported within the Investment Strategy Statement (ISS).

It is important to review the Fund's beliefs and refresh the policies on a regular basis, and the Business Plan for 2019 flags a review is due.

In addition the Fund has started the process of pooling its assets with the other seven Welsh Funds and as part of this process it is important that the Fund's RI approach is maintained. The Pool is looking to develop an overarching RI policy for all underlying investors and it is important for the Clwyd Fund to give strong input into this development.

The training session will be split into three defined areas, with the aim of informing the Committee members of the latest thinking in the RI area. How the Fund is currently addressing this, and also how the Welsh Pension Partnership's thinking is developing in this area.

The presentations will be split into three:

1. Why consider ESG factors and how to implement it?
2. The current RI policy and approach in the Clwyd Pension Fund
3. Responsible investing in a pooling environment.

### RECOMMENDATIONS

1	To note and comment on the presentations.
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## REPORT DETAILS

1.00	RESPONSIBLE INVESTMENT TRAINING
1.01	<p>The training session will be split into three sections:</p> <ol style="list-style-type: none"><li>1. The sessions are designed to update attendees on the Clwyd Pension Fund's current Responsible Investment (RI) Policy and consider other opportunities to develop the Policy including as part of the Wales Pension Partnership. Why consider Environmental, Social and Governance (ESG) factors and how to implement it?<ul style="list-style-type: none"><li>▪ How material is ESG?</li><li>▪ Risk, Return, Reputation examples</li><li>▪ Stakeholders and reputation drivers</li><li>▪ Regulation</li><li>▪ Framework for integrating Sustainable Growth into business as usual</li><li>▪ RI approaches</li></ul><p><b>Hill Gaston, Mercers</b></p></li><li>2. The current Responsible Investment policy and approach in Clwyd Pension Fund<ul style="list-style-type: none"><li>▪ The current Clwyd Pension Fund RI policy</li><li>▪ How ESG is integrated into the Fund's investments</li><li>▪ The CPF responsible investment social impact approach in Private Markets</li></ul><p><b>Debbie Fielder, Deputy Head of Fund and Nick Buckland, JLT</b></p></li><li>3. Responsible Investment in a pooling environment<ul style="list-style-type: none"><li>▪ The role of the Pool<ul style="list-style-type: none"><li>- What the Pool should, and shouldn't do; where are the boundaries for the Pool</li><li>- Understanding stakeholder requirements; what are the needs and wants of different funds?</li><li>- Overcoming barriers – practical considerations, meeting differing requirements</li></ul></li><li>▪ Developing RI policy<ul style="list-style-type: none"><li>- Areas of common ground</li><li>- Ambitions, Beliefs &amp; Principles – how is the Pool positioned</li><li>- Current position/draft policy</li></ul></li><li>▪ Next steps<ul style="list-style-type: none"><li>- Working with others – steps to implement policy; influencing the Pool; longer term ambitions</li></ul></li></ul><p><b>Simon Jones, Hymans Robertson</b></p></li></ol>



<b>2.00</b>	<b>RESOURCE IMPLICATIONS</b>
2.01	None directly as a result of this report.

<b>3.00</b>	<b>CONSULTATIONS REQUIRED / CARRIED OUT</b>
3.01	None directly as a result of this report.

<b>4.00</b>	<b>RISK MANAGEMENT</b>
4.01	It is now commonly accepted that ESG risks and the consideration of such should be embedded with consideration of any investment. The CPF has an RI policy, and it is appropriate to review and refresh on a regular basis. The training session will give the Committee and opportunity to hear the latest thinking and understand the risks and benefits form considering ESG factors.

<b>5.00</b>	<b>APPENDICES</b>
5.01	None – Presentations will be issued on the day.

<b>6.00</b>	<b>LIST OF ACCESSIBLE BACKGROUND DOCUMENTS</b>
6.01	<p>CPF’s Investment Strategy Statement including the approach to RI and Sustainability.</p> <p><b>Contact Officer:</b> Philip Latham, Clwyd Pension Fund Manager  <b>Telephone:</b> 01352 702264  <b>E-mail:</b> <a href="mailto:philip.latham@flintshire.gov.uk">philip.latham@flintshire.gov.uk</a></p>

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## CLWYD PENSION FUND COMMITTEE

<b>Date of Meeting</b>	Wednesday, 20 March 2019
<b>Report Subject</b>	Employer CARE pay issue
<b>Report Author</b>	Clwyd Pension Fund Manager

### EXECUTIVE SUMMARY

The purpose of this report is to provide an update on the issue relating to the incorrect CARE pay for LGPS members who are currently working, or previously worked for, Flintshire County Council, which was first highlighted to the Committee at the June 2018 meeting. The report considers:

- The progress that is now being made on recalculating benefits for the affected members
- The progress made with issuing communications to scheme members and the impact this has had
- The ongoing resource impact on the Administration Section and how this is being managed
- The latest information on the impact this will have, both financial and in relation to the number of members affected
- Contact we have had from the Pensions Regulator regarding this matter.

### RECOMMENDATIONS

1	That the Committee note this report.
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## REPORT DETAILS

1.00	CURRENT ISSUE
1.01	<p><b>Background</b></p> <p>As first reported at the June 2018 Committee meeting, an error has been identified relating to information provided by Flintshire County Council (FCC) via their payroll system, iTrent. For confidentiality purposes, this project is now being referred to as Project Apple.</p>
1.02	<p>One of the individual items of information that is provided by employers to the CPF Administration Section is the CARE pay for scheme members. This figure is used to calculate the scheme member's accrued pension for each year that they are in the scheme. Usually this is just the scheme member's pay for the year, but where a scheme member has had a period of reduced pay child related leave, or reduced or no pay sick leave, then (in simple terms) a notional pay figure is used for CARE pay which is a higher amount than the actual pay received. This is called "assumed pensionable pay" or "APP". Each employer is responsible for notifying the CPF Administration Section of APP for its scheme members.</p>
1.03	<p>Unfortunately the Employer Liaison Team discovered that the APP figure being extracted from FCC's iTrent payroll system is incorrect for some members. In some cases the APP has being overstated and in other cases the APP has been understated. In many cases the APP has been incorrectly generated and included where there was no drop in pay. It appears that the issue has affected APP since the new CARE scheme was introduced from 1 April 2014.</p>
1.04	<p>Several individuals from the Clwyd Pension Fund team and the FCC Payroll team are working together to investigate and resolve this issue and the Chief Executive is also receiving regular briefings. There are two key stages that need to be considered:</p> <ul style="list-style-type: none"><li>• the need to ensure that the issue is corrected on iTrent going forward – this is a matter for FCC as the employer to resolve</li><li>• identifying and correcting the benefits in relation to scheme members that have been affected up to the point the issue is corrected on iTrent</li></ul>
1.05	<p>As highlighted at previous Committees a set of principles was developed which outlining key matters in relation to how this error is to be resolved. Key points include:</p> <ul style="list-style-type: none"><li>• FCC (as the employer) will calculate the correct APP figure for these cases using a notional pay figure (effectively an estimate of what the member would have received if they had not been absent).</li><li>• Given the options in relation to how APP can be calculated, a tolerance level of the smaller of £1,000 or 2.5% (of the original figure used in the pension scheme benefit calculation) will be adopted to determine which cases are incorrect. Where the difference is greater than the tolerance, the benefit will be rectified.</li><li>• No overpayments of pension, lump sum retirement grant, trivial commutation, transfer value or death grant will be reclaimed.</li></ul>

	<ul style="list-style-type: none"> <li>• An overstated pension amount will be reduced to the correct level but the member will be given advanced notice, so it will not apply until the following month's pension payment.</li> <li>• All understated pension or other payments will be recalculated and the correct amount put into payment. Balances of underpayments to that point will be paid including interest (which is a requirement of the LGPS regulations).</li> <li>• FCC (the employer) will pay the costs relating to the Employer Liaison Team doing the rectification work, the balance of any underpaid pensions or other benefits (including interest), all written off overpayments that are not being reclaimed, any HMRC charges and any compensation payments for distress or maladministration. All of these costs, other than compensation payments, will be recharged via the employer contribution rate.</li> <li>• Decisions in relation to this project that require to be made by FCC in its role as employer will be made by Colin Everett (FCC Chief Executive), delegated as appropriate to Sharon Carney (Senior Manager, Human Resources and Organisational Development).</li> </ul> <p>The Committee agreed at a previous meeting that decisions in relation to the Clwyd Pension Fund will be made by Phil Latham, the Clwyd Pension Fund Manager.</p>
1.06	<p><b>Progress and Likely Impact</b></p> <p>The process to investigate and rectify these cases involves calculations that fall into two stages:</p> <ol style="list-style-type: none"> <li>1. Recalculating the APP figure to determine if the case was incorrect in the first place</li> <li>2. Where the case was incorrect, then calculating the impact on the member's total pension benefits and communicating the changes to the scheme member.</li> </ol> <p>There have been a number of systems and processes that have been developed to ensure the work is carried out as efficiently as possible.</p>
1.07	<p>At the last meeting we notified that there were potential pays for investigating of 2,465 (up to end of January 2019), relating to 1,458 scheme members but that not all 2,465 pays/1,458 members will transpire to be incorrect. As the underlying issue with iTrent has not been rectified we are updating the master list of potential cases affected each month. The latest information, as of 12 March 2019, in relation to the cases affected is as follows:</p> <ul style="list-style-type: none"> <li>• There are 188 of the 1,458 members where the issue purely relates to APP in 2018/19 and which we expect to be resolved automatically when the iTrent fix is put in place (and so don't require manually recalculated as part of the project). That leaves 1,270 members that require manually recalculated and resolved where appropriate.</li> <li>• We have now carried out recalculations of APP in respect of 1,216 individuals. Not all of those cases have been checked but, subject to that, it would appear that 780 are incorrect and 436 are not affected.</li> <li>• This includes 125 pensioners, of which 58 are incorrect. 40 of these will be subject to a reduction in their pension with the remaining 18 receiving an increase in their pension. Some</li> </ul>

	<p>members have both a reduction and an increase which need to be applied because they relate to different posts or years. The largest reduction to annual pension for a member who is receiving their pension that we have currently identified is £115.08 per annum. However most pensioners have a reduction to their pension in payment of less than £25 per annum.</p> <ul style="list-style-type: none"> <li>• Due to the potentially affected cases having their 2018 annual benefit statements suppressed, the number of members given incorrect information is significantly lower than the actual numbers affected.</li> <li>• The remaining cases are mainly either complex cases that require additional investigation, or cases where the members have since left the Fund and so any communications will also include their final calculation of deferred benefit.</li> </ul> <p>Until all the cases have been worked through we cannot be precise about the actual number of members affected or the financial impact. However as at the point of writing, the net overall impact on pensions across all scheme members is -£24.5k per annum. A verbal update on the latest figures will be provided at the Committee.</p>
1.08	<p>As explained at previous meetings, template communications have been developed for all members who might be impacted by the error. Each member who is affected is being sent:</p> <ul style="list-style-type: none"> <li>• a covering letter from FCC as the employer addressed from Colin Everett (FCC Chief Executive) and Sharon Carney (Senior Manager, Human Resources and Organisational Development) – this provides a high-level summary of the issue</li> <li>• a more detailed letter from the CPF addressed from one of the senior Fund officers – this explains the actual impact on the scheme member's pension benefits and how this is then being rectified. For active and deferred members this includes their annual benefit statement as at 31 March 2018 which shows the corrected current estimate of their pension benefits.</li> </ul> <p>Over 800 scheme members have now been sent some form of communication; either notifying them of a change to their benefits or confirming their benefits have been checked and are correct. Where the scheme member was entitled to receive an annual benefit statements as at 31 March 2019, the statement is either being enclosed with the communication or the member is being directed to their annual benefit statement on member self-service. In addition, there are about 75 pensioner members, so far, who have not required any communication as their benefits calculated at retirement transpired to be correct.</p> <p>At the point of writing there has been no complaints received from any members. There has only been nine phone calls from affected members, all of which are just clarifying details relating to the change in their benefits. A verbal update will be provided at the Committee if this situation changes.</p>
1.09	<p>The other key aspect of this project is ensuring that the ongoing problem with iTrent is rectified. Flintshire County Council had originally hoped that a customised solution would be put in place. However, after some initial testing which highlighted some issues with the customised solution, the</p>

	<p>Council is now reconsidering its policy position. This may result in accepting the standard solution if it is determined that there are no legal issues with doing so and subject to ongoing testing to ensure the original issues have, in the main, been resolved. This decision is likely to be made prior to the end of March. If it is determined that the standard solution should be accepted, then this will mean the majority of cases in 2018/19 and future years will be automated to an acceptable position, with only a small number of cases requiring intervention.</p>
1.10	<p>The majority of the rectification work is being carried out by the CPF Administration Team, including the Employer Liaison Team, even though the issue has been created due to an employer error. Mercers have also been assisting with this work and are carrying out the recalculation of benefits for some scheme members. Aon are providing project management support as well as assisting in developing the initial processes.</p> <p>However, the additional work is continuing to have a major impact on internal resources, both within the CPF Employer Liaison Team and CPF Operations Team. Business as usual is being affected, and will continue to be affected, until the project is fully concluded. The current target completion date for this project is the end of March 2019 to allow for the remaining cases to be finalised and a satisfactory solution to the underlying iTrent to be put in place.</p>
1.11	<p><b>The Pensions Regulator Breach Report</b></p> <p>As mentioned in previous reports, the Clwyd Pension Fund Manager made a formal report to The Pensions Regulator on 10 July regarding this breach of the law by the Clwyd Pension Fund which referred to the incorrect calculation of benefits. Similarly, the FCC (as an employer) also reported a breach relating to their role in notifying incorrect CARE pay information. Since officers of CPF have been required to share project plan updates and Committee reports with The Pensions Regulator. There have also been four conference call updates with The Pensions Regulator. The latest, on 6 March 2019 involved the Clwyd Pension Fund Manager, Kerry Robinson (Principal Pensions Officer) and Karen McWilliam (Independent Adviser). As with the previous three calls, this appeared to go well and there were no required changes to the rectification plan as a result of that call. The Regulator will be confirming shortly whether he requires any further calls or communications with the Fund.</p> <p>It is worth reminding the Committee that The Regulator places full responsibility for ensuring this issue is rectified on the administering authority/scheme manager (i.e. CPF) even though the issue stems from an issue with FCC's payroll system (i.e. FCC in its employer role). It is therefore critical that the Pension Fund Team continues to work very closely with colleagues in FCC on this matter.</p>

<b>2.00</b>	<b>RESOURCE IMPLICATIONS</b>
2.01	The issue identified is resulting and will continue to result in a large amount of unexpected work for both the CPF Employer Liaison team and

	Operations Team, some of which is being outsourced to Mercer, the Fund's actuaries and benefit consultants.
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<b>3.00</b>	<b>CONSULTATIONS REQUIRED / CARRIED OUT</b>
3.01	None.

<b>4.00</b>	<b>RISK MANAGEMENT</b>
4.01	There are a number of risks relating to this project including: <ul style="list-style-type: none"> <li>• poor communication(s) with scheme members</li> <li>• delays in resolving the underlying issue impacting in ongoing incorrect scheme member records for active members, and the risk of members leaving who are impacted not being identified</li> <li>• resource implications, impacting other projects and business as usual</li> <li>• reputational risk for all parties concerned</li> </ul>
4.02	The Fund's risk register continues to highlight the risks of not being able to meet the legal and performance expectations including: <ul style="list-style-type: none"> <li>• due to employers not understanding or meeting their responsibilities. This has now been updated to reflect additional training that will be given to all employers on calculation of APP</li> <li>• due to insufficient staff, which incorporates the impact on resources of this project</li> </ul>

<b>5.00</b>	<b>APPENDICES</b>
5.01	None.

<b>6.00</b>	<b>LIST OF ACCESSIBLE BACKGROUND DOCUMENTS</b>
6.01	Agreed Principles for Rectification and Treatment of Scheme Members – available on request from Clwyd Pension Fund Manager. <p><b>Contact Officer:</b> Philip Latham, Clwyd Pension Fund Manager  <b>Telephone:</b> 01352 702264  <b>E-mail:</b> philip.latham@flintshire.gov.uk</p>

<b>7.00</b>	<b>GLOSSARY OF TERMS</b>
7.01	(a) <b>The Fund – Clwyd Pension Fund</b> – The Pension Fund managed by Flintshire County Council for local authority employees in the region and employees of other employers with links to local government in the region



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| <p>(b) <b>Administering Authority or Scheme Manager</b> – Flintshire County Council is the administering authority and scheme manager for the Clwyd Pension Fund, which means it is responsible for the management and stewardship of the Fund.</p> <p>(c) <b>The Committee – Clwyd Pension Fund Committee</b> - the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund</p> <p>(d) <b>LGPS – Local Government Pension Scheme</b> – the national scheme, which Clwyd Pension Fund is part of</p> <p>(e) <b>CARE – Career Average Revalued Earnings</b> – With effect from 1 April 2014, benefits accrued by members in the LGPS take the form of CARE benefits. Every year members will accrue a pension benefit equivalent to 1/49<sup>th</sup> of their pensionable pay in that year. Each annual pension accrued receives inflationary increases (in line with the annual change in the Consumer Prices Index) over the period to retirement.</p> <p>(f) <b>APP – Assumed Pensionable Pay</b> - where a scheme member has had a period of reduced pay child related leave, or reduced or no pay sick leave, then (in simple terms) a notional pay figure is used for CARE pay which is a higher amount than the actual pay received. This is called "assumed pensionable pay" or "APP".</p> |
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