

Minutes

Meeting: Local Pension Board for the Dorset County Pension Fund

Time: **10.00 am**

Date: **Thursday 9 July 2020**

Venue: Microsoft Teams

Present:

Paul Kent	Chairman - Member Representative
Mary O'Sullivan	Employer Representative
Adam Richens	Employer Representative
Julie Strange	Employer Representative

Officer Attendance:

Karen Gibson	Service Manager for Pensions
Aidan Dunn	Pension Fund Administrator / S151
Vince Elliott	Employer Relationship Manager (DCPF)
David Wilkes	Service Manager for Treasury and Investments

Managers, Advisors and Others Attendance:

Cllr Andy Canning	Chairman of the Pension Fund Committee
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1. Apologies for Absence and Introductions

1.1. Advance apologies for absence were received from:

Cllr David Shortell – Employer Representative
Jeff Morley – Member Representative
James Stevens – Member Representative

1.2. The Chairman welcomed Julie Strange to her first meeting as an Employer Representative.

2. Vice-Chairman of the Local Pension Board

2.1. Nominations were sought for the currently vacant position of Vice-Chairman of the Local Pension Board.

2.2. **Resolution:** Adam Richens, Employer Representative for BCP Council, agreed to take on the role of Vice-Chairman for the next year. Nominated by Paul Kent (Chairman), seconded by Julie Strange (Employer Representative).

3. Declarations of interest

3.1. None

4. Minutes from previous meeting

- 4.1. The minutes from the December 2019 meeting were agreed.
- 4.2. The final rates and adjustment certificates for the contribution rates for 2020-21, 2021-22 and 2022-23 for all employers (point 4.3). The Pensions Manager confirmed that final certificates were issued by the actuary and sent to employers before 31 March 2020.
- 4.3. McCloud Judgement (point 5.5). The Pension Manager said that there has been a lot of discussion nationally and a consultation is due out in July. This will be circulated as soon as it is received. It is anticipated that a considerable amount of data will be required from employers/payroll providers, and that there will be a significant impact to administrators. We should have a better picture by the time of the next Board meeting in September.

5. LGPS Administration Update

Usually this item would review the administration report presented at the previous Pension Fund Committee meeting. As this meeting was cancelled, the Pension Manager prepared a report for the Board. This is attached (see appendix 1).

5.1. COVID -19 Response.

- 5.1.1. **Administration.** As of 23 March 2020, pension staff started working from home. However, a small number of staff have continued to come into the office each day to deal with in-coming and out-going post, scanning, printing and work distribution.

The primary focus is the payment of benefits to members and their dependants;

- payment of pensions
- payment of new pension members
- payment of death benefits
- payment of refunds
- processing of ill health retirements

These areas have been the most difficult to adapt to paper-free working. The Pensions Regulator has highlighted the increase of financial and pension related scams, so it is felt the continuance of 'wet' signatures, where the payment of benefits is concerned is a necessity.

Where staff have had to take confidential files home, advice has been taken on security from our Data Protection officer.

- 5.1.2. An Employer Representative asked whether we had seen any movement from the financial institutions regarding different ways of working, for example encryption technology to prevent the need for scanning or getting 'wet' signatures on documents.

The Pensions Manager said that there was a lot of discussion about this early on nationally, and some legal firms who deal with the LGPS provided webinars and advice on this matter. The difficulty is that you have to be very careful about paying benefits in terms of security and potential fraud. In

addition, the lock down itself presented practical challenges, for example, one issue is getting witnesses to signatures and dealing with the different people involved. Due to the circumstances of lockdown and shielding, it became more difficult to introduce a new process, so for the time being we decided to continue as we are. We have changed some forms, where it was considered safe to do so, to accept them electronically, but not where we are paying out money (retirements, death benefits, etc.). This is something we may consider in the future.

- 5.1.3. An Employer Representative asked for clarification on the rules regarding confidential documents being kept at home.

The Pensions Manager said this was a real issue, she had taken advice from the Data Protection Officer at Dorset Council, who was very helpful. There was currently no choice as people had to work from home, but guidance was provided and given to staff of suitable safety measures to take. For example, you can't take anything on public transport and files must be stored in the house, preferably locked away.

- 5.1.4. **Employer Support.** Employers have been issued with monthly bulletins to provide specific advice on matters that are arising, such as the furlough scheme.

The deadline for submitting end of year data was extended by one month.

Pension Liaison Officers Group (PLOG) meetings with employers and training sessions have been held on-line.

- 5.1.5. The Chairman asked whether furloughing staff would have any effect on a member's pension.

The Pension Manager explained that it can do. It will depend on whether the employer chooses to pay the additional 20% (on top of the government's 80%). If they do, then there is no impact on a member's pension. If they don't, then the member would accrue less pension during the time they are furloughed. Those messages have gone out to both the employers and the members, along with details on how they can buy back any lost pension. More information will also go out with the annual benefit statements.

- 5.1.6. **Member Communications.** In April a newsletter was sent to all members. The aim was to encourage members to communicate with us electronically, and to provide reassurance that their LGPS pension would not be affected by any downturns in the financial markets.

Email and telephone helplines continue as normal.

- 5.1.7. **'My Pension' - Member on-line portal (MSS).** The April member communication, together with automated messages sent to every email received by the team, has led to an increase in members accessing our member portal (see graph in Appendix 1).

26.61% of active members are now registered with MSS.

- 5.1.8. **Monitoring of Mortality.** The LGA has asked Administering Authorities to report on a monthly basis the number of pensioner deaths. The Fund has kept a record of comparison with 2019 (see graph in Appendix 1).

There were 220 pensioner deaths between February and June 2019. In the same period for 2020, the figure was 263, which is an increase of around 20%.

- 5.1.9. An Employer Representative asked whether data going back further had been looked at.

The Pensions Manager said that she hadn't gone back further than February. It is also likely that the actuaries will be looking at this in respect to mortality rates.

- 5.2. **Annual Benefit Illustrations.** Over 21,000 annual benefit statements were issued to deferred members in May. The end of year processes have been completed, and we are on-track to issue annual statements to active members by the statutory deadline of 31 August 2020.

- 5.3. **Scheme Advisory Board (SAB).** The SAB to England and Wales now has a dedicated COVID-19 page on www.lgpsboard.org.

The Good Governance project has resumed following lockdown. This will have an impact on Local Pension Boards, Pension Fund Committees and LGPS administrators.

- 5.4. **KPIs.** The Board were provided with 3 tables showing KPIs for:
- 1 February to 30 June 2020 (Update since last report)
 - 1 April to 30 June 2020 (First three months of full lockdown and homeworking)
 - 1 April 2019 to 30 June 2019 (Equivalent period for comparison last year)

The homeworking situation has directly impacted on the most important areas work. This is something that was anticipated at the start of lockdown, but figures are far better than had been imagined back in March.

Overall, members have been very understanding of where there have been delays. Numerous compliments have been received from members about the helpfulness of staff, and the excellent service given. Far more in number than any complaints received.

The Chairman noted that although some of the KPIs were red, they were still at a very high percentage of completion, so given the circumstances, it was a very good result.

An Employer Representative asked about the meaning of the codes alongside the categories on the KPI tables. The Pension Manager explained that these are case type numbers. Some categories will include several different case types, for example, each retirement case type number represents a different type of retirement.

- 5.1. **Spring Budget - Changes to the Tapered Annual Allowance.** The March Budget included increases to both the threshold and adjusted income in respect of the Tapered Annual Allowance. These mean that it is now unlikely for a Local

Government employee to be affected by the Taper unless they have other incomes.

6. Investment Update

The Chairman of the Pension Fund Committee gave an update on investments.

- 6.1. It has been a bit of a rollercoaster ride in the last six months. In February 2020, most of the major world stock markets had reached all-time highs. We then saw a major collapse in March in reaction to the impact of the coronavirus pandemic, which hit our funds very badly. Since then there has been a strong recovery in most major world markets.
- 6.2. In terms of overall funds, back in March 2019 the estimated value of the Pension Fund's assets was £3.0bn and about £3.2bn by the end of last year (2019). This fell to £2.7bn the end of March 2020 and is currently estimated to be about £3.0bn, so we're back to somewhere close to where we were in March 2019.

To put it in overall context, the funds we had declined by 14.7% in the first quarter of the calendar year. But the UK stock market was down 28% in that three-month period, so our funds did relatively well compared to what the broad stock market indices were doing.

- 6.3. Things could have been a lot worse. The action of the world central banks by pumping in a lot of liquidity into the market, through quantitative easing, buying up government debt, buying up corporate debt, has driven interest rates down very low to a position which meant the government was able to sell three-year gilts to the market at negative interest rates, which means that whoever was buying those bonds was basically paying the government to take the debt off governments hands. If people want to make any money at all from investments, they've got to take on more risk. They have to be willing to buy more equities and other long-term investments which has largely been the foundation for the rally that we've seen in the last three months.
- 6.4. There is a potential impact on the Fund's long-term investment strategy. The Fund has been working towards producing a new strategy based on figures provided by Barnett Waddingham (the Fund's actuary). The investment strategy was due to be set at the June Pension Fund Committee meeting, but the meeting had to be cancelled. The current position is that the next meeting will take place in September, either physically or online, and a new strategy will be set with our partners Mercers to go into effect for the next three years or so.
- 6.5. The Chairman of the Local Pension Board said that it is quite encouraging as to where we are at present, but there are still very serious implications in the US of COVID19 and in emerging countries like Brazil, and it also looks as though there's going to be some inflationary effects in the future.

He asked whether the Fund have done any work yet to establish what that might mean, and whether we ought to be trying to change our strategy to hedge against that to some extent over the next months and years?

The Chairman of the Pension Fund Committee said that as part of the strategy review, they are looking again at the inflation hedge position. The government has decided to move from tying index linked bonds from RPI to CPI which has a negative effect on long-term index linked investments, of which the Fund has a

substantial portion, so unfortunately that worsened our performance. Currently a third of the Fund's investments are covered by inflation hedging policies, so there is a degree of protection against any surprising rises in inflation.

The driving force behind the scenes is of course that the actuary sets a target of a 5% return every year, year on year. And the only way to really achieve those sorts of returns is to invest in the stock market, so if anything, the Fund is being pushed into the direction of taking on more risk.

And if we don't get the returns in the future, the Fund will be forced to ask councils and employers for more money. As a result of the coronavirus situation there is little money in local authorities to make up the gap, so we'd be looking at either the dreadful position of default, which is unlikely, or extending the repayments into the future, which again the actuaries and government wouldn't be very happy with.

- 6.6. An Employer Representative said that his concern would be the potential future interest rates because the sense is that the extra debt that government is taking on to see us through COVID-19 is only sustainable as a nation through low interest rates. And if those interest rates begin to rise, then clearly that's going to have ramifications for the whole of the public sector as to what they can and can't afford going forward. He also asked whether there is any concern or action being taken within the pension fund environment to prepare for a potential second wave or local lockdowns?

The Chairman of the Pension Fund Committee replied that the financial markets seem determined to look through this problem and then not be worried about the short-term COVID-19 situation too much, but concentrate on the fact that there's a lot of quantitative easing going on and a lot of pump priming of global economies by central banks. It's not just the central banks, but governments willing to spend a lot of money on infrastructure, projects and pump priming their economies in a way that we probably have never seen before.

Orthodox economic theory would say that this extra money will lead to inflation, but we went through a similar picture after the 2008 financial crash and somehow inflation never appeared. The money seemed to stay within the financial investments so things like property prices and stock markets all boomed, giving high returns to long-term investors and very wealthy individuals, whilst the real economy struggled. What we saw was rather than a general inflation, was an asset price inflation, which benefited wealthy people, and an increase in income inequality between the wealthy and ordinary citizens.

- 6.7. The Treasury and Investments Manager said that this is a reminder to us that investments are volatile, and we do see ups and downs. We are also fortunate in that we are a long-term investor and compared to perhaps a lot of corporate schemes that are now closed to new members, we are still open to new members.
- 6.8. He added that the Fund had a high funding level of 92% at the last actuarial review and employer contribution rates have been set for this year. There was some pressure from employers to look at why contribution rates weren't coming down. But this is a timely reminder of why if you are going to reduce rates, you've got to be very certain of what the position is because we could have found ourselves in a much more challenging position than we are. We are not out of the woods on this. Even in the best-case scenario there will be sectors that will be more heavily hit than others and certainly we have exposure to some of those sectors, particularly our property portfolio, in retail, and in the hospitality sector as

well, albeit in what were low risk investments. It remains to be seen what's going to happen to those, and in the retail sector this has probably just accelerated what was the path anyway.

7. Risk Register

The Dorset County Pension Fund Risk Register was reviewed. Board members were provided with a copy ahead of the meeting.

- 7.1. The items on the Risk Register have been subject to an additional review in light of the COVID-19 situation. A column had been added to record any relevant notes.
- 7.2. Risk A02 is the risk that an admitted body employer may become financially unviable. It is possible that some employers may go into administration as a result of COVID-19 measures, but as yet none have indicated that this is likely, with only one employer raising concerns. The risk itself is normally backed up by either a guarantor or by having a bond put in place, so the fund should still be protected. We are currently in the process of conducting a bond review with the actuary to ensure the value of any bonds in place cover the related liabilities.
- 7.3. The Risk Register already included risks relating to the inability to provide service, due to a loss of Council facilities (IT, building, etc.) or staff, and that of a pandemic. As stated in the Administration Update, these have been dealt with successfully by a combination of home working and limited access to the office.
- 7.4. Failure to issue Annual Benefit Illustrations (ABIs) within statutory timescales. There was a risk as the deadline for employers to submit end of year was extended by a month, but the date for us sending them out did not change. However, due to hard work by the team dealing with this, and the excellent work of employers in submitting their end of year returns, we are on course to meet the deadline.
- 7.5. An Employer Representative said that financial difficulties may not be a matter just for newer admitted bodies, but there is a reality that longstanding and significant employers in the Fund may also find themselves in difficulty and would expect this to be given consideration going forward.
- 7.6. In respect of virtual meetings taking place, an Employer Representative asked whether there is an intention for the Pension Fund Committee to meet soon, given that the last meeting was cancelled.

The Pension Fund Administrator confirmed that there is a meeting scheduled for September, which is likely to take place 'virtually'. The members have had informal meetings, such as a recent update on the Brunel Partnership, so in that perspective the pension fund governance is continuing to function.

The Employer Representative said that if this issue continued beyond September, the Local Pension Board may wish to express concern regarding governance as it seems other local authorities are still managing to meet.

8. Pensions Systems Review

- 8.1. Dorset County Pension Fund's main pensions system is currently provided by Aquila Heywood. There are also some add-on systems provided by the London Pension Partnership (LPP). These add-ons provide an excellent workflow system, a really good employer portal and our website. LPP have served us notice on those systems. This is disappointing as they have made a significant difference to our performance over the last few years.
- 8.2. This is coincidental to the time that our main system comes up for contract renewal next year, so Dorset County Pension Fund are now entering into procurement for all of our systems. These will have to be in place in about a year.
- 8.3. In addition, due to many years of audit problems and other difficulties, we have decided to include payroll facilities within the procurement so it can be brought back 'in-house'. Currently we pay Dorset Council to pay our pensions for us.
- 8.4. The website has to be replaced sooner, within the next few months. This is less of a concern for members as the national LGPS member website provides good information, but our website contains a lot of information for employers so we are working on replacing that as soon as we can.

9. Confidential Item

10. Any other Business

- 10.1. Board members that have not done so already were reminded to complete and submit their Declaration of Interests forms so that a Register of Interests could be maintained.
- 10.2. Board members were also reminded to complete their training logs up to date and to send a copy to the Employer Relations Manager so a record of training can be held for the whole board.

11. Meeting closed at 11.20

12. Date of next meeting – 24 September 2020 at 2.00 pm