Worcestershire County Council

Agenda

Pensions Committee

Wednesday, 27 April 2016, 2.00 pm
County Hall, Worcester

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کوردی سۆرانی. ئەگەر ناتوانی تێبگەی لە ناوەڕۆکی ئەم بەڵگەیە و دەستت بە هیچ کەس ناگات کە وەیبگێڕێتەوە بۆت، تکایە تەلەفۆن بکە بۆ ژمارەی 01905 765765 و داوای ڕێنوێنی بکە. *(Kurdish)*

ਪੰਜਾਬੀ। ਜੇ ਤੁਸੀਂ ਇਸ ਦਸਤਾਵੇਜ਼ ਦਾ ਮਜ਼ਮੂਨ ਸਮਝ ਨਹੀਂ ਸਕਦੇ ਅਤੇ ਕਿਸੇ ਅਜਿਹੇ ਵਿਅਕਤੀ ਤੱਕ ਪਹੁੰਚ ਨਹੀਂ ਹੈ, ਜੋ ਇਸਦਾ ਤੁਹਾਡੇ ਲਈ ਅਨੁਵਾਦ ਕਰ ਸਕੇ, ਤਾਂ ਕਿਰਪਾ ਕਰਕੇ ਮਦਦ ਲਈ 01905 765765 'ਤੇ ਫ਼ੋਨ ਕਰੋ। *(Punjabi)*

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worcestershire county council

DISCLOSING INTERESTS

There are now 2 types of interests:
<u>'Disclosable pecuniary interests'</u> and <u>'other disclosable interests'</u>

WHAT IS A 'DISCLOSABLE PECUNIARY INTEREST' (DPI)?

- Any **employment**, office, trade or vocation carried on for profit or gain
- **Sponsorship** by a 3rd party of your member or election expenses
- Any **contract** for goods, services or works between the Council and you, a firm where you are a partner/director, or company in which you hold shares
- Interests in **land** in Worcestershire (including licence to occupy for a month or longer)
- **Shares** etc (with either a total nominal value above £25,000 or 1% of the total issued share capital) in companies with a place of business or land in Worcestershire.

NB Your DPIs include the interests of your <u>spouse/partner</u> as well as you

WHAT MUST I DO WITH A DPI?

- **Register** it within 28 days <u>and</u>
- **Declare** it where you have a DPI in a matter at a particular meeting
  - you must **not participate** and you **must withdraw**.

NB It is a criminal offence to participate in matters in which you have a DPI

WHAT ABOUT 'OTHER DISCLOSABLE INTERESTS'?

- No need to register them but
- You must **declare** them at a particular meeting where:
  You/your family/person or body with whom you are associated have a **pecuniary interest** in or **close connection** with the matter under discussion.

WHAT ABOUT MEMBERSHIP OF ANOTHER AUTHORITY OR PUBLIC BODY?

You will not normally even need to declare this as an interest. The only exception is where the conflict of interest is so significant it is seen as likely to prejudice your judgement of the public interest.

DO I HAVE TO WITHDRAW IF I HAVE A DISCLOSABLE INTEREST WHICH ISN'T A DPI?

Not normally. You must withdraw only if it:

- affects your **pecuniary interests OR**
  relates to a **planning or regulatory** matter
- **AND** it is seen as likely to **prejudice your judgement** of the public interest.

DON'T FORGET

- If you have a disclosable interest at a meeting you must **disclose both its existence and nature** – 'as noted/recorded' is insufficient
- **Declarations must relate to specific business** on the agenda
  - General scattergun declarations are not needed and achieve little
- Breaches of most of the **DPI provisions** are now **criminal offences** which may be referred to the police which can on conviction by a court lead to fines up to £5,000 and disqualification up to 5 years
- Formal **dispensation** in respect of interests can be sought in appropriate cases.

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Pensions Committee
Wednesday, 27 April 2016, 2.00 pm, County Hall, Worcester

Membership: Mr R W Banks (Chairman), Mr A I Hardman, Mr R C Lunn (Vice Chairman), Mr R J Sutton and Mr P A Tuthill

Co-opted Members

Mr V Allison	Employer Representative
Mr A Becker	Employee Representative
Mr R J Phillips	Herefordshire Council

Agenda

Item No	Subject	Page No
1	**Named Substitutes**	
2	**Apologies/Declarations of Interest**	
3	**Public Participation** *Members of the public wishing to take part should notify the Director of Resources in writing or by e-mail indicating the nature and content of their proposed participation no later than 9.00am on the working day before the meeting (in this case 26 April 2016). Further details are available on the Council's website. Enquiries can be made through the telephone number/e-mail address below.*	
4	**Confirmation of Minutes** To confirm the Minutes of the meeting held on 3 February 2016 (previously circulated – pink pages).	
5	**LGPS Asset Pooling**	1 - 28
6	**Pension Investment update**	29 - 42
7	**Administering Authority - Administration update**	43 - 68

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To obtain further information or a copy of this agenda contact Simon Lewis, Committee Officer on 01905 846621, slewis@worcestershire.gov.uk

All the above reports and supporting information can be accessed via the Council's website

Date of Issue: Monday, 18 April 2016

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PENSIONS COMMITTEE
27 APRIL 2016

LGPS ASSET POOLING

Recommendation

1. **The Chief Financial Officer recommends that:**

   a) The LGPS Asset Pooling Report be noted; and

   b) The CIV structure (option 1) be approved as the preferred pool structure and the Chief Financial Officer be authorised to support the development of the submission of the Pool to Government on that basis.

Background

2. In the July 2015 Budget, the Chancellor announced the Government's intention to work with Local Government Pension Scheme administering authorities to ensure that they pool investments to significantly reduce costs while maintaining overall investment performance.

3. On 25 November 2015, DCLG published its response to the May 2014 consultation (Opportunities for collaboration, cost savings and efficiencies). It said responsibility for asset allocation would stay with the 90 administering authorities and that savings could be delivered through the use of asset pooling and, in particular, collective investment vehicles. Following discussions with local government and the fund management industry over the summer, the Government prepared criteria against which the authorities' proposals for pooling would be assessed. Authorities were asked to develop proposals for pooling assets in line with the timeline detailed below.

The 4 main criteria are:

- Criteria 1: Asset pool(s) that achieve the benefits of scale c. £25bn
- Criteria 2: Strong governance and decision-making
- Criteria 3: Reduced costs and excellent value for money
- Criteria 4: An improved capacity and capability to invest in infrastructure.

4. Strategic asset allocation will remain a local decision for the administering authority and local pension committee. The pool, through the appropriate Governance process that will be defined by the July submission will decide on investment manager appointments and the type and number of sub-funds. Elected members of each Fund will influence how each pool operates.

5. Worcestershire County Council Pension Fund in collaboration with eight other Local Authorities under the brand 'LGPS Central' submitted their initial proposals to the Government by 19 February 2016. For ease of reference, this submission is attached as Appendix 2 to this paper.

6. The government responded to the LGPS Central February submission on 24 March 2016, Appendix 3, welcoming the initial proposal and encouraging the pool to continue with the planned work to develop a detailed submission that fully addresses the criteria by 15 July 2016.

7. By **15 July 2016** Funds must make a final submission which fully addresses the criteria set out above, with enough information for the proposal to be evaluated by government. Each pool must make a submission which covers the joint proposals and describes the proposed governance, structure and implementation plan. Each authority must submit an individual return which sets out the profile of costs and savings, the transition profile for the assets and the rationale for any assets which it proposes to hold outside the pool.

8. All costs incurred to date by the Fund in relation to LGPS Central and those predicted to be incurred through to the July submission are within the limit delegated to the Chief Financial Officer by the Pensions Committee.

Options for Legal/Governance Structure

9. In developing a pooled solution having a clear view on the legal/governance structure of the pool is critical, as it impacts on how the pool will operate in practice and how each Fund has oversight of the management and governance of the pool. In recognition of the importance of this decision LGPS Central jointly procured legal advice from Eversheds, along with the Borders to Coast pool, to consider the benefits and risks of different governance and operating structures for pooling. The accompanying presentation (Appendix 1) details the benefits and disadvantages of the different options. In evaluating the alternative approaches, there are a number of important considerations, including:

- Ownership of the assets
- Tax efficiency of the pool
- Whether assets be managed internally
- Whether it requires FCA registration
- Cost of set up and ongoing costs.

10. In summary, Eversheds have advised that there are two main options for pools to consider:

Option 1 - A structure incorporating an FSMA (Financial Services & Markets Act) registered Collective Investment Vehicle (CIV)

Option 2 - A Joint Committee structure - Collective Asset Pool (CAP)

Further detail of these options is provided in the attached presentation (Appendix 1).

Recommendation of LGPS Central Pool

11. Having considered Eversheds' legal opinion with regards to CIV and CAP options, the unanimous view of all participating Funds in LGPS central is to recommend that the LGPS Central Pool be structured under a regulated CIV structure (Option 1).

12. The key reasons for this recommendation are as follows:

- The CIV structure is the only approach that fully meets the Government's criteria
- Clear and absolute separation of strategic asset allocation and implementation
- Benefits of scale would be maximised, as implementation of the investment strategy is undertaken by a single legal entity
- Strongest and most sustainable governance structure in the short and long term
- Provides optimal structure for the pool to provide internal asset management (one of the key strengths of the LGPS Central proposal)
- Most tax efficient solution
- Removes significant regulatory risks attached to a structure (CAP) designed to fall outside the scope of FCA regulation. It is important to note that if a CAP structure (option 2) were chosen and the pool were deemed by the FSA to be carrying out one or more regulated activities without the appropriate FCA authorisation at any point during the CAP operation period, Elected Members could be subject to criminal prosecution.

13. It should be taken into consideration that the regulated CIV structure option (option 1) does have disadvantages in terms of the resource (time and expense) to establish the structure and ongoing operating costs may be higher than a 'looser' legal structure (option 2).

Next Steps

14. Within a regulated CIV structure there will still be options available to the Pool in terms of how the pool is structured and how it operates. For example one of the key decisions will be whether the pool builds the 'operator' (the FSA authorised and regulated entity who operates the pool) itself or rents it from an existing provider in the market.

15. Another decision facing the LGPS Central Pool (but not all LPGS pools) will be how to structure the internal asset management resource and whether that will be through the 'operator' itself or through the 'operator' contracting with a separate investment management entity.

16. The advantages and disadvantages of these sub-options will be evaluated and costed by the Pool and presented back to this Committee as the business case is developed.

Contact Points

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Supporting Information

- LGPS Central governance structure presentation - Appendix 1
- LGPS Central February submission to government – Appendix 2
- Government response to LGPS Central February submission – Appendix 3

Background Papers

In the opinion of the proper officer (in this case the Chief Financial Officer) the following are the background papers relating to the subject matter of this report:

DCLG Local Government Pension Scheme Investment Reform Criteria and Guidance

Agenda papers and Minutes of the Pensions Committee meetings on 30 September 2015, 14 December 2015 and 3 February 2016

Worcestershire County Council Pension Fund

Investment Pooling Update

Recommendation

Members are asked to consider their views and endorse the recommendation that in principle LGPS Central Pool be structured under a regulated CIV structure and that Officers and the Pool proceed on this basis. Any further development of a pooled solution and option appraisal will be limited to options that fall within a regulated CIV structure

LGPS Central

Story so far

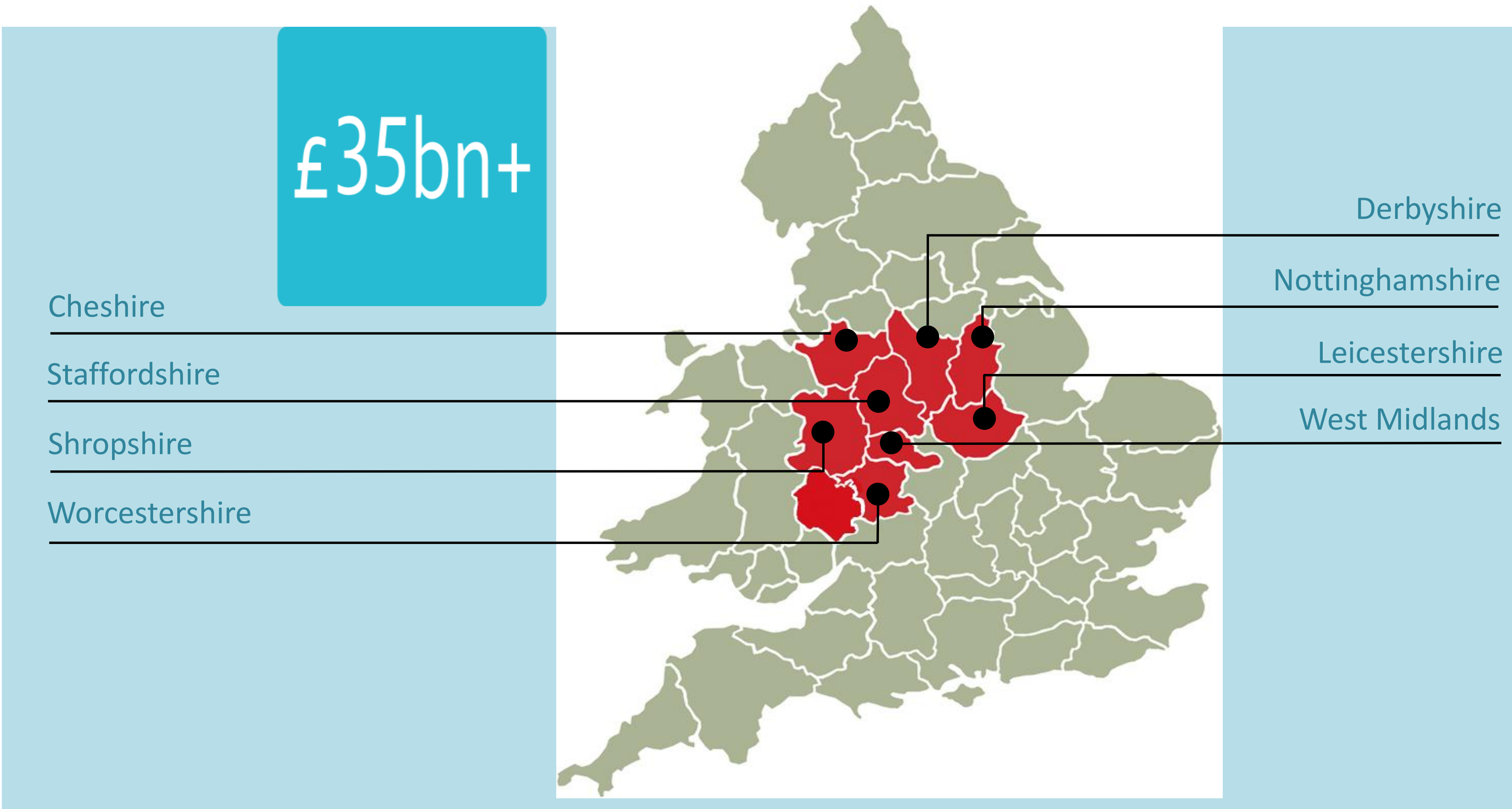
1. **May 2013** – Speech by Brandon Lewis (Local Government Minister) opened up the prospect of LGPS fund mergers
2. **June 2013** – ‘Call for Evidence’ consultation into future structure of LGPS
3. **May 2014** – Government’s response “No mergers”
   Launch ‘Opportunities for collaboration, cost savings and efficiencies’ consultation
4. **July 2015** – Summer Budget
   ‘pool investments to significantly reduce costs, while maintaining overall investment performance’
   ‘sufficiently ambitious proposals’
5. **Nov 2015** – Investment Reform Criteria and Guidance issued. ‘Backstop’ Investment Regulation consultation
6. **Feb 2016** – LGPS Funds’ initial response to consultation
7. **July 2016** – LGPS Funds’ detailed response to Criteria
8. **April 2018** – Start to transition assets

LGPS Central

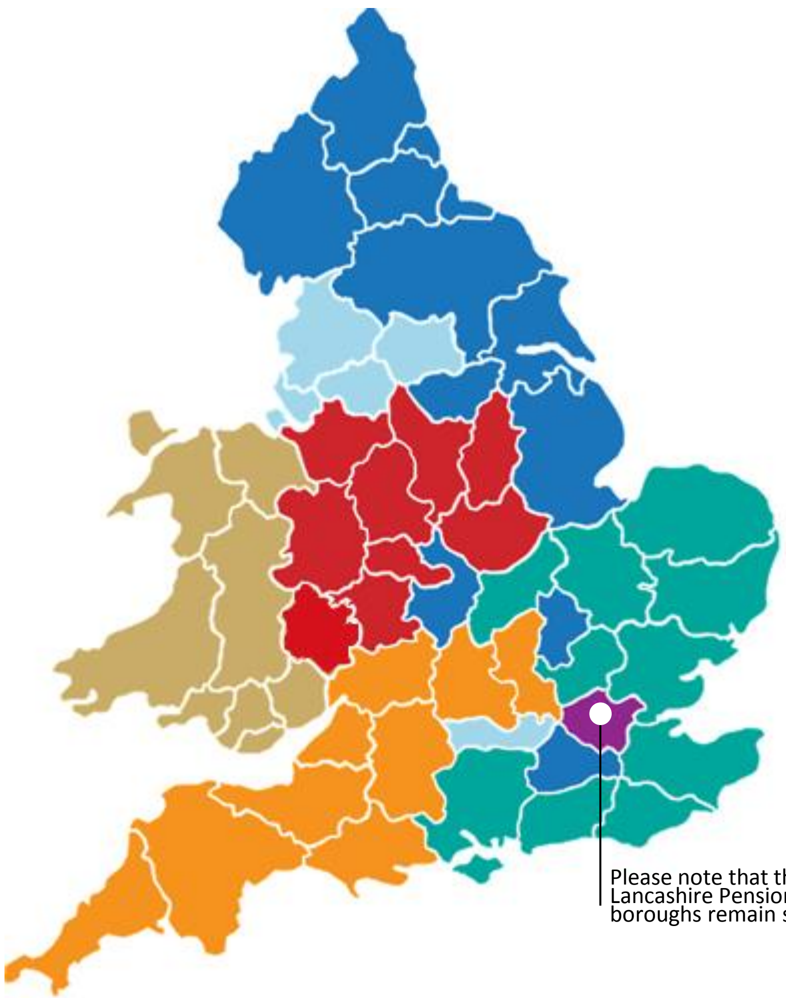
Government Criteria

1. Benefits of scale (at least £25bn in assets)
2. Strong governance and decision making
3. Reduced costs and excellent value for money
4. An improved capacity and capability to invest in infrastructure

LGPS Central



Likely Other Pools



Please note that the LPFA has linked with the Lancashire Pension Fund; all other London boroughs remain separate

Pool	£bn**
Borders to Coast*	35
Access	33
London	25
Brunel	23
Wales	13
LGPS Central*	34
Northern Powerhouse/LPFA*	44
Total	**207**

*Has external and internal management

**As at 31 March 2015

Work to date

LGPS Central

- LGPS Central Funds have like-minded principles
- Statement of Commitment
- One Fund, One Vote a key feature
- Regular cycle of Officer meetings
- Strong commitment
- Chairs, Vice-Chairs and Section 151 Officers event held January 2016 (more planned)
- Joint submission February 2016

Next Steps – By July 2016

LGPS Central

- Develop detailed proposal
  - Legal Structure
  - Governance structure
  - Decision-making processes
  - Implementation timetable
  - Savings
- 1st Key decision Legal Structure
- Commissioned Eversheds
- Clear consensus Officer/Group recommendation
- Each Participant Committee to endorse

Two Options considered

LGPS Central

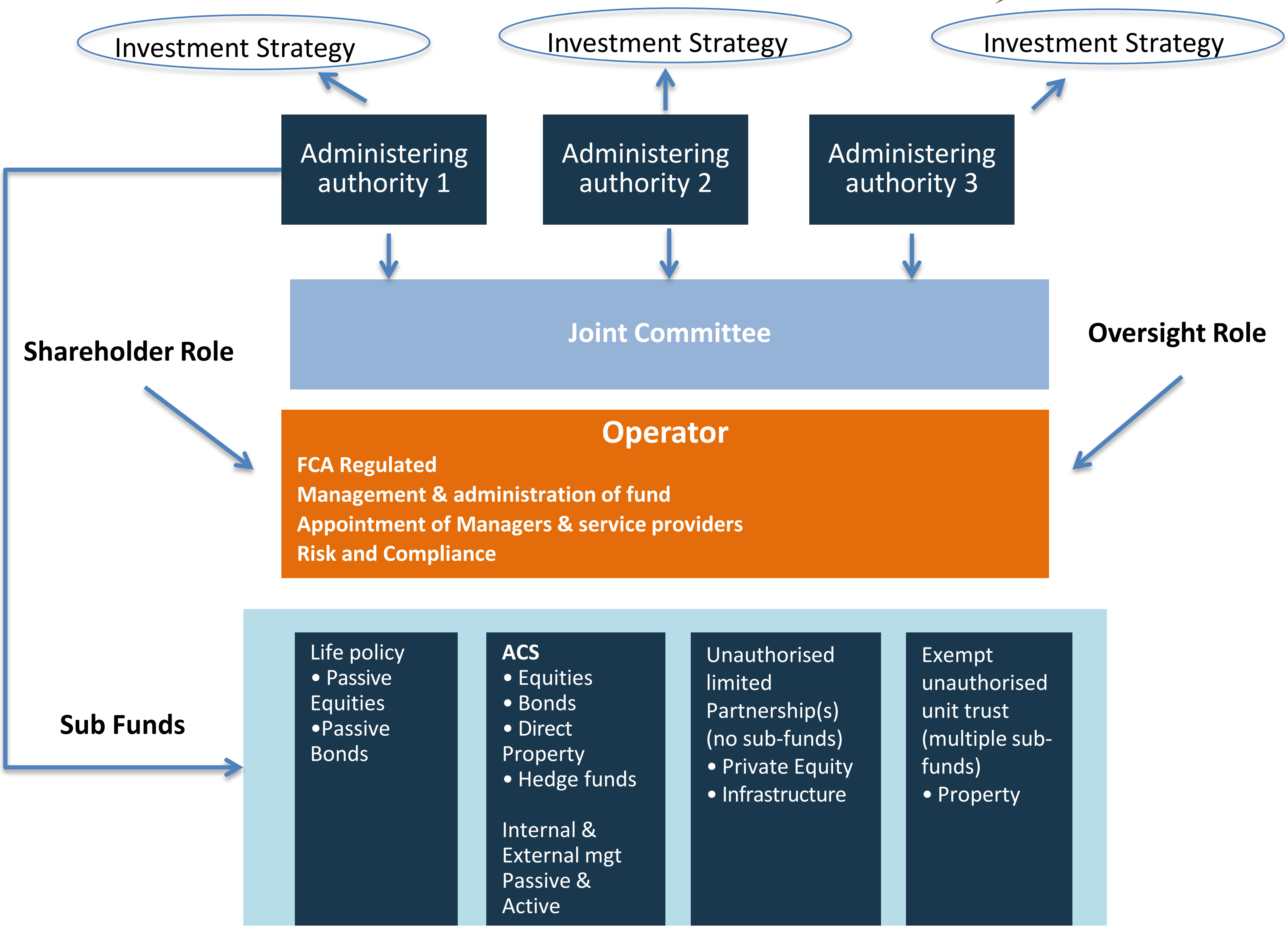
Option 1

- Collective Investment Vehicle (CIV)
  - Incorporating an FCA Regulated entity

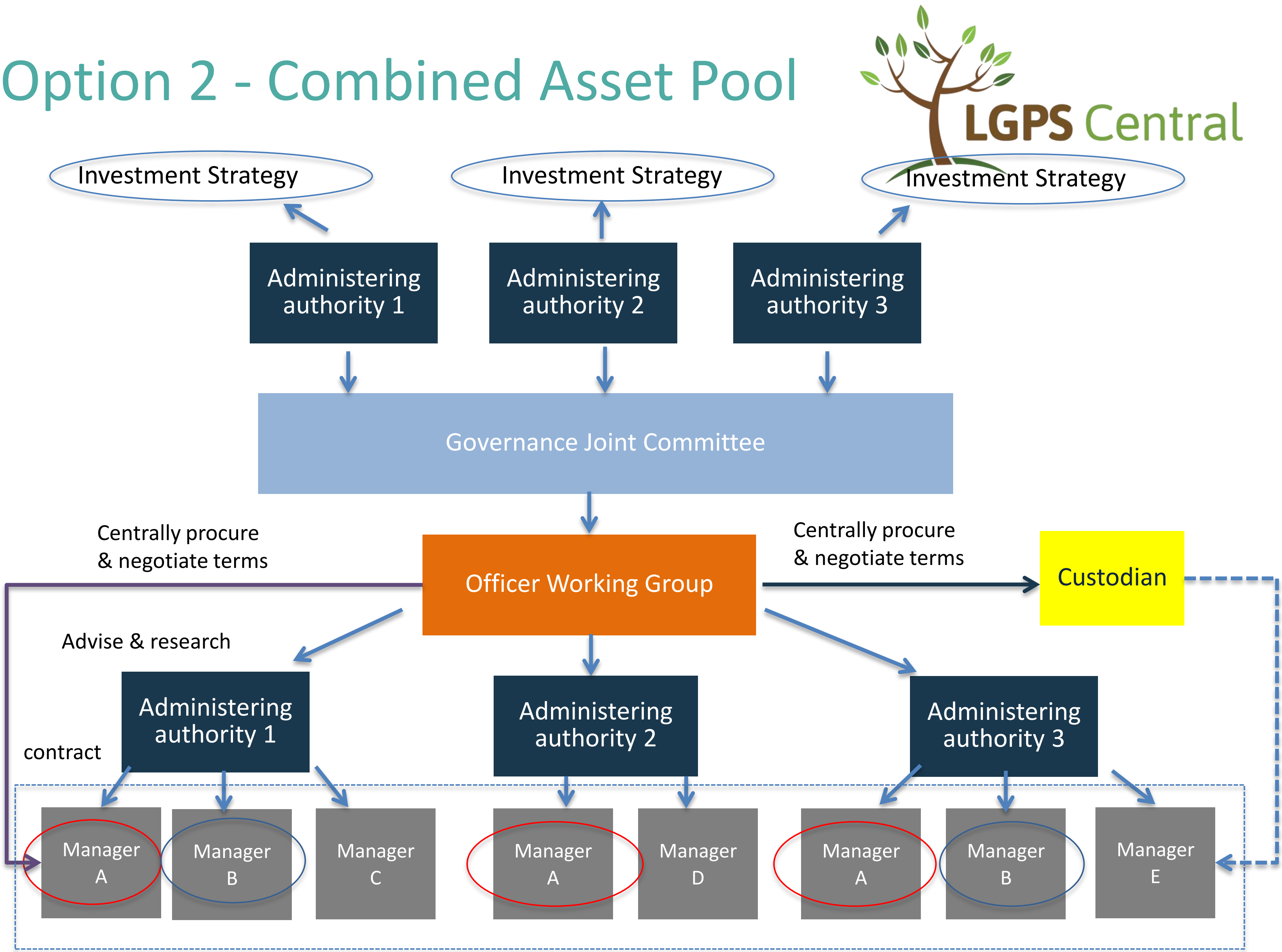
Option 2

- Combined Asset Pool (CAP)
  - No legal definition
  - Not a separate entity
  - Joint Committee

Option 1 - CIV


Investment Strategy
Investment Strategy
Investment Strategy
Administering authority 1
Administering authority 2
Administering authority 3
Joint Committee
Shareholder Role
Oversight Role
Operator
FCA Regulated
Management & administration of fund
Appointment of Managers & service providers
Risk and Compliance
Sub Funds
Life policy
• Passive Equities
•Passive Bonds
ACS
• Equities
• Bonds
• Direct Property
• Hedge funds
Internal & External mgt
Passive & Active
Unauthorised limited Partnership(s) (no sub-funds)
• Private Equity
• Infrastructure
Exempt unauthorised unit trust (multiple sub-funds)
• Property

Option 2 - Combined Asset Pool



Pros and cons of CIV and CAP

	Collective Investment Vehicle		Collective Asset Pool	
Government criteria and guidance	✓✓	Designed to comply with all of the criteria.	●	Does not pool ownership of the assets, but only combines governance, oversight, procurement and administration. There is a question of whether this will be sufficient for the Government
Governance	✓✓	Strongest governance capabilities. Assurance is given through the joint committee providing oversight and governance over the management of the CIV. Under Option 1A each administering authority is also a shareholder in the Operator and therefore has a significant degree of direct control and influence over the management of the CIV. Under Option 1B each administering authority has less control and influence over the management of the CIV but can influence control through the service agreement with the Operator. The FCA authorisation of the Operator may also be seen to give additional assurances to the administering authority (as may the role of the Depositary).	✓	Under the CAP model the investments remain invested at local fund level so each administering authority retains direct visibility of the assets it directly owns. Each administering authority also has role in the oversight and governance over the management of the central functions of the CAP through the governance joint committee. The CAP would not have additional layer of regulatory governance.
Regulatory risk	✓✓	Does not have any of the regulatory risks attached to a structure designed to fall outside to the scope of FCA regulation.	✗	Certain elements that will carry FSMA regulatory risk throughout its lifecycle. This is inherent in seeking to create a structure that is not regulated by the FCA.
Establishment costs	●	A CIV will be more expensive than a CAP to establish at the outset.	✓	Will be cheaper than a CIV to establish.

Ongoing operating costs	●	Ongoing operating costs will be an important factor to analyse further. There will be significant costs in operating the structure, however these must be offset against reduced management fees, custody costs, transaction costs, administration costs etc.	●	May be cheaper to operate than a CIV. However, there is scope for significant operational costs without the same benefits on savings (as described in the CIV).
Tax	✓✓	A robust, clearly defined tax status. Analysis shows that a CIV (particularly an ACS) can be more tax efficient for overseas assets than the LGPS funds investing direct (and hence more tax efficient than the CAP).	✗	No change to the status quo, and so does not take advantage of the tax efficiencies available with, for example, the ACS for certain asset classes.
Internal management	✓✓	Caters perfectly well for internal management under either Option 1A or 1B.	●	For participating administering authorities who are seeking a route to market without being FCA authorised, this may not work for internal investment management unless significant constraints are placed on that function. Alternatively, could be used in conjunction with an FCA regulated investment management entity.
Employment issues	●	Consideration would need to be given to staff transfers, particularly to an FCA regulated operator (under Option 1A) or to an FCA regulated investment management entity (under Option 1B).	●	There could be complex employment arrangements, particularly if shared services and secondments are used. Consideration would also need to be given to staff transfers, particularly to an FCA regulated investment management entity.
Procurement issues	●	There are certain contracts that will need to be procured, and these should be factored into the timeline. Where an FCA regulated investment management entity is used under Option 1B, it may not be a Teckal company so that procurement considerations will arise.	●	In general, the current procurement position on award of contracts would continue.
Longevity of solution	✓✓	The most robust solution for the long-term.	✓	May have its limitations over the long-term, particularly in building out internal investment management (without using an FCA regulated investment management entity). Operational issues may also arise.

Stop Press – DCLG 24th March

LGPS Central

The key challenge for the LGPS Central pool, as for most pools, is the development of clear and effective governance which provides the assurance authorities, beneficiaries, and co-investors require. In my view the structure, standards and systems required for an entity regulated by the Financial Conduct Authority provide substantial assurance, but I know that you are exploring a range of possibilities. As a minimum, I expect to see a single entity at the heart of any proposal, with responsibility for selecting and contracting with managers, as well as the employment of staff. There should also be a clear distinction between the roles of those involved in the governance of the pool, and its operations.

Recommendation - CIV

- Only the CIV approach truly meets the Government's criteria:
  - for a clear and absolute separation of strategic asset allocation and implementation.
  - making the most of the benefits of scale as implementation of the investment strategy is undertaken by a single legal entity
  - that selection of external fund managers and the implementation of the investment strategy to be carried out at the pooled level
- It provides the strongest and most sustainable governance structure in the short and long term
- It provides the structure for the pool to provide internal asset management (one of the key strengths of the LGPS Central proposal)
- It provides the most tax efficient solution
- It removes the significant regulatory risks attached to a structure designed to fall outside to the scope of FCA regulation. It is important to note that if a CAP structure was chosen and the pool was deemed by the FSA to be carrying out one or more regulated activities without the appropriate FCA authorisation at any point during the CAP operation period, Elected Members could be subject to criminal prosecution.

Next Steps

- Develop proposal for July based on regulated entity
- Key decisions/tasks
    - Build (option 1a) or rent (option 1b) an operator
    - Design structure of sub funds
    - Governance arrangements
    - Shareholder agreement
    - Cost/Benefit analysis
    - Transition Plan
    - What stays outside pool?

Next Steps

- Specification for Advice/support for build / rent options appraisal and pool business case development
- Advice due 10th May for CIV build / rent decision
- 24th May Chairs, Vice-Chairs and Section 151 Officers event
- 28th June – Committee Update
- 4 July 2016 Chairs, Vice-Chairs and Section 151 Officers event
- 15th July submission


ANY
QUESTIONS
?

LGPS Central

Joint submission to government in response to the DCLG issue of *Local Government Pension Scheme: Investment Reform Criteria and Guidance*

5 February 2016

In the July Budget 2015, the government announced its intention to work with Local Government Pension Scheme (LGPS) administering authorities to ensure that they pool investments to significantly reduce costs while maintaining overall investment performance. In November 2015, the government published *Local Government Pension Scheme: Investment Reform Criteria and Guidance* which asked for submissions from funds on their proposals to meet the four specified criteria.

Initial submissions should include a commitment to pooling and a description of progress towards formalising arrangements with other authorities. This is a joint submission on behalf of LGPS Central, a collaboration of nine LGPS Funds, all based in the Midlands, who are working together to create an investment pool of around £35 billion.

The following funds have committed to be involved in the creation of LGPS Central:

- Cheshire Pension Fund
- Derbyshire County Council Pension Fund
- Leicestershire County Council Pension Fund
- Nottinghamshire County Council Pension Fund
- Shropshire County Pension Fund
- Staffordshire Pension Fund
- West Midlands Pension Fund
- West Midlands ITA Pension Fund
- Worcestershire County Council Pension Fund

Six of the funds involved have already collaborated on a joint procurement exercise, realising significant savings on passive investment fees. This demonstrates the ability to work together and achieve agreement through open and constructive discussion. This approach forms a firm basis for the creation of LGPS Central.

Officers of the participating funds have been meeting regularly since November 2015 and are continuing to meet on a fortnightly basis to ensure the tight timescales for establishment of the pool are met. An event was held in January 2016 for the Chairs, Vice-Chairs and chief finance officers of each participating fund to meet and talk through progress to date and how it is envisaged that the pool will meet the criteria set by government.

Cheshire Pension Fund | DERBYSHIRE County Council | Leicestershire County Council

Nottinghamshire County Council | SHROPSHIRE COUNTY PENSION FUND | Staffordshire Pension Fund

West Midlands ITA | West Midlands Pension Fund | worcestershire county council

A. Asset pool(s) that achieve the benefits of scale

The collaboration will see the creation of a multi asset investment pool of around £35 billion in size, meeting the scale sought by the Government in its investment pooling criteria. It is expected that all investment will be made through the pool over time although the transition period for illiquid assets will extend beyond 2018. Participating funds will consider if they propose to hold assets outside the pool where this can demonstrate clear value for money. Any assets that are held outside of the pool will be kept under review.

The pool will aim to deliver cost savings and to build on the individual participating funds' strong investment knowledge and performance by providing scale, increased resilience and knowledge sharing. The new investment pool will offer access to both internal and external investment expertise.

B. Strong governance and decision making

The pool will ensure robust governance and decision making arrangements with equal say in the oversight of the new entity to each participating Fund. Preliminary investigations have been made into the process and possible structures for the pool and discussions are being held with the other emerging pools on procuring joint external advice. At this stage, no decision has been made over the structure but options being considered include:

- A joint committee
- FCA regulated operating company overseeing pooled vehicles including authorised contractual schemes (ACS), unit trusts and limited partnerships

The final structure will ensure a clear link between the pool and the governance structures in each participating fund. Decisions over investment strategy and strategic asset allocation will remain with individual funds.

A "Statement of Commitment" has been agreed to outline the key characteristics and investment beliefs of the pool, and this is attached below. A detailed work plan is being formulated to determine the structure of the pool, the internal and external resources required and the timescales for establishing the pool and moving assets.

C. Reduced costs and excellent value for money

The pool has already begun to collate data on costs incurred by participating funds for years ending 31 March 2013 and 31 March 2015. This is being collected on a consistent basis and will be analysed to inform the detailed submissions required in July. The pool is expected to generate savings over the long term but implementation and transition costs are likely to be significant.

The size of the pool will enable significant savings to be made on external management fees. A number of participating funds have internal investment expertise which is recognised to be relatively low cost and it will be difficult for these funds to achieve cost savings. However, additional savings will be realised through stronger procurement of supporting services and the building and sharing of expertise across funds, particularly in alternative asset classes.

The pool intends to work collaboratively with the Local Government Pension Scheme more widely and with the other emerging pools. Procurement will be undertaken where possible through the LGPS National Frameworks, other approved frameworks or jointly with other LGPS pools.

D. An improved capacity to invest in infrastructure

Consideration will be given to participating funds' current asset allocation and the best ways to access all asset classes including infrastructure. It is recognised that infrastructure has a role to play for many LGPS funds given their long term liabilities and the nature of returns from infrastructure. Analysis of participating funds' current allocations to infrastructure shows that LGPS Central already has a higher than average allocation to the asset class and that this has increased substantially since 2013. Funds also invest in infrastructure assets (in areas such as energy, utilities, logistics and housing) through their allocations to property, bonds and listed equities.

Participating funds within LGPS Central have different funding levels and deficit recovery profiles and so have differing risk appetites and return requirements from infrastructure. It is expected that an LGPS infrastructure platform will be set up that will allow all LGPS funds to access the asset class in a manner that is low-cost and also allows individual funds to match their required risk/return profiles. LGPS Central will ensure that appropriate cost-effective ways of accessing infrastructure are available, which may include building on internal expertise.

Department for Communities and Local Government

Marcus Jones MP
Minister for Local Government

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Cllr Reg Adair
Cllr Stephen Sweeney
Cllr Bob Banks
Cllr Jasbir Jaspal
Cllr Richard Worrall
Cllr Malcolm Pate
Cllr Lesley Smetham
Cllr Steve Marshall-Clarke

24 MAR 2016

Dear Councillors,

LGPS CENTRAL INVESTMENT POOLING PROPOSAL

I would like to thank you and all the authorities involved in the proposed LGPS Central pool for submitting your initial proposal by 19 February. I was pleased to see that all 90 authorities made a commitment to pooling, with the overwhelming majority already involved in developing a pool. The move towards collective investment represents a significant opportunity for administering authorities to deliver substantial savings and efficiencies, and your contribution is much appreciated.

I welcome the initial LGPS Central proposal and encourage you to continue with your work to develop a detailed submission that fully addresses the criteria by 15 July. Your initial grouping clearly meets the scale criterion and the agreement to a Statement of Commitment will provide a strong foundation upon which a more detailed proposal can be built. I also welcome your commitment to transparent reporting of costs. However, as you know, there remains a considerable amount of work to do before July, and I am glad to note that you are meeting officials in April.

The key challenge for the LGPS Central pool, as for most pools, is the development of clear and effective governance which provides the assurance authorities, beneficiaries, and co-investors require. In my view the structure, standards and systems required for an entity regulated by the Financial Conduct Authority provide substantial assurance, but I know that you are exploring a range of possibilities. As a minimum, I expect to see a single entity at the heart of any proposal, with responsibility for selecting and contracting with managers, as well as the employment of staff. There should also be a clear distinction between the roles of those involved in the governance of the pool, and its operations.

In your July submission I will want to see more detail against the infrastructure criteria, including setting out your constituent fund's ambition for infrastructure investment where the right opportunities exist. You and other pools committed to exploring a national vehicle to access infrastructure investment at a larger scale and at lower cost. We will therefore work with administering authorities to establish a new Local Government Pension Scheme (LGPS) infrastructure investment platform that meets the specific needs of LGPS investors.

I will also expect the final proposal to address the reporting requirements in the criteria and guidance in detail. Reporting will need to cover progress in establishing the pool and moving assets into it, implementation costs, fees and other costs incurred, including hidden costs, estimated savings, and net performance in each asset class.

I will also take this opportunity to respond to two questions raised in many pooling submissions:

- Some authorities have indicated that they would prefer to use more than one pool, often to ensure that their investment strategy can be fully implemented. I do not consider that this approach should be necessary as the governance structure should enable authorities to hold the pool to account and ensure that their investment strategy is implemented effectively. However, one pool may of course procure services from another, especially if a particular asset class is not yet available. The use of multiple pools should certainly not be considered as a means to access a preferred manager or very specific asset class not available through your pool.

- My expectation remains that all investments should be made through the pool. However, I recognise that there may be a limited number of existing investments that might be less suitable to pooled arrangements, such as local initiatives or some products tailored to specific liabilities. The rationale for retaining any existing investments outside of the pool will need to be set out in the final proposal, making clear how this offers value for money. Any exemptions should be minimal and kept under review. I also recognise that a similar approach will need to be taken for illiquid assets with high penalty costs for early exit of a contract. Such investments should not be wound up early as a result of pooling but instead transferred across when practicable, taking into account value for money.

I strongly encourage you to continue dialogue with officials as you develop your thinking over the coming months. For the final assessment, the panel will include members with specific expertise in investment management, and you may be asked to present at a meeting of the assessment panel well ahead of your July submission. I look forward to receiving your detailed proposals.

I am copying this letter to the chairs of Pension Committees in all the participating authorities.

Yours Sincerely,

Marcus Jones,

MARCUS JONES MP

worcestershire
countycouncil

AGENDA ITEM 6

PENSIONS COMMITTEE
27 APRIL 2016

PENSION INVESTMENT UPDATE

Recommendation

1. The Chief Financial Officer recommends that:

a) the Independent Financial Adviser's fund performance summary and market background be noted;

b) the update on the Investment Managers placed 'on watch' by the Pension Investment Advisory Panel be noted;

c) the recommendation from the Pension Investment Advisory Panel to terminate the Capital International mandate be approved with assets transitioned to the North America section of the LGIM passive equity portfolio; and

d) the update on the appointment of Walton Street be noted.

Background

2. The Committee will receive regular updates on fund performance. The fund's Independent Financial Adviser has provided a fund performance summary and a brief market background update (Appendix 1). The market background update is provided to add context to the relative performance and returns achieved by the fund's investment managers.

3. The Committee will also receive regular updates regarding 'on watch' managers and will receive recommendations in relation to manager termination in the event of a loss of confidence in managers by the Advisory Panel (Appendix 1).

Nomura

4. Nomura outperformed the index benchmark in the quarter ended 31 December by 1.2%% and in the twelve months to December 2015 had outperformed the benchmark by +2.0%, which was 0.5% ahead of the target outperformance of +1.5%. Over the past three years Nomura have underperformed their performance target by 0.1% per annum, which is a substantial improvement.

5. The ex-Japan elements of the portfolio detracted from total portfolio performance in Q4 of 2015 and Nomura remain passively invested in Australia, in terms of stock selection, whilst having struggled to retain expertise in this market.

6. Whilst it is recognised that portfolio performance has substantially improved over recent quarters, it is recommended that Nomura remain to be monitored until a further period of sustained outperformance from both the Japan section of the portfolio as well as the developed Asia ex-Japan section is achieved. The fee discount for the Asia ex-Japan section of the mandate remains in place until rolling three year performance reaches target.

Capital International

7. Capital International underperformed the index benchmark in the quarter ended 31 December by -0.5%. Their twelve month performance to December 2015 was 3.0% ahead of benchmark and therefore 1.5% ahead of their performance target (+1.5%). However over the three years to the end of December Capital International were 1.2% behind their performance target per annum. Over the past ten years Capital are 2.4% behind their performance target per annum and therefore 0.9% behind the return a passive mandate would achieve per annum over the same period, gross of management fees.

8. Despite extensive negotiations between Capital International and Fund Officers a suitable fee discount could not be agreed and the previous fee discount, which was implemented to recognise Capital's underperformance, ended on 31 December 2015.

9. Taking into account Capital's underperformance against the required target over the medium to long-term and the loss of confidence in Capital's investment process, on 25 February 2016, the Pension Investment Advisory Panel made a recommendation to terminate the Capital International mandate.

10. It is therefore recommended that Capital International's mandate be terminated and the portfolio assets be transitioned to the North America section of the LGIM passive equity portfolio pending the forthcoming Strategic Asset Allocation review.

11. Please note that Appendix 3 - Review of processes and controls – Capital International contains exempt information (on salmon pages) and should members wish to discuss the information included in the Appendix they would need to consider passing the appropriate resolution and moving into exempt session.

JP Morgan – Emerging Markets

12. JP Morgan (Emerging Markets) portfolio outperformed their benchmark over the quarter providing a +0.2%. Performance for the year ended December 2015 was 1.9% ahead of benchmark and therefore 0.1% behind their target outperformance of +2.0% per annum. Over the past three years JP Morgan have underperformed their performance target by 1.9% per annum.

13. It is recommended that JP Morgan remain 'on watch' until consistent outperformance is regained.

JP Morgan – Bonds

13. The JP Morgan Bond portfolio outperformed their benchmark by 0.8% in the quarter ended December. Performance for the year ended December 2015 was 0.6% ahead of benchmark and therefore 0.4% behind their target outperformance of +1.0% per annum. Over the past three years they have underperformed their performance target by 0.5% per annum. Concerns exist that JP Morgan have not utilised their risk budget effectively in order to achieve their performance target.

14. It is recommended that JP Morgan (Bonds) remain on watch at least until their performance is tracking towards target and the Committee are satisfied that JP Morgan are managing their portfolio risk budget effectively.

Walton Street update

15. The Walton Street fund (U.S. Property Debt) was considered as a potential investment opportunity during the selection process that was undertaken at the end of 2014. At that time Renshaw Bay was considered to be the preferable choice, but since that time bFinance continued to monitor developments during the Walton Street fund raising process.

16. In March 2016 contracts were signed with Walton Street committing the remaining £27.5m out of the original £200m allocation to Property and Infrastructure. An initial drawdown of c. $5m was paid in early April 2016.

Contact Points

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Specific Contact Points for this report
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Email: spearce@worcestershire.gov.uk

Supporting Information

- Independent Financial Adviser summary report (Appendix 1)
- Bar Chart of investment managers' performance (Appendix 2)
- Exempt information (salmon pages) - Review of processes and controls – Capital International (Appendix 3)

Background Papers

In the opinion of the proper officer (in this case the Chief Financial Officer) there are no background papers relating to the subject matter of this report.

Independent Investment Adviser's report Appendix 1

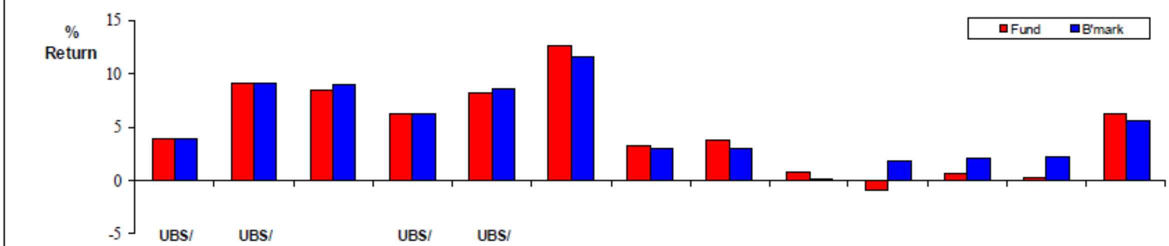
Fund Performance Summary and Market Background

The value of the Fund in the quarter rose to £1.887bn, an increase of £103m compared to the end September value of £1,784m. The Fund produced a return of 6.3% over the quarter, which gave an outperformance against the benchmark of 0.8%. This was attributable to asset allocation, with a neutral return from stock selection. Over a 12 month period the Fund recorded a positive relative return against the benchmark of 0.9% (3.5% v. 2.7%).

We saw generally good performance from the active elements of the Fund in Q4 2015, the exception being Capital International. Nomura (Pacific) had the best performance, ahead of their benchmark by 1.2%, followed by Schroders (Emerging Markets) outperforming by 0.9%. JP Morgan (Emerging Markets) also outperformed, by 0.2% against their benchmark, but falling short of their performance target. Capital International (North America) underperformed by -0.5%, which is clearly disappointing. JP Morgan (Bonds) staged a recovery in their fortunes, with an outperformance of 0.8% in Q4.

The alternative passive strategies managed by UBS have continued to produce a return ahead of their respective benchmarks since inception. This includes an encouraging Q4 2015, which saw the strategies being tested again by quite volatile markets. Hopefully we will see the strategy continue to work well under the new managers, Legal & General. Although global markets as a whole saw an increase in value over the fourth quarter, there were the usual winners and losers at country level. This was certainly the case within Emerging Markets, which although as a group they rose 3.1%, all of the countries in Latin America underperformed as commodity prices fell. On the other hand good gains were seen from China, Hungary, Indonesia and Malaysia. The range between winners and losers was enormous, from Indonesia up 24.4% to Poland down 10.5%. Developed Markets (8.5%) outperformed Emerging Markets again, with Japan 12.5%, the US 10.0%, Europe 6.0% and the UK 4.0%. The heavy weighting to energy and mining companies acted as a negative influence on the FTSE 100 and All Share indices.

Bond markets in Q4 were to an extent driven by expectations of a US federal rate cut, which finally came in December, with falls in value around that as yields rose. The higher risk appetite that was shown in equity markets was also reflected in corporate bonds, with a rally from the summer falls seen during October and November, then falling back in December. There was however quite a wide range in performance across sectors, with good performance from banks, and in general terms poor performance from mining and energy, also high yield and emerging market debt.



	UBS/ L&G UK Ind	UBS/ L&G NA Ind	Cap Int Am Act	UBS/ L&G Eur Ind	UBS/ L&G Global	Nomura Asia	JPM Emerging	Schroder Emerging	JPMF Bonds	GIB Infrastr.	Hermes Infrastr.	Venn Property	Total Assets
% Final Assets													
Actual	30.9	1.8	9.1	6.7	12.9	16.1	5.0	5.7	6.8	1.3	2.0	1.4	100.0
Benchmark	30.9	5.0	6.0	9.5	10.0	12.0	6.0	6.0	10.0	1.2	2.0	1.4	100.0
% Return													
Portfolio	3.9	9.0	8.5	6.3	8.3	12.7	3.2	3.8	0.8	-1.0	0.6	0.2	6.3
Benchmark	4.0	9.0	9.0	6.3	8.6	11.6	3.1	3.1	0.1	1.8	2.0	2.2	5.5
Relative	0.0	0.0	-0.5	0.0	-0.3	0.9	0.1	0.7	0.8	-2.8	-1.4	-1.9	0.7

Performance update for managers 'On Watch' October 2015 to December 2015

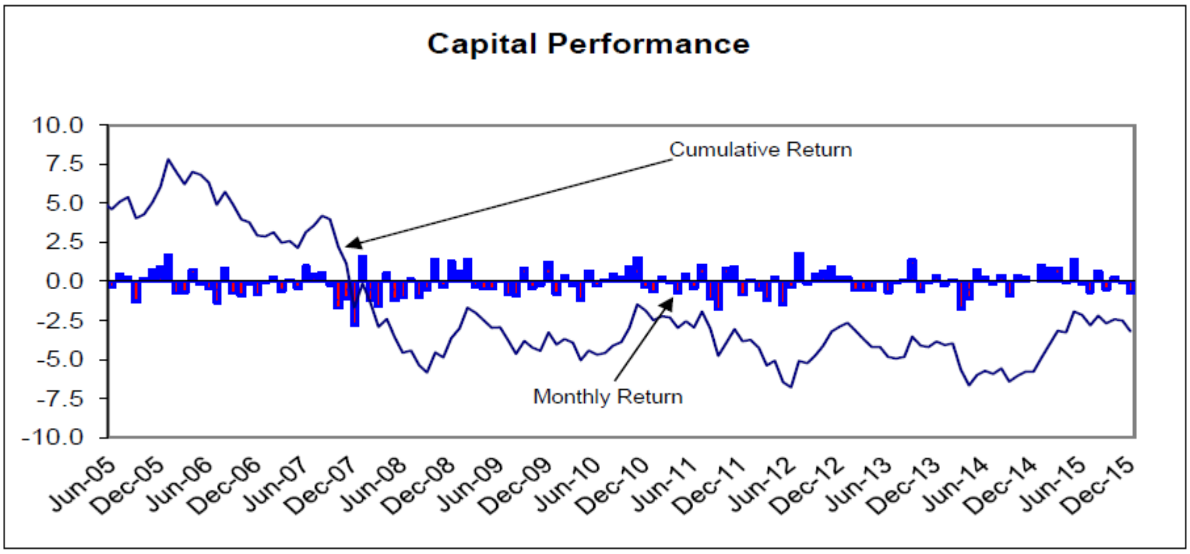
Capital International- Active North America

The surge in performance seen in the first half of 2015 continues to gently unwind. In Q4 Capital underperformed their benchmark by -0.5% (8.5% v. 9.0%). The good performance in H1 has ensured that their 12 month performance remains healthy, at 3.0% ahead of their benchmark (8.4% v. 5.4%).

On an annualised basis, over three years Capital are -1.2% behind their performance benchmark, and over ten years, -2.4%. They have some way to go to justify their fees, particularly when compared to passive management.

Both the US and Canada components posted negative returns against their benchmarks over the quarter, with poor stock selection being cited as the main reason. Performance objective is to outperform the benchmark by 1.5% annually over rolling 3 years

I am in danger of letting my cynicism get the better of me, but I suppose the recent strong upswing in relative performance was too good to last.

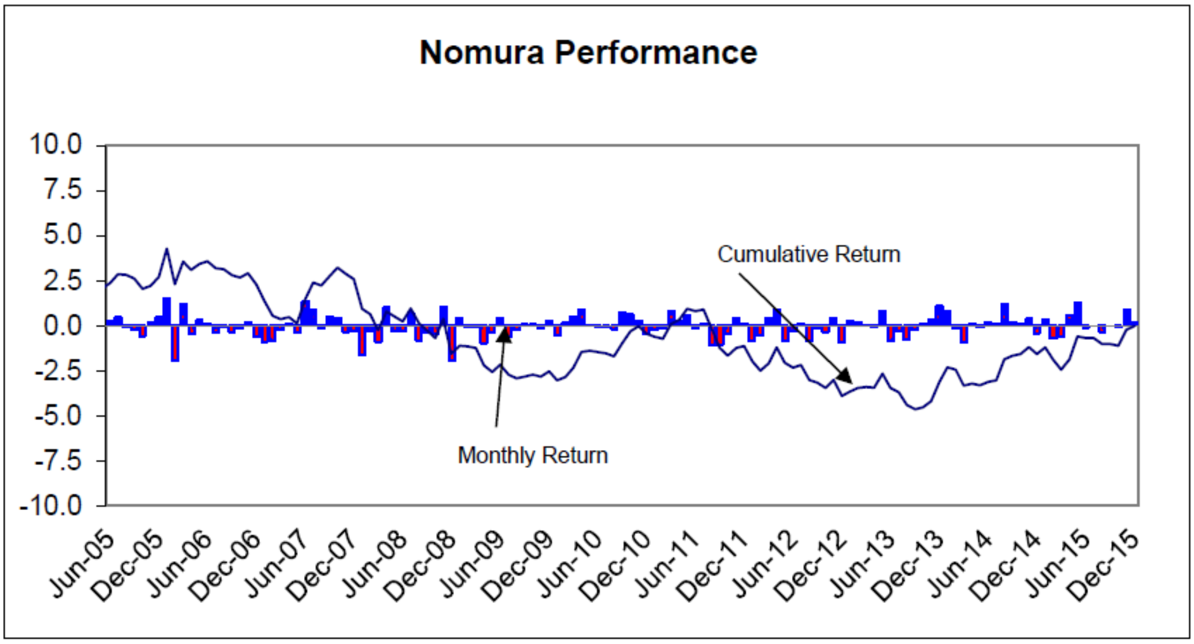


Nomura- Developed Far East

Nomura achieved a satisfactory performance on aggregate of 1.2% against their benchmark over the quarter (12.8% v 11.6%). Their outperformance over 12 months is now at 2.0% (10.8% v 8.8%).

Their three year performance against their performance target has improved, at -0.1% annualised against benchmark, but is still -1.55% over 10 years.

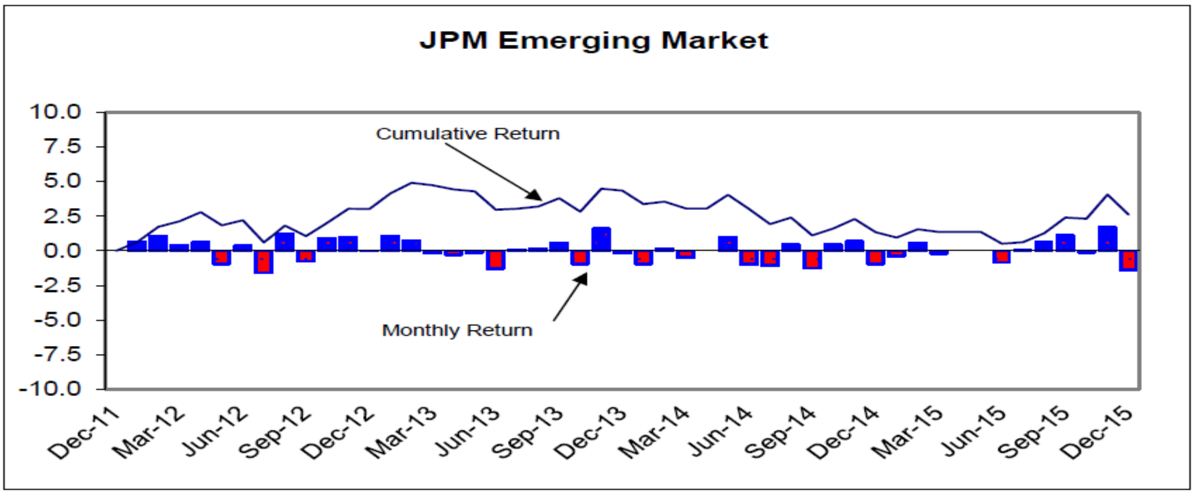
In a reversal of fortunes from Q3, in regional terms the ex Japan elements detracted from performance this quarter, which was more than offset by a good performance from the Japanese portfolio. Tezuka-san will be pleased!



JP Morgan – Emerging Markets

Hardly a stunning quarter this time, with an outperformance against their benchmark of just 0.2% (3.3% v. 3.1%). Their one year performance against their benchmark remains at 1.9% (-8.4% v. -10.3%), which including their performance target leaves them -0.1% behind.

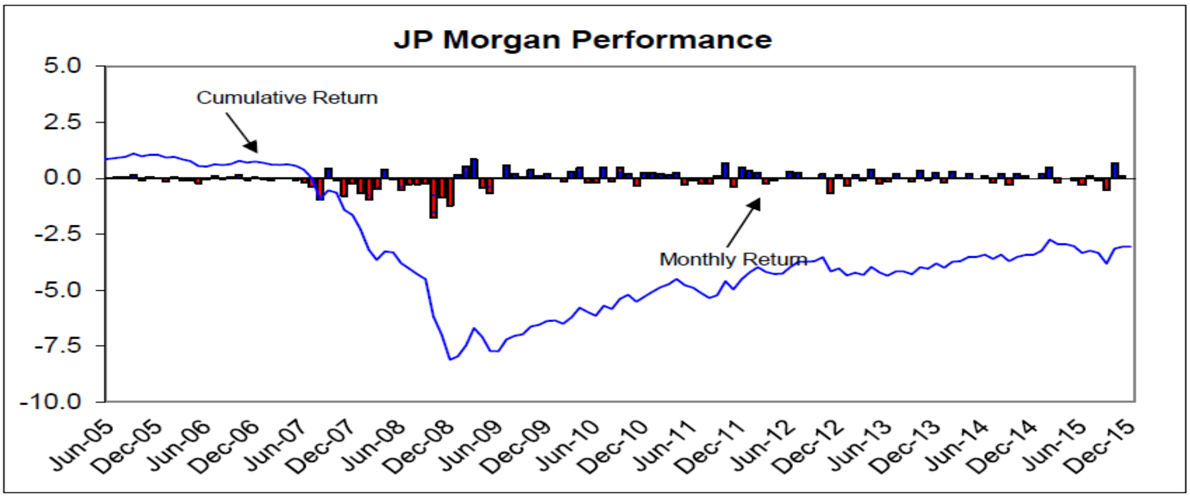
Over three years they remain behind their performance target, currently by -1.87% annualised, since inception the picture is slightly less bleak at -1.21% against performance target.



JP Morgan – Bonds

After a frustrating period, some decent performance at last! In Q4 they outperformed by 0.82% (0.87% v 0.059%). This has helped improve their performance against benchmark over the last 12 months to 0.64% (0.76% v 0.12%), but which is still behind their performance target.

Relative to their performance target, they are behind by -0.54% over three years, and -1.2% over ten years. There is still a lot of ground to be made up, but hopefully the way in which they manage this mandate has now been better focused.



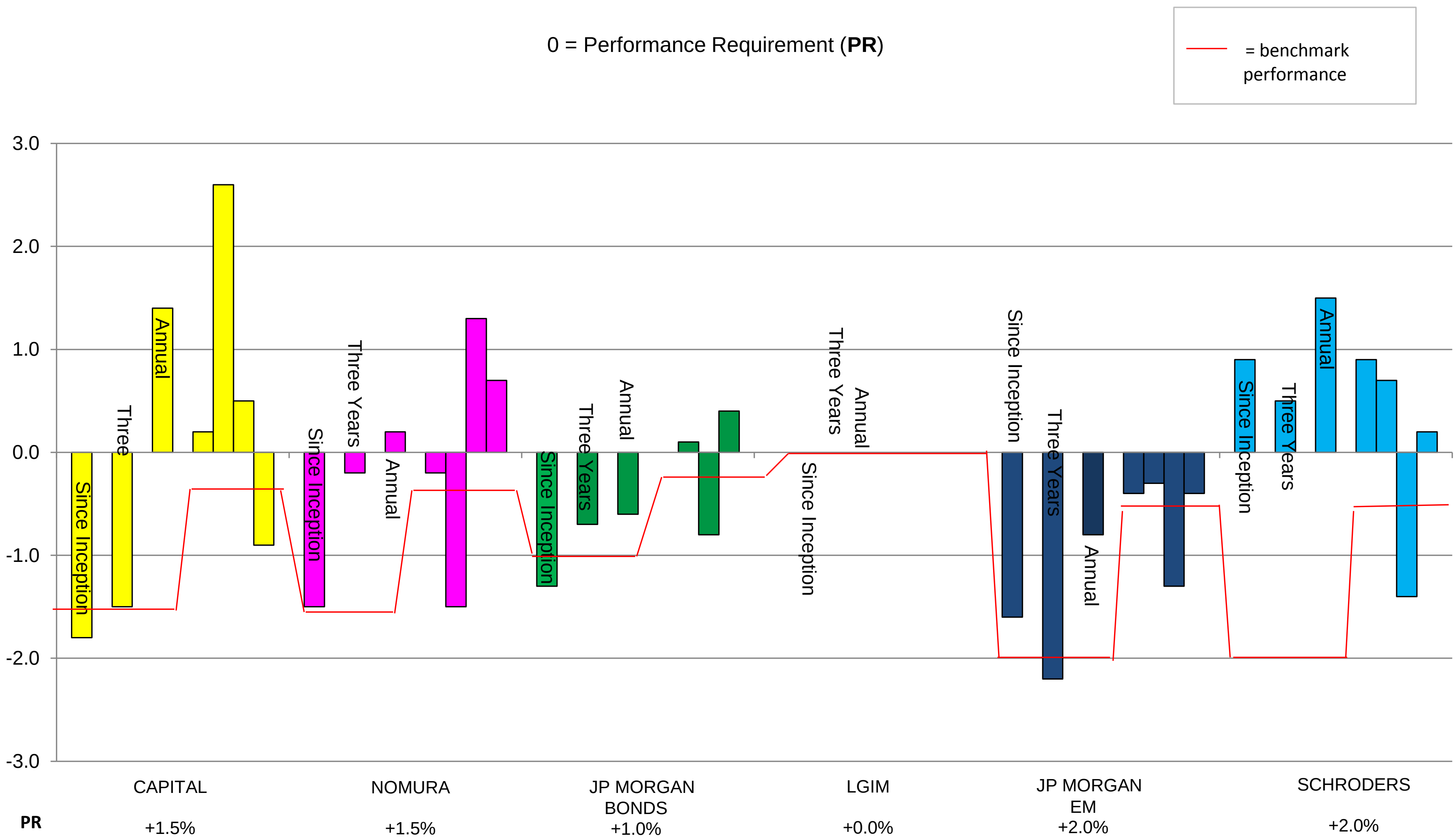
Property and Infrastructure Investment update

Walton Street

The Walton Street fund (U.S. Property Debt) was considered as a potential investment opportunity during the selection process that was undertaken at the end of 2014. At that time Renshaw Bay was considered to be the preferable choice, but since that time bFinance continued to monitor developments during the Walton Street fund raising process.

In March 2016 contracts were signed with Walton Street committing the remaining £27.5m out of the original £200m allocation to Property and Infrastructure. An initial drawdown of c. $5m was paid in early April 2016.

Worcestershire County Council Pension Fund - Chart showing for each manager: performance since inception, three years, annual performance January 2015 to December 2015 and latest year in quarter ends March 2015 to December 2015, relative to performance requirement



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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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worcestershire county council

PENSIONS COMMITTEE
27 APRIL 2016

ADMINISTERING AUTHORITY – ADMINISTRATION UPDATE

Recommendation

1. The Head of Human Resources and Organisational Development recommends that the general update from the Administering Authority be noted.

Membership

2. The Administering Authority continues to provide support and process members through the cycle of current, deferred and pensioner. The current numbers are shown in Table 1 below:

Table 1

	2015	2016
Current Members	20,700	22,700
Deferred Members	16,800	18,800
Pensioner Members	16,200	16,400

The End of Contracting Out / Change to National Insurance Contributions (NICs) from 6 April 2016

3. LGPS members have been contributing towards the Basic State Pension and have been 'contracted out' of the Additional State Pension (known as SERPS or S2P) and have been receiving a rebate for this part of their NICs.

4. The Government has introduced a new 'single-tier' State Pension for people who reach State Pension age on or after 6 April 2016 which replaces the existing basic and additional State Pension.

5. From 6 April 2016 the LGPS is no longer contracted out. Members and employers will no longer receive the NI rebate and will see a rise in NI contributions of 1.4% for members and 3.4% for employers.

6. Contracted Out NI tables and categories have been replaced by new Standard NI tables and categories.

End of Year Requirements

7. The Administering Authority invited all employers to an End of Year Workshop on 22 February 2016. The presentation gave a detailed understanding of the End of Year process and timetable. The presentation outlined the responsibilities of the Employers and particularly in relation to need for the Administering Authority to receive accurate and timely information.

8. Employers have been requested to forward their End of Year returns to the Pension Fund by 30 April 2016.

9. The information requested will be used for calculating Member Benefits, Annual Benefit Statements and Annual Allowances.

Pension Fund Valuation 2016

10. Preparation for the 2016 Triennial Valuation is underway with the Administering Authority data cleansing its records before providing our Actuaries, Mercers, with our membership data.

11. The fund is keen to engage employers at the earliest stage about the valuation process and specifically the increasing number of academies which have converted and become individual employers in the Fund.

12. A presentation was delivered by Mercers at the Administration Forum held on 24 November 2015 (reported to Committee on 14 December 2015 – Minute no. 27 refers) and a further session, being delivered by Mercers, will take place on Monday 11 April and all employers have been invited. The Agenda will include:

a) Proposed actuarial valuation methodology – how the value of the liabilities will be calculated and which assumptions will be key;
b) Update on Committee discussions on Funding Strategy;
c) Approximate funding update of the Whole Fund;
d) What the updated position might mean in terms of deficit recovery strategy and therefore contributions;
e) What information we may require from you to help us understand any affordability constraints;
f) Timetable for the valuation process; and
g) Current Issues Update, including March 2016 Budget.

13. We will be undertaking the Pension Fund Valuation as at 31 March 2016.

14. The valuation outcome will set the individual employer's contribution rates for 2017/18, 2018/19 and 2019/20.

15. Accurate information must be provided and strict deadlines adhered to by both Employers and the Pension Fund.

Tell Us Once (TUO)

16. The Administering Authority has been working with the Department for Work and Pensions to bring the Pension Fund into their 'Tell Us Once' project.

17. The Administering Authority is in the process of sharing its national insurance data and then the system will be live – anticipated for May 2016.

18. Tell Us Once enables the Fund to be automatically notified of all deaths registered via the Registration Service. This reduces the number of letters and/or visits a grieving family has to undertake and means that we can process pension payments more efficiently.

Newsletters

19. The Administering Authority has prepared, in partnership with Staffordshire, Shropshire, Warwickshire, Cheshire, Oxfordshire, Cambridgeshire and Northamptonshire funds, and issued an Employer and Employee Newsletter. These are attached as an Appendix.

Member Self-Service (MSS)

20. Following research into a number of options available in the market, the Project Team have prepared an options paper for consideration by the Head of Human Resources and Organisational Development and the Chief Financial Officer.

21. It is planned for work to commence on MSS from May with a pilot being undertaken over summer.

22. Although experience from other Funds using member self-service has shown low up-take to start with the Administering Authority is keen to progress with this project to enable 24/7 to members to their records, with options to update certain information and access to pension estimates and Annual Benefit Statements.

New Employers Workshop

23. The Administering Authority has seen a steady increase in the number of employers in the Fund now standing at 156.

24. Predominantly these new employers are schools which have converted to academy status and the remainder are Admitted Bodies, for example, where fund employers have contracted out service to third party (private) external suppliers.

25. Following feedback from employers at the Administration Forum, the Administering Authority is currently developing a new workshop for these new employers.

26. The workshop will enable the Administering Authority to explain the roles and responsibilities of the Fund and the new employers, to share information about key activities which take place during the year and be an opportunity to meet key staff.

27. The first workshop is planned for Autumn 2016

Contact Points

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Supporting Information

- Appendix - Employer and Employee Newsletter

Background Papers

In the opinion of the proper officer (in this case the Head of Human Resources and Organisational Development) there are no background papers relating to the subject matter of this report.

Worcestershire County Council Pension Fund

PENSION UPDATE - March 2016

FOR EMPLOYERS IN THE LOCAL GOVERNMENT PENSION SCHEME (LGPS)

1. END OF YEAR REQUIREMENTS

Please ensure that your End of Year Return reaches us by 30 April 2016

It is vital that the Pension Fund receives accurate and timely data as this information is required for calculating member benefits for the Annual Benefits Statements and Annual Allowance.

2. PENSION FUND VALUATION 2016

This year we will be undertaking the Pension Fund Valuation as at 31 March 2016 that will set the employer's contribution rates for 2017/18, 2018/19 and 2019/20. It is vital that accurate information be supplied and strict deadlines adhered to by Employers and the Pension Fund.

INVITATION REMINDER

LGPS 2016 Valuation and Employer Forum at County Hall on Monday 11 April 2016 at 2:15pm

3. MEMBER SELF SERVICE (MSS)

We are continuing to work on the MSS Project so our members will be able to access their pension records on-line. More details will follow. Once MSS is rolled out we will be looking at Employer Self Service (ESS)

4. LGPS PROTECTIONS

In recent years, the LGPS has seen significant changes to its legislation. Some of the changes include protection for certain members who were in the scheme at the time of change. Some of the main protections are listed below but remember to always contact the Pension's Team before making any decisions about your benefits.

Normal Pension Age (NPA)
Any pension built up before 1 April 2014 has a protected NPA, which is age 65. If you retire and draw all of your pension at your protected NPA, your pension built up in the scheme before 1 April 2014 will be paid in full.

If you choose to take your pension before your protected NPA the pension you have built up before 1 April 2014 will normally be reduced taking account how many years early it is being paid. The benefits you build up under the CARE Scheme from your protected April 2014 have a NPA linked to your State Pension Age (SPA) (but with a minimum age of 65). All pension benefits built up pre and post 2014 have to be drawn at the same time (except in the case of Flexible Retirement).

Reduction in pay
If you joined the LGPS before 31 March 2014 you will have membership in the Final Salary Scheme and your benefits, in respect of pre April 2014 service, will be based on your Final Salary at leaving. If you have a pay cut – for example because of a pay and grading exercise – there are some protections which continue to apply from the Final Salary Scheme.

To ensure your benefits are calculated using the best possible pay you can:

- Choose to have your benefits calculated on the best year's pay in the last three years.
- Choose to have your benefits based on the best 3 years average in the last 10 years, if you have received a pay cut from your employer.*

**This option is a request under regulation 10 of the LGPS regulations 2008. For this regulation to apply your employer must have caused your pay to be reduced or restricted, in one employment, and you must request this from your employer no longer than one month prior to your leaving the Scheme. Please ensure you keep any paper work relating to the pay cut, in case you are required to produce details in the future.*

Underpin
From 1 April 2014, if you were nearing retirement we will ensure that you will get a pension at least equal to that which you would have received in the scheme had it not changed. This protection is known as the underpin.

The underpin applies to you if you were:

- Paying into the Scheme on 31 March 2012 and,
- You were within 10 years of your NPA on 1 April 2012,
- You haven't had a disqualifying break in service of more than 5 years,

- You've not drawn any benefits in the LGPs before NPA and,
- You leave with an immediate entitlement to benefits.

The underpin will not apply if you opt out of the Scheme before your protected NPA (65) or before the scheme changed, and may not apply if you voluntarily draw benefits at a time when you would have required employer consent to do so under the pre 1 April 2014 scheme (normally pre age 60). If you are covered by the underpin, the Pensions Team will carry out the underpin check when you retire.

Rule of 85

The rule of 85 protects some or all of your benefits from early payment reduction. To have the rule of 85 protection you must have been a member of the LGPS on 30 September 2006 and if your age at the date when you draw your pension plus your scheme membership (each in whole years) must add up to 85 years or more.

The only occasion where the protection does not automatically apply is if you choose to voluntarily draw your pension at or after age 55 and before age 60.

If you would not satisfy the rule of 85 before you are age 65, then all your benefits would be reduced if withdrawn before your NPA. The reduction will be based on how many years before your NPA (age 65 for pension built up to April 2014 and before your SPA for pension built up from April 2014) you draw your benefits.

If you will be age 60 or over by 31 March 2016 and choose to draw your pension between age 60 and your NPA, then the benefits you build up to 31 March 2016 will not be reduced.

But, if you qualify for the full rule of 85 protection to 31 March 2016 and you decide not to retire until after 31 March 2016, any benefits built up from 1 April 2016 will be reduced if you retire before your SPA.

5. HOW MEMBER PERSONAL INFORMATION IS USED

Worcestershire County Council is the Administering Authority for the Worcestershire County Council Pension Fund and is registered with the Information Commissioner's Office as a Data Controller.

Your information is kept for the sole purpose of administering your pension. Your personal details are retained to establish any future entitlement to benefits. The Fund may pass certain details to a third party, where the third party is carrying out an administrative function of the Fund, or where we are legally obliged to do so.

To protect your personal information held electronically, Worcestershire County Council is registered under the Data Protection Act 1998. This allows you to check your details held by the Fund. If you wish to apply to access your data you should contact the Information Access Team at: dataprotection@worcestershire.gov.uk

The Fund's Actuary, Mercer, also acts as joint data controller with the Fund and have published information on how it handles your personal data on their website: http://goo.gl/NZoU96

The Fund is also taking part in the National Insurance Database. Here's how it affects you:

What is the LGPS National Insurance Database?
Worcestershire County Council Pension fund will be participating in a data sharing exercise with other LGPS pension funds in England, Wales and Scotland. This is to help comply with legal requirements contained in the LGPS's Regulations.

If a member of the LGPS dies with an entitlement to a death grant, it is necessary for the Scheme's administrators to know if the individual also had other periods of LGPS membership elsewhere in the country so that the correct death benefits are paid out.

As the LGPS is locally administered, each pension fund has its own membership records and it can be difficult to tell if an individual has other LGPS records and if so where these are held. To comply with the requirements set out above, a National Insurance Database has been developed that will enable funds to check if their members have LGPS pensions records in other funds.

What data is shared?
For each member of the LGPS, the Database holds a short entry containing:
- The individual's National Insurance number,
- A number to denote the individual's membership status,
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- A four digit number confirming the LGPS pension fund where the member's record is held.

Who hosts the Database?
The Database is hosted at the South Yorkshire Pensions Authority, a LGPS pension fund.

How will the data held on the Database be processed?
The data held on the Database will be processed in accordance with the Data Protection Act 1998 and other relevant legislation.

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An extract of the membership information contained in the Database will periodically be shared with Department for Work and Pensions (DWP) so that the LGPS can join the Tell Us Once Service. Tell Us Once is a service offered in most parts of the country when an individual registers a death. When the LGPS joins Tell Us Once and the death of an LGPS member is registered, the DWP systems will ensure that the LGPS pension fund is informed of the death, meaning that the member's records can be processed quickly and simply.

Who is the data shared with?
Other LGPS pension funds. These are all public bodies named in legislation as administering authorities of the LGPS. For the Tell US Once service, an extract of

the Database containing individual's NI numbers will be securely shared with DWP every month so that they may maintain an up-to-date record of the LGPS's membership.

How long will this data sharing be undertaken for?
For as long as:

I. The relevant regulatory requirements remain, and
II. The LGPS participates in the Tell Us Once service

In the event that neither of the above apply, the data will cease to be undertaken.

Can I opt out of this data sharing?
No. As the data sharing is partly being undertaken to comply with a legal requirement, it is not possible for scheme members to opt out of data sharing.

What if I have any queries?
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Our LGPS NI Database Privacy Notice can be viewed on our website at: www.worcestershire.gov.uk/pensions

6. THE SUMMER BUDGET AND THE LGPS

In the Summer 2015 Budget some announcements were made which could potentially impact the tax paid by an individual in the LGPS. There are two tax measures that could affect LGPS members; the Annual allowance (AA) and the Lifetime Allowance (LTA).

Annual allowance (AA)
The AA is currently set at £40,000 a year and is the maximum pension savings an individual can make, in any one year, before incurring a tax charge,. From April 2016 a taper will come into force limiting the AA amount for some members.

How will the taper work?
Broadly, anyone whose adjusted annual income, including their own and their employer's pension contributions, is more than £150,000 will be affected by the taper. But anyone whose annual income (excluding the value of any pension contributions) is £110,000 or less will not be subject to the taper regardless of their adjusted income.

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Members will be able to apply for these new protections by using a new on-line self-service system which will be available from July 2016. The new self-service system is still being developed by HMRC and we will provide updates when this is available. See the Funds website for more information.

If members think they may be affected by the changes brought about by the budget, they should contact HMRC.

Contacting HMRC:
Telephone: 0300 200 3300
Write: HM Revenue and Customs, BX19 1AS. United Kingdom.

7. EMPLOYER DISCRETION POLICIES

Have you sent us a copy of your employer discretions policy?

Under the LGPS Regulations, each Scheme employer must create, publish and keep under review a discretions policy outlining certain pension discretions they can exercise in relation to their employees. These discretions cover decisions such as, in what circumstances to agree flexible retirement or when to agree a request to increase benefits.

8.EXIT PAYMENT CAP – more regulation changes ahead?

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At the time of going to press the Fund is still awaiting on further information from the Government as to how this will be implemented. Further information will be published on our website once it is known.

9. THE REMOVAL OF CONTRACTING OUT

From April 2016, the Government is removing the National Insurance (NI) contribution rebate for all contracted out pension schemes like the Local Government Pension Scheme (LGPS). This means that the LGPS will no longer after that date be a Contracted- Out Scheme.

What does this mean for LGPS members?
Members who pay NI contributions will be contributing towards the Basic State Pension but are contracted out of the Additional State Pension known as SERPS or State Second Pension (S2P). Currently, LGPS members and employers receive a rebate for this part of NI contributions. However, from April 2016, all current LGPS members and employers will no longer receive this rebate and will see a rise in NI contributions of around 1.4% for members and 3.4% for employers from this date. The Government is also introducing a new single tier State Pension from April 2016.

Contracted-out Pension Equivalent
From November 2015, the Department of Works and Pensions (DWP) are including a Contracted-out Pension Equivalent (COPE) amount within State Pension statements. This is to help people, who have been contracted-out, understand why they may not be entitled to the full amount of the single Tier State Pension.

LGPS members will be contracted-out until April 2016 and will receive a pension through the LGPS. LGPS pensions may be more or less than the COPE amount shown on the statement. The COPE will be based on all periods of contracted out service but if you have been a member of more than one contracted out scheme your state pension will not show a breakdown.

Changes in NI Categories
Contracting-out of the additional State Pension on a defined benefits (DB) basis will end on 5 April 2016. This means that from 6 April 2016 employees will automatically be brought back into the State Pension Scheme and will no longer be able to use a contracted-out salary related (COSR) occupational pension scheme to contract out of the State Scheme.

Employees may, depending on their level of earnings, start to accrue entitlement to the new state Pension instead.

Eligibility for the contracted-out National Insurance Contributions (NICs) rebate of 3.4% for employers and 1.4% for employees will also cease from this date.

The introduction of the new State Pension will bring with it some changes in what and how you report to HMRC:

- From April 2016 you will not be able to use your Contracted-out Salary Related (COSR) occupational pension scheme to contract employees out of the new State Pension Scheme.
- There will no longer be a requirement to report the Employers Contracting-out Number (ECON) and Scheme Contracted-out Number (SCON) details on Full Payment Submissions (FPS) for tax years commencing 6 April 2016 and onwards.
- There will no longer be a requirement to separate the National Insurance (NI) earnings between the Primary Threshold (PT) and Upper Accrual Point (UAP) & UAP to Upper Earnings Limit (UEL).
- There will be a requirement to report NI earnings between the PT to UEL as there was prior to 2009.
- There will be one less column to complete on forms P11 and P60. These forms will be updated in due course and will be available on the Basic PAYE Tools or can be ordered from the Employer order line.

All HMRC systems will be amended to reflect these changes and the UAP data field will be removed from the FPS and Earlier Year Update (EYU).

National Insurance Categories from 6 April 2016

Contracted-out National Insurance tables/categories D, E, I, K, L, N, O and V will be replaced by Standard National Insurance tables/categories A, B, J, M, P, Q, R, T, Y and Z.

National Insurance Categories from April 2015 for employees under age 21

Contracted-out National Insurance categories I, K, and V will operate for the 2015-16 tax year **only** for individuals who are aged under 21 and are in contracted-out employment.

10. AUTOMATIC ENROLMENT – WILL YOU BE AFFECTED?

The Department of Works and Pensions (DWP) has successfully introduced Automatic Enrolment to workplace pensions for large and medium-sized employers, who account for around 20 million workers, according to a report from the National Audit Office.

The Government continues to face significant challenges, however, as a further 1.8 million smaller employers are required to enrol their eligible jobholders by 2018.

You may have seen in newspapers and in adverts the 'workie'. This campaign is part of DWPs drive to promote the responsibility employers have to offer a workplace pension.

For local authority pension funds many larger employers (County and District Councils) will be re-enrolling their employees to the Local Government Pension Scheme (LGPS) or if they delayed the introduction of Automatic Enrolment, enrolling them for the first time.

For many existing members of the LGPS you probably won't notice a difference but for some members you may. Here are some examples:

"I am currently contributing to the 50/50 scheme"
Your employer will notify you that from the re-enrolment staging date you will be enrolled back to the main scheme and that you have the option to continue or re-join the 50/50 scheme by completing another election form.

"I have more than one employment and have chosen not to pay into the LGPS in some of these posts"
Your employer will notify you that from the re-enrolment staging date you will be enrolled in to the LGPS in the posts in which you have previously chosen not to pay contributions. If you do not want to contribute in these posts you can again opt out by completing the necessary form(s).

If members have any questions concerning Automatic Enrolment and how it affects them, they will contact you as their employer who is responsible for ensuring automatic enrolment takes place.

11. LGPS CENTRAL POOL

In the summer 2015 Budget, the Chancellor announced the Government's intention to work with LGPS administering authorities to ensure that the assets of the 89 LGPS Funds in England and Wales are pooled into six new 'British Wealth Funds', each holding at least £25bn in assets. The objective of the pooling is to significantly reduce investment costs whilst maintaining overall investment performance.

Please find a copy of the Midlands Pool press release and information at: www.worcestershire.gov.uk/pensions

12. YOUR LGPS MEMBERS

Member Pension Update
Please arrange to inform your LGPS members that the latest member pension update is available at: www.worcestershire.gov.uk/pensions

Employee Pension contributions
Contributions from 01/04/2016 remain at the same rates as for last year.

Pay Band	Contribution Rates	
	Main	50/50
Up to £13,600.00	5.5%	2.75%
£13,600.01 to £21,200.00	5.8%	2.9%
£21,200.01 to £34,400.00	6.5%	3.25%
£34,400.01 to £43,500.00	6.8%	3.4%
£43,500.01 to £60,700.00	8.5%	4.25%
£60,700.01 to £86,000.00	9.9%	4.95%
£86,000.01 to £101,200.00	10.5%	5.25%
£101,200.01 to £151,800.00	11.4%	5.7%
Over £151,800	12.5%	6.25%

CONTACTING THE PENSIONS TEAM

Name	Position	Telephone
	Management Team	
Bridget Clark	HR Service Centre Manager and Lead Commissioner	01905 84 6215
Linda Probin	Pensions Manager	01905 84 6511
	Current Members Team	
Amanda Lewis	Team Leader	01905 84 5329
Anna Vile	Purchase of additional pension & AVC's	01905 84 3548
Sharon Lewis	Fire Brigade	01905 84 6527
Johann Griffiths	Transfer of Pension Benefits	01905 84 3964
Lisa Beckwith	Current Members A - F	01905 84 3545
Dean Griffin	Current Members G - O	01905 84 5283
John Griffiths	Current Members P - Z	01905 84 5112
Angela Wishart	Transfer of Pension Benefits	01905 84
	Retirements Benefits Team	
Suzie Hawkes	Team Leader	01905 84 3647
Angie Skipp	Retirement Benefits A - G	01905 84 5902
Sharon Elt	Retirement Benefits H - Q	01905 84 5382
Lynette Lewis	Retirement Benefits R - Z	01905 84 6584
Graham Gurney	Pension Payroll	01905 84 5766
Judith Carpenter	Preserved Benefits & Estimates A - G	01905 84 5815
Nigel Henry	Preserved Benefits & Estimates H - O	01905 84 6528
Linda Edwards	Preserved benefits & Estimates P - Z	01905 84 6551

Email: pensions@worcestershire.gov.uk

Website: www.worcestershire.gov.uk/pensions

Letter: Pensions Service, Commercial & Change Directorate, County Hall, Spetchley Road, Worcester. WR5 2NP.

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Worcestershire County Council Pension Fund

PENSION UPDATE - March 2016

FOR MEMBERS OF THE LOCAL GOVERNMENT PENSION SCHEME (LGPS)

1. ANNUAL BENEFIT STATEMENT (ABS) – have you checked yours?

A career Average Revalued Earnings scheme (CARE) provides a yearly build-up of pension and we are asking members to check their Annual Benefit Statement carefully.

At the end of August we issued you with an Annual Benefit Statement, if you were an active member of the scheme on 31 March 2015. You may have noticed that this statement looked different from previous years'. This is because it was the first statement since the LGPS changed to a CARE scheme on 1 April 2014.

Final salary Vs. CARE
In the previous Final Salary Scheme your pay in the last 365 days before you left the Scheme would determine the pension you would receive upon retirement. However, in a CARE scheme your pension is set by the pay you receive each year you are a member and then added together to form your total CARE pension.

As a result of the introduction of a CARE scheme it is more important than ever that your employer provides accurate pay information and that you check your ABS each year.

FAQs

What do I need to help me check my statement?
When you get your statement you should check all personal information in the statement is correct, and most importantly, that the pay supplied by your employer is accurate. To do this you will need access to your payslips from April to March for the year you are checking.

I have two pay figures on my ABS. Do I need to check them both?
Yes, you should check both. The pay used to calculate your LGPS benefits, is known as your pensionable pay which is also the pay from which contributions to the scheme are deducted. Not all the payments you receive from your employer are pensionable and when the LGPS changed on the 1 April 2014, a new definition of pensionable pay was introduced. This change means that the LGPS uses two definitions of pensionable pay to calculate the different parts of your pension benefits. The two definitions are known as the 2008 Final Salary definition and the 2014 CARE definition.

What is the difference between the 2008 and 2014 definitions of pensionable pay?
The 2014 CARE definition of pensionable pay now includes non-contractual (as well as contractual) overtime and also includes any additional hours worked. These payments (except for contractual overtime) are not included in the 2008 Final Salary definition of pensionable pay.

How do I check the pay figures on my statement?
If your pay is the same amount each month, or you work full time and haven't received any additional payments or pay awards throughout the year, then your pay on your statement should be the total gross on the cumulative figure on your March payslip. This will be the same for both CARE and Final Salary pensionable pay.

If your pay changes each month; you work part time, have received a pay award or have had any breaks in service, or periods of no pay, throughout the year, you will need to check with your payroll provider as to how they have calculated your pay as it may not be clear from your payslips. If any of the above circumstances do apply to you, here are some points to consider when checking your payslip:

Do you work part time?
If so, your contributions to and benefits from the 2014 CARE Scheme will be based on your actual pensionable pay. This means that your 2014 CARE pensionable pay will not be converted into full- time equivalent like your 2008 Final Salary pensionable pay is.

Have you had any periods of reduced or no pay?
If you have had any periods of reduced pay as a result of sickness/injury or ordinary child related leave, your 2014 CARE pensionable pay will include periods of assumed pensionable pay (APP) which is calculated by your employer.

Have you been on secondment or had any periods of acting up?
If you have received any additional payments for periods of acting up or secondment, these will count as additional payments. You should check that these payments have been included in your 2014 CARE pensionable pay.

Have you paid extra contributions?
If you have paid extra contributions throughout the year either to increase your pension via Additional Pension Contributions (APC's) or to cover any periods of lost pension because of absence, then you will need to check that your statement shows this.

What should you do if you think the pay on your ABS is wrong?
Contact your employer as soon as possible. If you are still not satisfied, you have the right of appeal.

2. LGPS PROTECTIONS: ARE YOU COVERED?

In recent years, the LGPS has seen significant changes to its legislation. Some of the changes include protection for certain members who were in the scheme at the time of change. Some of the main protections are listed below but remember to always contact the Pension's Team before making any decisions about your benefits.

Normal Pension Age (NPA)
Any pension built up before 1 April 2014 has a protected NPA, which is age 65. If you retire and draw all of your pension at your protected NPA, your pension built up in the scheme before 1 April 2014 will be paid in full.

If you choose to take your pension before your protected NPA the pension you have built up before 1 April 2014 will normally be reduced taking account how many years early it is being paid. The benefits you build up under the CARE Scheme from April 2014 have a NPA linked to your State Pension Age (SPA) (but with a minimum age of 65). All pension benefits built up pre and post 2014 have to be drawn at the same time (except in the case of Flexible Retirement).

Reduction in pay
If you joined the LGPS before 31 March 2014 you will have membership in the Final Salary Scheme and your benefits, in respect of pre April 2014 service, will be based on your Final Salary at leaving. If you have a pay cut – for example because of a pay and grading exercise – there are some protections which continue to apply from the Final Salary Scheme.

To ensure your benefits are calculated using the best possible pay you can:

- Choose to have your benefits calculated on the best year's pay in the last three years.
- Choose to have your benefits based on the best 3 years average in the last 10 years, if you have received a pay cut from your employer.*

**This option is a request under regulation 10 of the LGPS regulations 2008. For this regulation to apply your employer must have caused your pay to be reduced or restricted, in one employment, and you must request this from your employer no longer than one month prior to your leaving the Scheme. Please ensure you keep any paper work relating to the ay cut, in case you are required to produce details in the future.*

Underpin
From 1 April 2014, if you were nearing retirement we will ensure that you will get a pension at least equal to that which you would have received in the scheme had it not changed. This protection is known as the underpin.

The underpin applies to you if you were:

- Paying into the Scheme on 31 March 2012 and,
- You were within 10 years of your NPA on 1 April 2012,
- You haven't had a disqualifying break in service of more than 5 years,
- You've not drawn any benefits in the LGPs before NPA and,
- You leave with an immediate entitlement to benefits.

The underpin will not apply if you opt out of the Scheme before your protected NPA (65) or before the scheme changed, and may not apply if you voluntarily draw benefits at a time when you would have required employer consent to do so under the pre 1 April 2014 scheme (normally pre age 60). If you are covered by the underpin, the Pensions Team will carry out the underpin check when you retire.

Rule of 85
The rule of 85 protects some or all of your benefits from early payment reduction. To have the rule of 85 protection you must have been a member of the LGPS on 30 September 2006 and if your age at the date when you draw your pension plus your scheme membership (each in whole years) must add up to 85 years or more.

The only occasion where the protection does not automatically apply is if you choose to voluntarily draw your pension at or after age 55 and before age 60.

If you would not satisfy the rule of 85 before you are age 65, then all your benefits would be reduced if withdrawn before your NPA. The reduction will be based on how many years before your NPA (age 65 for pension built up to April 2014 and before your SPA for pension built up from April 2014) you draw your benefits.

If you will be age 60 or over by 31 March 2016 and choose to draw your pension between age 60 and your NPA, then the benefits you build up to 31 March 2016 will not be reduced.

But, if you qualify for the full rule of 85 protection to 31 March 2016 and you decide not to retire until after 31 March 2016, any benefits built up from 1 April 2016 will be reduced if you retire before your SPA.

3. HOW YOUR PERSONAL INFORMATION IS USED

Worcestershire County Council is the Administering Authority for the Worcestershire County Council Pension Fund and is registered with the Information Commissioner's Office as a Data Controller.

Your information is kept for the sole purpose of administering your pension. Your personal details are retained to establish any future entitlement to benefits. The Fund may pass certain details to a third party, where the third party is carrying out an administrative function of the Fund, or where we are legally obliged to do so.

To protect your personal information held electronically, Worcestershire County Council is registered under the Data Protection Act 1998. This allows you to check your details held by the Fund. If you wish to apply to access your data you should contact the Information Access Team at: dataprotection@worcestershire.gov.uk

The Fund's Actuary, Mercer, also acts as joint data controller with the Fund and have published information on how it handles your personal data on their website: http://goo.gl/NZoU96

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Please find a copy of the Midlands Pool press release and information at:
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5. CONSIDERING TOPPING UP YOUR BENEFITS

Here's what you need to know…

You may have some spare cash and want to pay more into your pension or you may want to cover 'lost pension' as a result of a period of unpaid absence such as child related leave.

Paying Additional Pension Contributions (APCs) either regularly from your salary or as a lump sum (subject to minimum limits) will allow you to top up your pension and/or make up the lost pension from a period of absence. Further information on how to make APCs including links to a calculator can be found on our website.

If you decide to cover 'lost pension' after a period of authorised absence, which resulted in reduced or no pay, and you make this election within 30 days of returning to work, your employer covers two thirds of the cost. This is called Shared Cost

Additional Pension Contributions (SCAPCs). In the case of lost Pension due to an unauthorised absence, for example, industrial action, your employer will not contribute towards the cost. For cases such as sickness absence your contributions are deemed as being paid.

You can also pay Additional Voluntary Contributions (AVCs) with our in-house AVC provider, Scottish Widows, who can be contacted at:

www.scottishwidows.co.uk/worcestershire

6. EMPLOYERS' DISCRETION POLICIES

Thinking of flexible or early retirement? Don't forget to check your employer's policy!

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Want to know what your employer's policy is?
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From April 2016, the Government is removing the National Insurance (NI) contribution rebate for all contracted out pension schemes like the Local Government Pension Scheme (LGPS). This means that the LGPS will no longer after that date be a Contracted- Out Scheme.

What does this mean for LGPS members?
Members who pay NI contributions will be contributing towards the Basic State Pension but are contracted out of the Additional State Pension known as SERPS or State Second Pension (S2P). Currently, LGPS members receive a rebate for this part of NI contributions. However, from April 2016, all current LGPS members will no longer receive this rebate and will see a rise in NI contributions of around 1.4% from this date. The Government is also introducing a new single tier State Pension from April 2016.

Contracted-out Pension Equivalent
From November 2015, the Department of Works and Pensions (DWP) are including a Contracted-out Pension Equivalent (COPE) amount within State Pension statements. This is to help people, who have been contracted-out, understand why they may not be entitled to the full amount of the single Tier State Pension.

As a LGPS member who will be contracted-out until April 2016, you will receive a pension through the LGPS. Please note your pension from the LGPS may be more or less than the COPE amount shown on the statement. The COPE will be based on all periods of contracted out service but if you have been a member of more than one contracted out scheme your state pension will not show a breakdown.

9. AUTOMATIC ENROLMENT – WILL YOU BE AFFECTED?

The Department of Works and Pensions (DWP) has successfully introduced Automatic Enrolment to workplace pensions for large and medium-sized employers, who account for around 20 million workers, according to a report from the National Audit Office.

The Government continues to face significant challenges, however, as a further 1.8 million smaller employers are required to enrol their eligible jobholders by 2018.

You may have seen in newspapers and in adverts the 'workie'. This campaign is part of DWPs drive to promote the responsibility employers have to offer a workplace pension.

For local authority pension funds many larger employers (County and District Councils) will be re-enrolling their employees to the Local Government Pension Scheme (LGPS) or if they delayed the introduction of Automatic Enrolment, enrolling them for the first time.

For many existing members of the LGPS you probably won't notice a difference but for some members you may. Here are some examples:

"I am currently contributing to the 50/50 scheme"
Your employer will notify you that from the re-enrolment staging date you will be enrolled back to the main scheme and that you have the option to continue or re-join the 50/50 scheme by completing another election form.

"I have more than one employment and have chosen not to pay into the LGPS in some of these posts"
Your employer will notify you that from the re-enrolment staging date you will be enrolled in to the LGPS in the posts in which you have previously chosen not to pay contributions. If you do not want to contribute in these posts you can again opt out by completing the necessary form(s).

If you have any questions concerning Automatic Enrolment and how it affects you, please contact your employer who is responsible for ensuring it takes place.

CONTACTING THE PENSIONS TEAM

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Letter: Pensions Service, Commercial & Change Directorate, County Hall, Spetchley Road, Worcester. WR5 2NP.