

What is the Local Government Pension Scheme?

Neil Sellstrom

CIPFA Pensions Network

neil.sellstrom@cipfa.org.uk

Pensions Basics

- Defined benefit / Defined Contribution
- Funded and Unfunded
- Trust Schemes and Statutory Schemes
- Types of Member
- Types of Employers
- Tax Position



Pension Fund accounting

The Cashflows



OBJECTIVE – Pay Benefits when due

Pensions Legislation

- Public Services Pensions Act 2013
- Superannuation Act 1972
- Pensions Acts 1993, 1995, 2004
- Financial Services and Markets Act 2000
- Contracted Out
- Trustees Act 1961/2000 (Investments)

- Timeline Regulations

<http://lgpsregs.org/index.php/regs-legislation/timeline-regulations-2014>

The Regulations

- Local Government Pension Scheme Regulations 2013
- Local Government Pension Scheme (Amendment) Regulations 2014
- Local Government Pension Scheme (Management & Investment of Funds) Regulations 2013
- New role for The Pensions Regulator
- Plus various CIPFA Guidance.....

LGPS in Operation

- Funded Scheme i.e. assets circa £200bn
- National benefits package
- Administered Locally (99 Funds)
- Statutory responsibility of Administering Authority
- Delegated to Pension Committee
- Local Accountability
- Largely externally invested
- Range of employing body participants

Roles & Responsibilities

- Pension Committee
 - Agree Funding / Valuation
 - Set Investment Strategy / Approach
 - Appoint Fund Managers / Monitor performance
 - Statutory Statements
 - Administration / Accounting etc:
- Committee Members
 - Prudent / efficient stewardship
 - Fiduciary responsibility

Roles & Responsibilities

- Administering Authority
 - Collect employer / employee contributions
 - Administer / pay benefits
 - Manage funding / investment strategy / accounting
 - Communications
- Fund Administrator
 - Treasurers responsibilities / SI5I role
- Employers
 - pay over employer / employee contributions
 - Administer benefits from employer perspective

Roles & Responsibilities

- Investment Managers
 - Deliver performance / manage (Mandate)
- Custodian
 - Safe keeping securities
 - Collect / account for dividends etc:
- Actuary
 - triennial valuation
 - transfer advice
- Advisers
 - investment / legal / procurement etc:

Statutory Documents

- Funding Strategy Statement
 - responsibility / solvency / target funding levels
 - risk / control
 - approach to employer contribution rates / employer risk
- Communications Policy
 - information / publicity / promotion
 - format / frequency / distribution
- Governance Compliance Statement
 - delegation arrangements
 - frequency of meetings / membership
 - compliance with CLG guidance

Statutory Documents

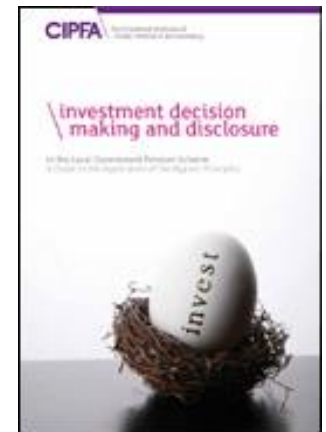
- Statement of Investment Principles
 - Investment types, balance, risk, return
 - Social, environmental & ethical considerations
 - Voting rights, stock lending

- Annual Report
 - review of performance
 - actuary statement
 - fund account

- Pensions Administering Strategy (discretionary)
 - communication with employers
 - performance / pay over of contributions requirements

Governance Compliance Statements

- DCLG Guidance 2008
- Reg 55 LGPS Regs 2013
- Funds to publish Statement
- Assess state of current arrangements
- Aim for consistent best practice
- DCLG Survey 'Overall high' compliance
- Did identify 'weaknesses' to be addressed



Governance Compliance Statements

- 9 'Best Practice' Principles:
 - Structure
 - Membership & Representation
 - Selection and role of lay members
 - Voting
 - Training/Facility time/Expenses
 - Meetings
 - Access
 - Scope
 - Publicity

LGPS Fund Governance

CIPFA / SOLACE



- Authorities must be able to demonstrate that they are complying with principles of good governance.
- Six core principles defined in the Framework are taken from the Good Governance Standard developed by the Independent Commission on Good Governance in Public Services with support from the Office for Public Management (OPM) and CIPFA, in partnership with the Joseph Rowntree Foundation.
- Pension Panel 2009 Guidance on application to LGPS

LGPS Fund Governance

Myners Requirements

- Review of institutional decision-making
- Updated Principles (6) in 2004
- LGPS Investment Governance Sub-Group
- Pensions Panel Guidance

LGPS Fund Governance

Myners Principles (1)

Principle 1: Effective decision making	Administering authorities should ensure that:- <ul style="list-style-type: none">▪ Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and▪ Those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.
Principle 2: Clear objectives	An overall investment objective (s) should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisers and investment managers.
Principle 3: Risk and liabilities	<ul style="list-style-type: none">▪ In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities▪ These include the implication for local taxpayers, the strength of the covenant for participating employers, the risk of their default and longevity risk.

LGPS Fund Governance

Myners Principles (2)

Principle 4: Performance assessment	<ul style="list-style-type: none">▪ Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisers▪ Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members.
Principle 5: Responsible ownership	<ul style="list-style-type: none">▪ Adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents,▪ Include a statement of their policy on responsible ownership in the Statement of Investment Principles; and▪ Report periodically to scheme members on the discharge of such responsibilities.
Principle 6: Transparency and reporting	<ul style="list-style-type: none">▪ Act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives;▪ Provide regular communication to scheme members in the form they consider most appropriate

CIPFA Knowledge & Skills Framework

- Launched January 2010 / Best Practice
- Application Members / Officers
- Adapt to Fund, Gap Analysis, Training Programme
- Annual Report disclosure – Code of Practice
- New version for Local Pension Boards



LGPS Fund Governance Knowledge & Skills / Key Areas

- Pensions Legislative and Governance Framework
- Pensions Accounting and Auditing Standards
- Financial Services Procurement and Relationship Management
- Investment Performance and Risk Management
- Financial Markets and Product Knowledge
- Actuarial Methods, Standards and Practices

Questions?

