

## Future direction of the Scheme - SAB

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### What we'll cover

- Regulations
- Scheme costs
- Deficit working group
- Academies
- Transparency
- Exit Payments
- MiFID II
- And finally.....GMPS!

## Regulations

- **Investment** – In force 1<sup>st</sup> Nov, EDM?, prudent person, non financial factors, power of intervention, JR????
- **Fair Deal** – Admitted body status for protected employees, HE, FE and PCCs excluded, full cost must be stated in tender, exit payment required if shortfall at end, secondary and follow on moves covered – pass through needed?
- **Freedom and Choice** – Take AVCs as one or more lump sums or purchase additional pension or annuity, or transfer to another arrangement – second thoughts?



## Scheme costs

- **Cost management 2016**
  - Two processes in play HMT and SAB, both effect future service costs only
  - Investment returns not included
  - Costs outside agreement –club, revaluation
  - Costs inside agreement – 50/50?
  - Possible results – breach SAB ‘should’ limit?
  - Possible outcomes - changes to accrual
  - timescales



## Deficit working group

- Standard funding calculation
  - 82 funds submitted; 19 below 90%; 23 above 100%; average 96%
- Tax raising bodies
  - looking at asset backed funding
  - Making the case for direct use of assets and capital receipts
- Academies
  - Separate workflow
- Other employers – new workflow to look at
  - Size of the potential problem – numbers, members liabilities
  - Issues – HE/FE status, Catch 22 employers
  - Possible approaches – process, regulatory or radical?



## Academies

- Potential 20,000 plus academies – how do they best fit in the scheme?
- Withdrawal of academies bill may slow things down but policy direction unchanged
- PWC appointed to look at issues
- Nothing ruled in or out
- Lots more work will be needed for any approaches to be fully considered



## Transparency

- Investment cost transparency in some form is coming from CIPFA, DWP, FCA, EIOPA, MiFID and the IA
- Board wants to be at the forefront to get LGPS what it needs
- Objective is aggregate cost transparency not manager level price transparency
- Listed template agreed with alternatives to come

| ASSET MANAGER COST COLLECTION TEMPLATE                |                         |         |         |          |                 |  |
|---|-------------------------|---------|---------|----------|-----------------|--|
| All figures in GBP unless specified                   |                         |         |         |          |                 |  |
| For use with aggregated portfolio management mandates |                         |         |         |          |                 |  |
| Asset Manager   |                         |         |         |          |                 |  |
| Portfolio name  |                         |         |         |          |                 |  |
| Period of report                                      | Start: _____ End: _____ |         |         |          |                 |  |
| Investment return                                     | 1 year                  | 3 years | 5 years | 10 years | Since formation |  |
| Gross return (%)                                      |                         |         |         |          |                 |  |
| Net return (%)  |                         |         |         |          |                 |  |
| Investment activity                                   | Total                   | Equity  | Bonds   | Property | Pooled funds    | Other (specify)                              |
| Overweight  | 0                       |         |         |          |                 |  |
| Underweight   | 0                       |         |         |          |                 |  |
| Neutral   | 0                       |         |         |          |                 |  |
| Other (%)   | 0                       |         |         |          |                 |  |
| Total (%)   | 0                       | 0       | 0       | 0        | 0               | 0  |
| Management fees                                       | Total                   |         |         |          |                 |  |
| Low level fees (less than 10%)                        |                         |         |         |          |                 |  |
| High level fees (10% or more)                         |                         |         |         |          |                 |  |
| Other charges (specify)                               |                         |         |         |          |                 |  |
| Performance fees                                      |                         |         |         |          |                 |  |
| Total   | 0                       |         |         |          |                 |  |
| Indirect fees   |                         |         |         |          |                 |  |
| Fees paid for on behalf of pooled funds               |                         |         |         |          |                 |  |
| Transaction costs                                     | Total                   | Equity  | Bonds   | Property | Pooled funds    | Derivatives Foreign exchange Other (specify) |
| Broker fees   | 0                       |         |         |          |                 |  |
| Broker commission                                     | 0                       |         |         |          |                 |  |
| Market impact cost                                    | 0                       |         |         |          |                 |  |
| Market liquidity cost                                 | 0                       |         |         |          |                 |  |
| Delivery charges                                      | 0                       |         |         |          |                 |  |
| Indirect transaction costs                            | 0                       |         |         |          |                 |  |
| Exchange fees   | 0                       |         |         |          |                 |  |
| Other transaction costs (specify)                     | 0                       |         |         |          |                 |  |
| Total   | 0                       | 0       | 0       | 0        | 0               | 0  |
| Trade holding (if applicable)                         |                         |         |         |          |                 |  |
| Other income  |                         |         |         |          |                 |  |
| Net income shared (to net recipient)                  |                         |         |         |          |                 |  |
| Net cost share  | 0                       |         |         |          |                 |  |
| Net cost retained by client                           |                         |         |         |          |                 |  |
| Additional revenue (if provided by manager)           |                         |         |         |          |                 |  |
| Contract charges                                      |                         |         |         |          |                 |  |



## Exit Payments

- **Recovery** - covers those who earn £80k or over and return to the public sector within 12 months. Includes pension strain costs.
- **Cap** - exit payments capped at £95k for exits within 28 days, includes pension strain cost. Possible waiver.
- **Further consultation**
- Severance max 3 weeks per year or 15 months, a max salary of £80k in calculation?
- Pension – strain limited to severance amount? increase to minimum pension age?
- Discussions with unions, DCLG and HMT



## MiFID II

- FCA consultation III now finished
- Local authorities will be retail investors from January 2018
- Can be opted up to professional status by (each) asset manager (for each asset class?)
- Opt up test not really suited to authorities
- Question mark over insurance based investments
- Pool investments could be ok via regulated and unregulated structures
- Need to sort out transitional holdings



## And finally.....

- GMP reconciliation
  - Post 97 revaluation?
  - Recovery of overpayments?
- Public consultation on post 18 SPA GMPs
  - Four annual calculations and pay the greater
  - Full PI on GMP
  - Convert GMP to scheme benefits



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