

# LEICESTERSHIRE COUNTY COUNCIL PENSION FUND



---

ANNUAL GENERAL MEETING 12 DECEMBER 2022

CHAired BY THE CHAIRMAN OF THE LOCAL PENSION COMMITTEE  
MR TOM BARKLEY CC

# Agenda Item 1: Minutes of the meeting held on 12 December 2021

# Agenda Item 2: Question Time

Agenda Item 3: Questions  
by members under  
Standing Order 7(3) and  
7(5).

Agenda Item 4: To advise of any other items which the Chairman has decided to take as urgent.

# Agenda Item 5: Declarations of Interest

# Agenda Item 6: Pension Fund Annual Report and Accounts

---

# Introduction

Declan Keegan, Assistant Director



What is the LGPS?



An introduction to the Leicestershire County Council Pension Fund



Pensions Administration



Pensions Investment



Responsible Investment



# What is the LGPS?

---

National Scheme

Defined Benefit Pension Scheme

Final Salary v Career Average

180 employers with active members (Councils, Academies, Universities etc)

Overseen by the Department for Levelling Up, Housing and Communities and the Pension Regulator

Two local governance bodies

- Local Pension Committee
- Local Pension Board

# An Introduction to the LCCPF

---

IAN HOWE PENSIONS MANAGER

# Local Governance

---



## Local Pension Committee – Chaired by Mr Tom Barkley CC

- Delegated authority taking overall responsibility for the Fund.
- Ten employer representatives (elected members and universities rep)
- Three non-voting scheme member representatives
- Principal aim is to consider pensions matters with a view to safeguarding the interests of all scheme members



## Local Pension Board – Chaired by Mrs Rosita Page CC

- Three employer representatives (elected members)
- Three scheme member representatives
- Role in assisting the Administering Authority in ensuring the effective and efficient governance and administration of the scheme

# Administering Authority

---

## Main Administration Duties include:

- Calculating and paying all types of pension benefits
- New starters, estimates
- New employers joining the scheme
- Regulation changes
- Year-end, valuation, benefit statements
- Governance - Reports to the Pension Board and as part of the Fund's Annual Report.

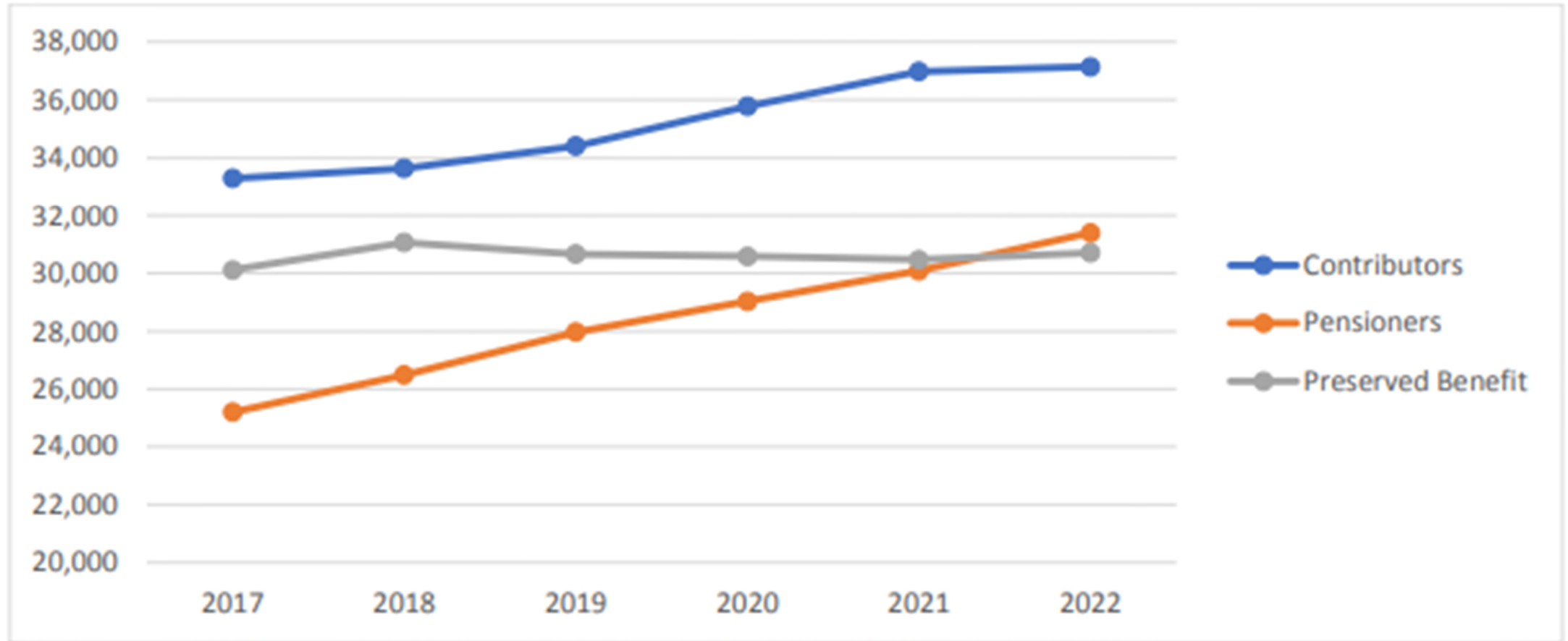
# Pensions Administration

---

IAN HOWE PENSIONS MANAGER

# Fund Statistics

	<b>Membership Numbers 31 March 2021</b>	<b>Membership Numbers 31 March 2022</b>
Active contributors	36,972	37,139
Preserved members	30,469	30,704
Pensioners	30,089	31,397
<b>Total</b>	<b>97,530</b>	<b>99,240</b>



Membership numbers over the last six years

# Administration Statistics 2021/22

<b>Area</b>	<b>Number of Cases completed</b>
New entrants	7,397
Retirements	2,113
Preserved leavers	2,034
Deaths	1,196
Refunds	1,148
Transfers in and out	287
Estimates	1,206



Full Year - 1 April 2021 to 31 March 2022

Business Process Perspective	Target	Achieved	
Retirement Benefits notified to members within 10 working days of paperwork received	92%	89%	▶
Pension payments made within 10 working days of receiving election	95%	95%	▲
Death benefits/payments sent to dependant within 10 working days of notification	90%	87%	▶

Good or better than target

Close to target

Below target

▲
▶
▼

# 2021/22 Admin Key Performance Indicators

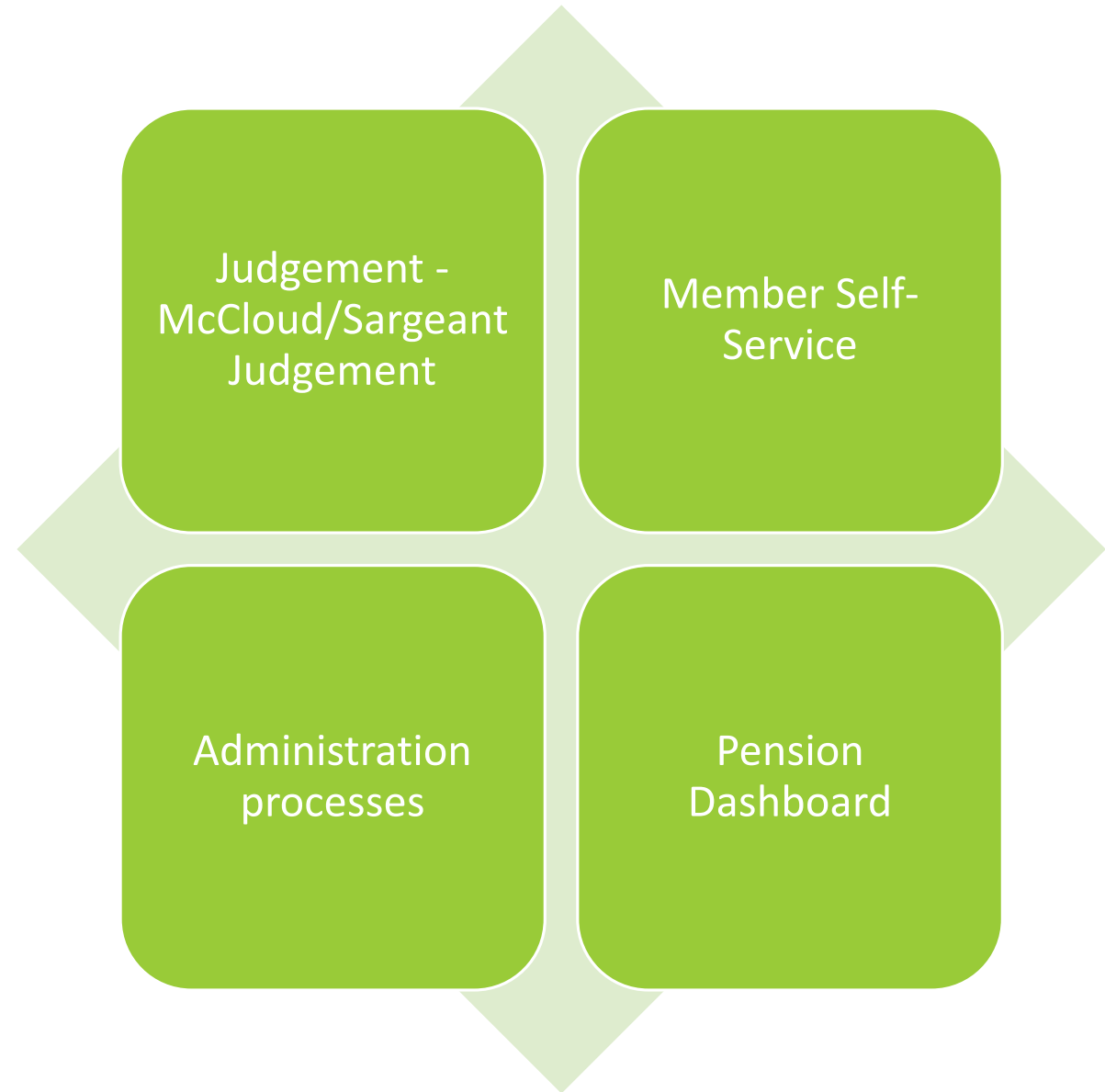
---

Customer Perspective - Feedback	Target	Achieved	
Establish members understanding of info provided - rated at least mainly ok or clear	95%	99%	▲
Experience of dealing with Section - rated at least good or excellent	95%	92%	▶
Establish members thoughts on the amount of info provided - rated as about right	92%	93%	▲
Establish the way members are treated - rated as polite or extremely polite	97%	99%	▲
Email response - understandable	95%	93%	▶
Email response - content detail	92%	94%	▲
Email response - timeliness	92%	91%	▶

## 2021/22 Admin Key Performance Indicators

---

# Looking Ahead



# Looking Ahead

## McCloud Sargeant Judgement

- In December 2018 the Court of Appeal found the protections granted during the move from final salary to career average (CARE) unlawful, on the grounds of age discrimination
- Remedy is being finalised for each Public Sector Scheme
- All Leicestershire Fund employers have been written to requesting scheme members hour changes for the period April 2014 to March 2022, as this will be required for the remedy.
- Subject to the final remedy, member's benefits will be “rerun”
- Benefits will be compared – using the better of final salary versus CARE
- Members benefits that increase will have arrears paid
- The increased cost of the remedy was scoped into the Fund valuation

## Looking Ahead

### Member Self-Service System Changes

- Further development to the Fund's member self-service system
- Over 28,000 scheme members signed up (but still much more to do)
- Working with some larger employers who have volunteered to help us increase their colleagues sign up
- An online retirement process is available allowing a scheme member to liaise directly with the Pension Section via member self-service. This includes submission of their retirement options and certificates.
- It speeds up the retirement process, makes the transfer of documents more secure, and assists with home working
- Other online processes are being developed

## Looking Ahead

### Bulk Administration Processes

- Bulk administration processes are being developed for high volume areas, initially preserved benefits and refunds
- Officers will be able to run multiple member calculations simultaneously, rather than singular case by case calculations
- Improves efficiency and reduce administration time in these high-volume areas
- Reduces the time between members leaving the scheme and receiving their benefits
- Resource becomes available to work on other important areas; e.g. estimates, transfers, aggregations

# Looking Ahead

## Dashboard

- National move to improve the member pension experience
- People will have a "single sign in" to view all their pension benefits in one place (the dashboard)
- Data will be "pulled" securely from all pension systems – including the Leics LGPS
- Officers hope this will increase our own member self-service take up and increase member awareness
- Pension schemes will have a phased implementation – starting with some of the largest schemes.
- LGPS is due to go live in 2024

# Pensions Investments

---

BHULESH KACHRA, SENIOR FINANCE ANALYST



# Current Investment Goals

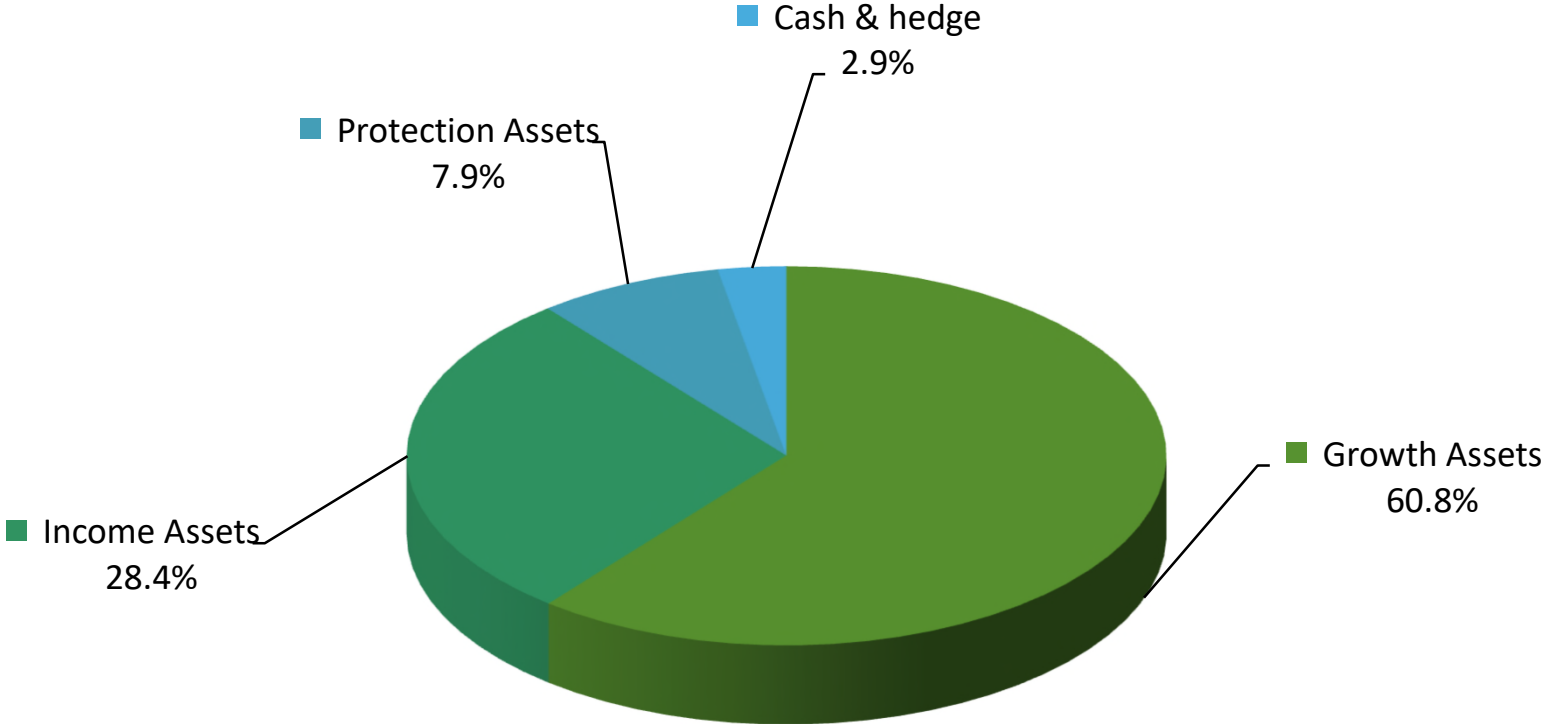
---

- Long term view of investment returns 20 years +
- Continued commitment to Responsible Investment with a comprehensive climate strategy currently undergoing consultation
- Balance between long term returns and risk assessed annually
- Considerable diversification to differing asset classes to balance risk
- Preference to investing with the 'Pool' (LGPS Central) and established external institutional managers
- Continued commitment to asset pooling, improving ESG goals & generating cost savings

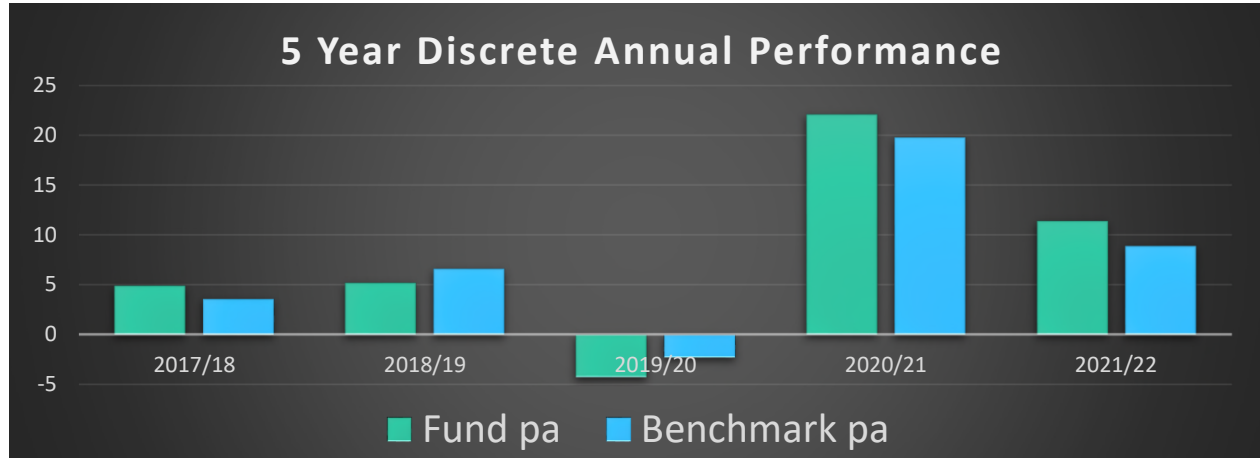
**Total Investments:** £5.8bn at 31 March 2022 (£5.1bn 2021; £4.1bn 2020; £4.3bn, 2019)

# Investments as at March 2022 (£5.8bn)

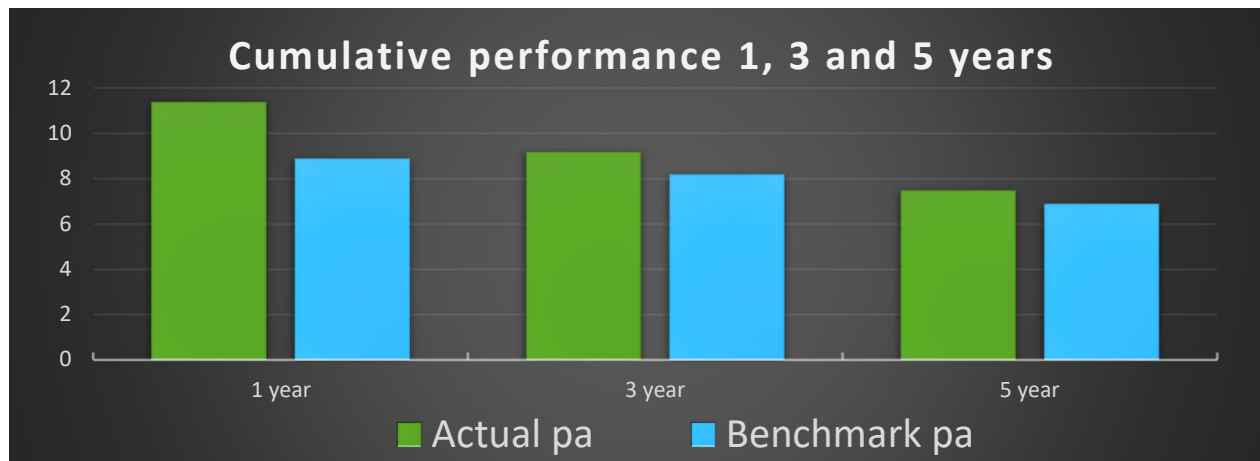
---



# Investment Returns



	Actual pa %	Benchmark pa %	Diff pa %
2017/18	4.9	3.6	1.3
2018/19	5.2	6.6	-1.4
2019/20	-4.3	-2.3	-2.0
2020/21	22.1	19.8	2.3
2021/22	11.4	8.9	2.5



	Actual pa %	Benchmark pa %	Diff pa %
1 year	11.4	8.9	2.5
3 year	9.2	8.2	1.0
5 year	7.5	6.9	0.6

# Leicestershire County Council Pension Fund and LGPS Central

Government instigated 'pooling' of pension funds in 2015 with the publication of criteria and guidance on pooling of Local Government Pension Scheme (LGPS) assets.

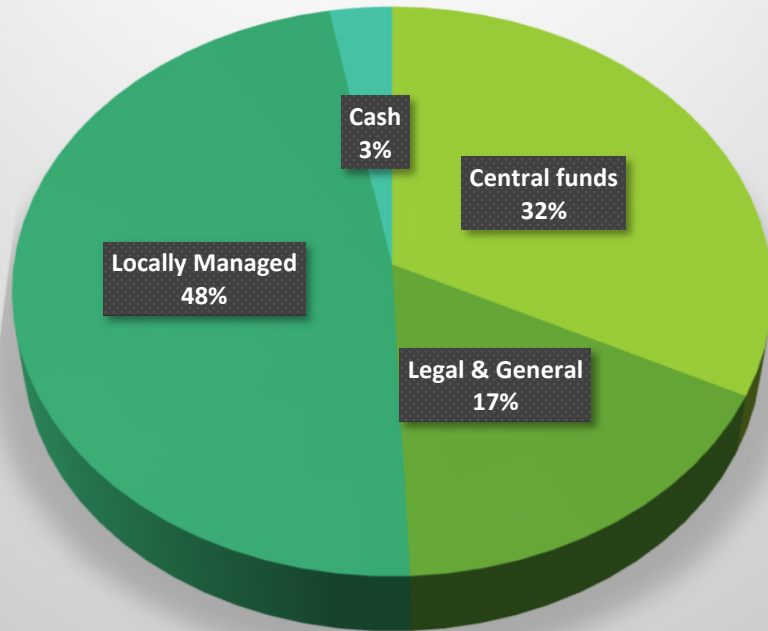
Administering authorities formed their own groups and eight asset pools were formed. LGPS Central ("Central") is one of the eight pools, Leicestershire County Council is an equal shareholder with seven other Councils.

LGPS Central has become the first port of call when assessing the needs of the Fund:

- A single investment 'manager' providing client support
- Access to Environmental, Social and Governance (ESG) specialism incorporating responsible investing and climate risk reporting
- LCC are able to influence the development of products with respect to risk and target returns characteristics
- After a number of years of launching products, Central manages a significant portion of The Fund's investments



**32% of funds Pooled with Central with an additional 17% pooled with a collectively procured Legal and General low cost passive tracker**



# LGPS Central

The LCCPF is has invested in 10 products as 31<sup>st</sup> March 2022

- 2 active and 1 passive equity fund - c£1,600m
- 2 private equity vintages - £40m committed, £34m uncalled
- Infrastructure core/core+ £70m committed, £48m uncalled
- Private credit vintages 2021 - £160m committed , £150m uncalled
- Emerging market credit – £120m
- Multi Asset Credit – £222m
- Investment Grade Credit – £126m

Including LGIM investments the Fund has pooled 49% of total funds

The £232m of uncalled commitments when called will increase the proportion of pooled investments by c4% all else being equal

# Developments since 31st March 2022

---

Products that aim to deliver investment returns in line with the Fund's goals have been created in conjunction with partner funds.

The Fund made a number of commitments since the year end to Central products, alongside other managers where suitable Central products were not available

As result of these additional commitments by the Fund, an additional £650m could be called by Central in the coming years.

All other things being equal this will increase the proportion of 'pooled' funds further

April 2022 – the investment sub committee approved £120m to the LGPS Direct Property Fund

July 2022 – the investment sub committee approved:

- £30m to the LGPS Central core / core + fund
- £30m to JP Morgan IIF
- £55m to Quinbrook Net Zero infra power fund
- £55m to Stafford Capital's Carbon offset opportunities fund (mainly an afforestation and reforestation fund)

October 2022 - the investment sub committee approved commitments totalling:\*

- £320m to the Central private credit low return fund
- £180m to the Central private credit real assets fund
- £60m to Partners MAC7

\* These private credit investments have restrictions surrounding minimum fund raises by the manager before the Fund will fully commit the amounts approved

# RESPONSIBLE INVESTMENT

---

CAT TUOHY, RESPONSIBLE INVESTMENT ANALYST

A solid green horizontal bar at the bottom of the slide.

# Responsible Investment

---

- ❑ “Responsible investment is an approach to investment that aims to incorporate environmental including climate risk, social and governance (ESG) factors into investment decisions, to **better manage risk** and **generate sustainable investment returns**”
- ❑ Member of Local Authority Pension Fund Forum.
- ❑ Annual Climate Risk Report and reporting under the Taskforce for Climate related Financial Disclosures since 2020
- ❑ Key engagement topics with LGPS Central:
  - Climate change
  - Plastic
  - Fair Tax Payment and Tax Transparency
  - Human Rights Risks







Leicestershire County Council  
Pension Fund

## Net Zero Climate Strategy

Draft November 2022

# Draft Net Zero Climate Strategy

- First engaged on 9 targets and metrics, over 1000 responses.
- 70% supportive of overarching primary target Net Zero by 2050, with an ambition for sooner.
- Strategy looks to manage climate risk and opportunities by working with managers, companies and investing in climate solutions.
- Recognises limitations on the Fund, but that limitations are not a reason to delay taking action where we can.

## HAVE YOUR SAY

Consultation on the draft Strategy until 5 February 2023. More information on the Pension Fund's Member Self Service site:

<https://leicsmss.pensiondetails.co.uk/>



# Action We're taking

---

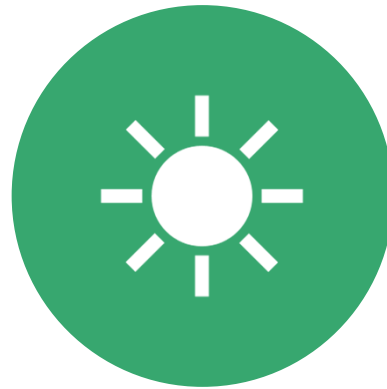
- The Fund is already 26% less carbon intensive since its initial measurement as at 31<sup>st</sup> December 2019 across measurable investments.
- Transitioning £800m+ to sustainable and low carbon investment strategies.
- Investment in timberland (forestry) since 2011. Our investments extend across 12 countries, and covers the equivalent of 17% (363 km)<sup>2</sup> of Leicestershire's surface area.
- This sequesters more than 720,000 tonnes of carbon dioxide from the atmosphere each year. This is equivalent to the annual emissions from 233,000 cars, or 62% of reported emissions within the City of Leicester in 2020.

# RI in the Year Ahead

---



2023 RI PLAN



COMPLETION OF  
CONSULTATION AND APPROVAL  
OF NET ZERO CLIMATE  
STRATEGY



DEVELOPMENT OF THE FUNDS  
CLIMATE RISK ANALYSIS

# Agenda Item 7: Fund Valuation

---

TOM HOARE, RICHARD WARDEN, STEVEN TART, HYMANS ROBERTSON

A solid green horizontal bar at the bottom of the slide.

# Leicestershire County Council Pension Fund

2022 valuation – AGM

Tom Hoare

Steven Tart

12 December 2022

# What we will cover today

- 1 Background to the 2022 valuation
- 2 Inputs - what we need
- 3 Method - what we do
- 4 Results - what employers & Officers get

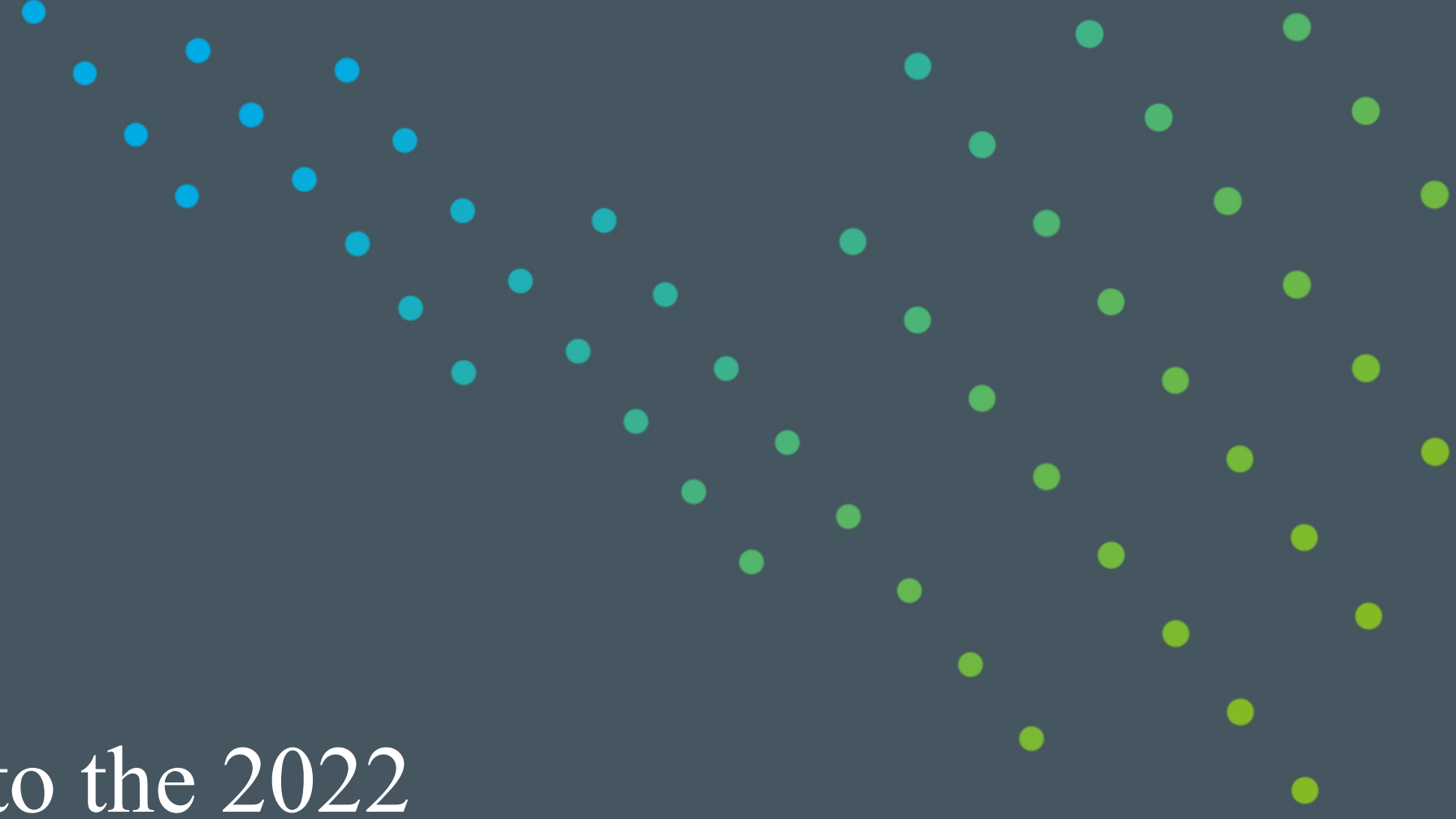


**Tom Hoare**



**Steven Tart**

# Background to the 2022 valuation



# How the Fund works



**Collect money**  
(contributions)



**Invest money**  
(its assets)

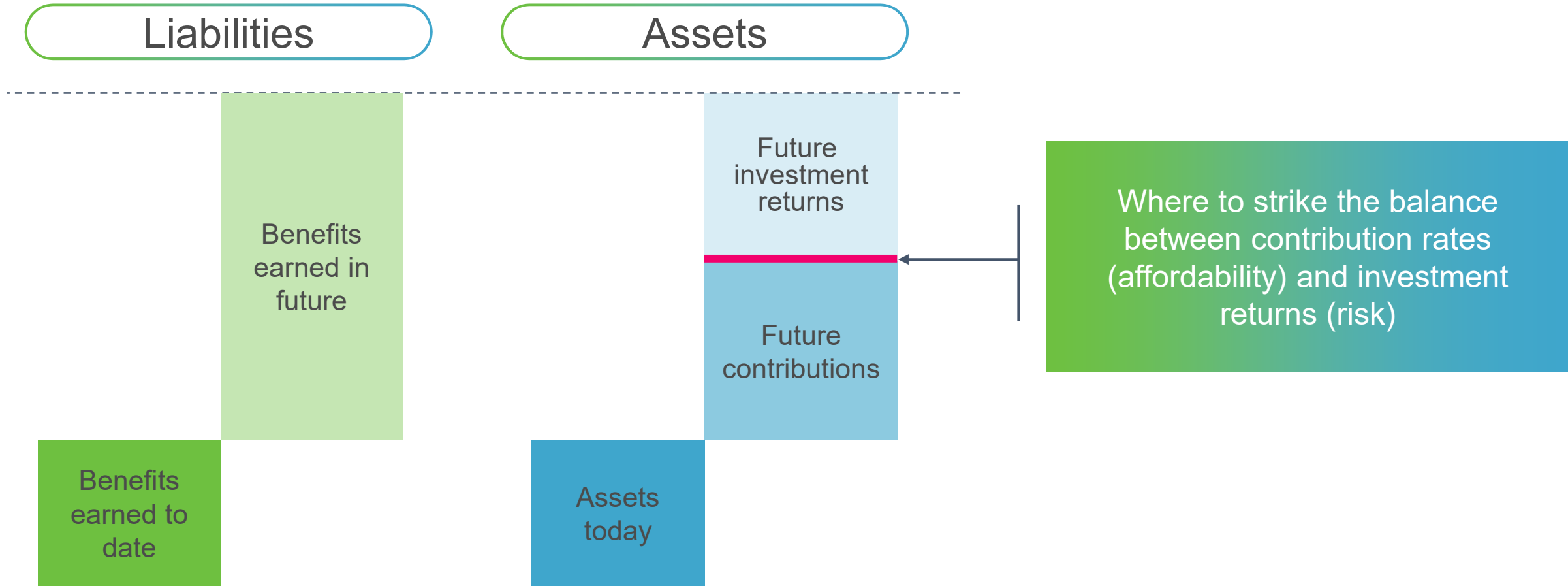


**Pay money out**  
(benefits)

**Contributions and investment returns fund all the benefits**



# Key funding decision per employer



# Why we do a valuation?



Calculate employer contribution rates



Compliance with legislation



Analyse actual experience vs assumptions



Review Funding Strategy Statement



Part of continual 'health check' on fund solvency

**The valuation is a key risk management for the fund**

# How we do the valuation

## Inputs – what we need

Data for each member  
past & present

Financial and  
demographic assumptions

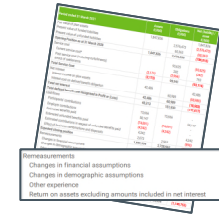
Funding and investment  
strategy

LGPS benefit structure

## Method - what we do



## Results - what employers & Officers get



Individual employer  
results schedule



Updated Funding  
Strategy Statement



Final valuation report

# 2022 valuation timetable

## Q4 2021 – Q1 2022

### Pre-valuation work:

- Planning
- Data cleansing
- Review of assumptions
- Review of stabilisation mechanism for precepting employers



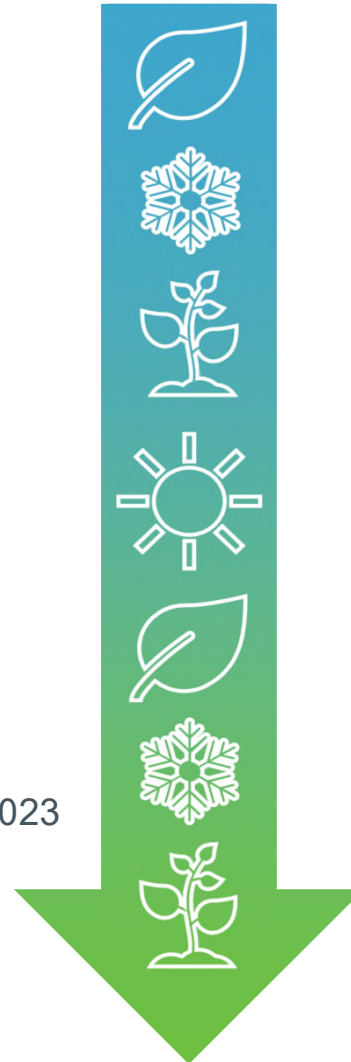
## Q3 2022

Data cleansed and submitted to actuary  
Review of strategy for all employer groups  
Initial results & discussions with Officers



## Q1 2023

Funding strategy statement finalised  
Final valuation report signed off by 31 March 2023



## Q2 2022

Contribution rate modelling for stabilised employers



## Q4 2022

Employer results issued to employers  
AGM & consultation period  
Funding Strategy Statement consultation

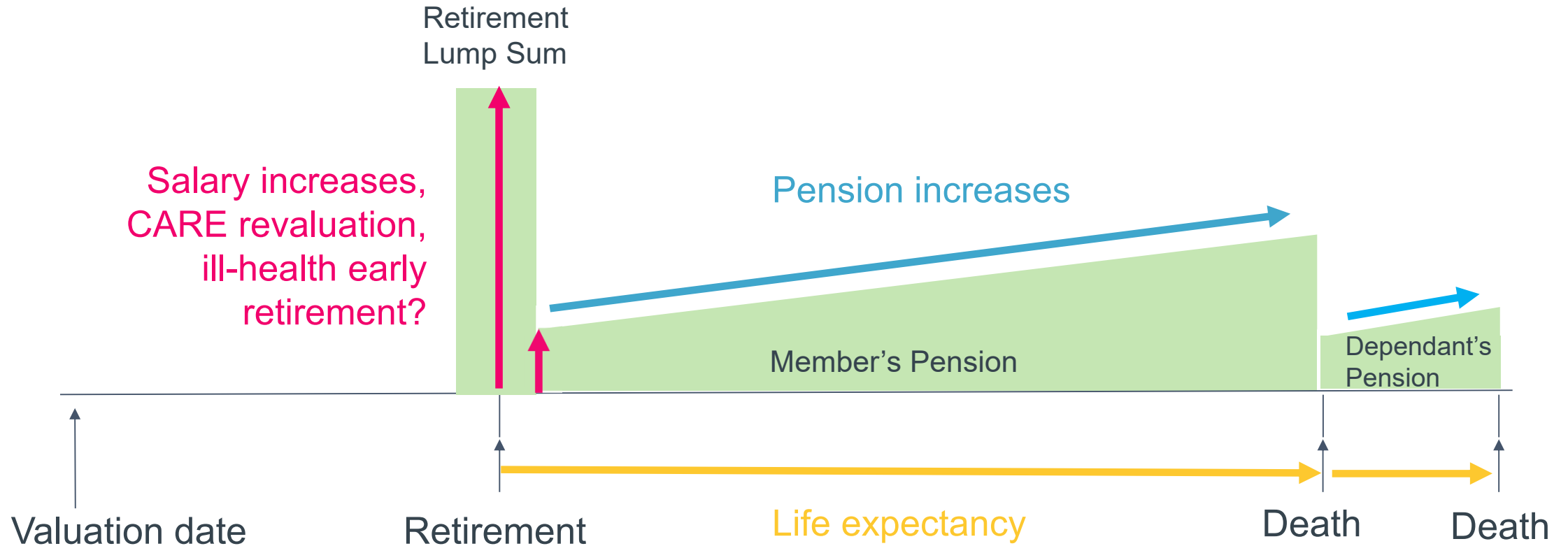


## 1 April 2023

New employer contributions come into payment

Inputs – what we need

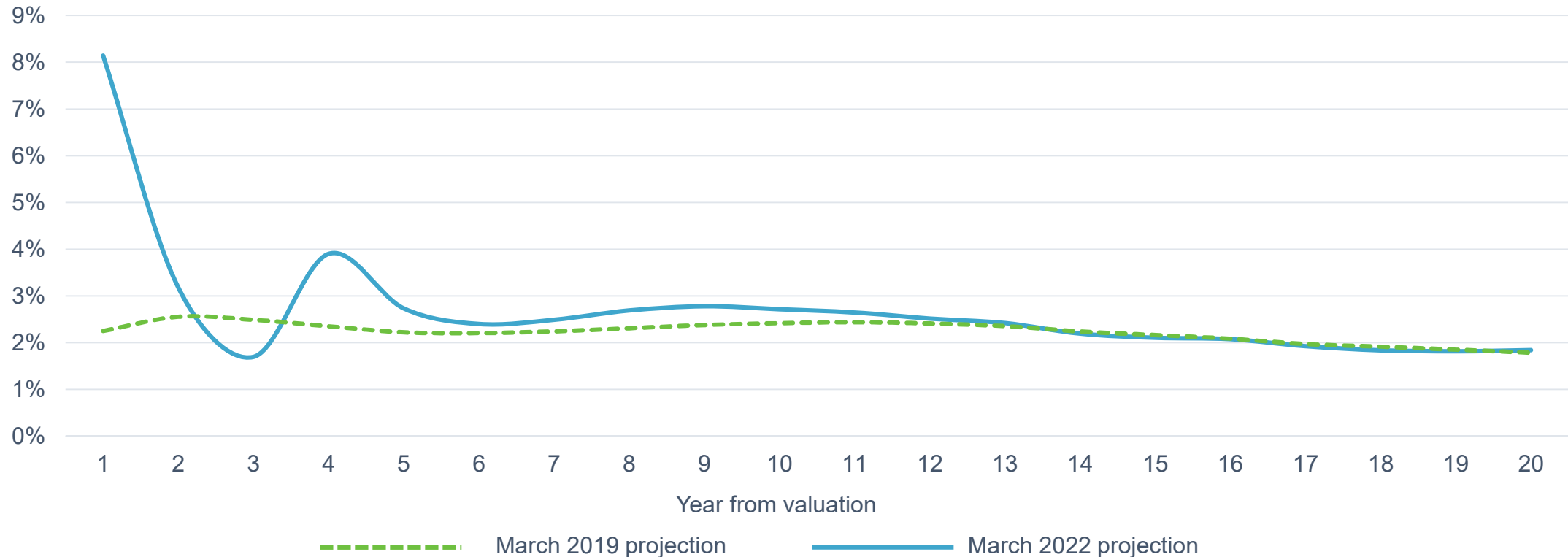
# Assumptions – why they are needed



No significant changes in assumptions, except for inflation...

# CPI inflation – 2019 vs. 2022

Annual CPI inflation – 2019 vs. 2022



**Average level of future inflation: 2019 = 2.3% pa, 2022 = 2.9% pa**

Source: Hymans Robertson ESS model

# How to capture variable longevity



Gender/  
generation



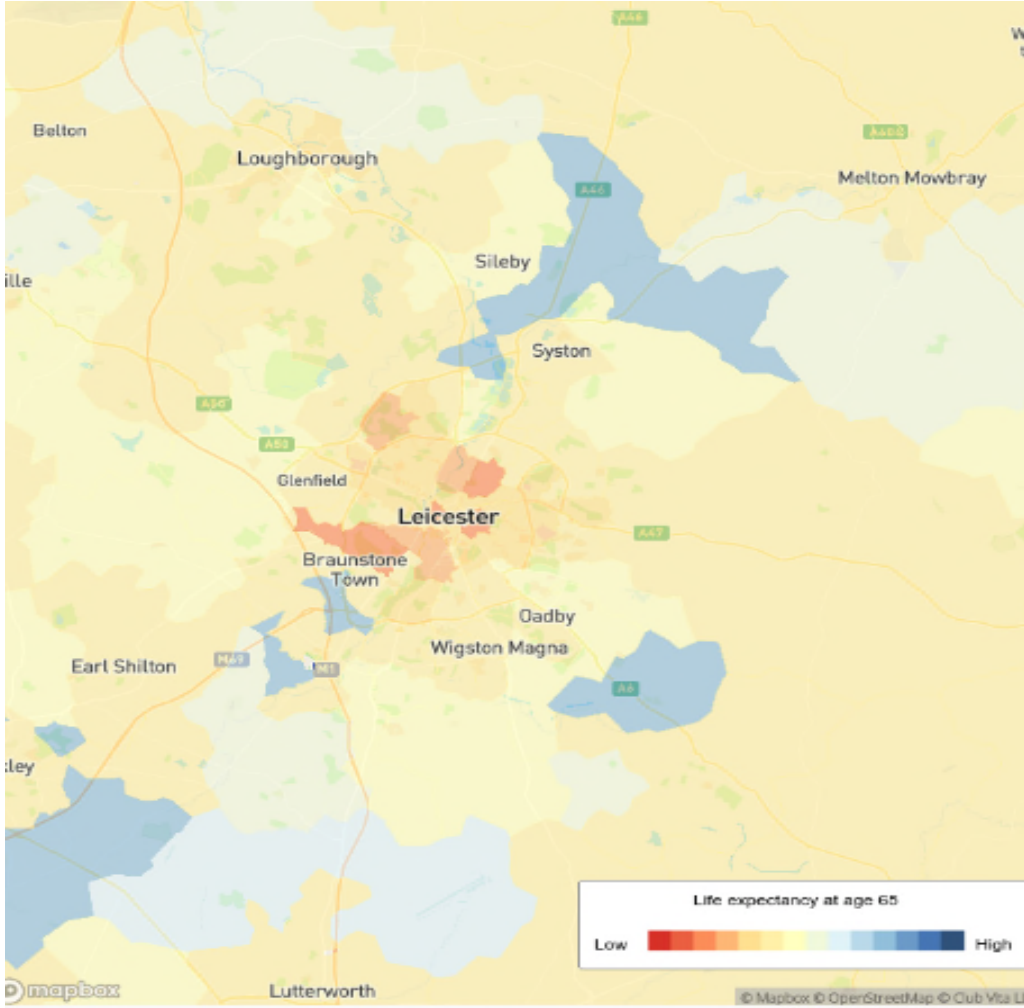
Pay/Pension



Reason for  
retirement



Postcode





# Benefit structure - McCloud

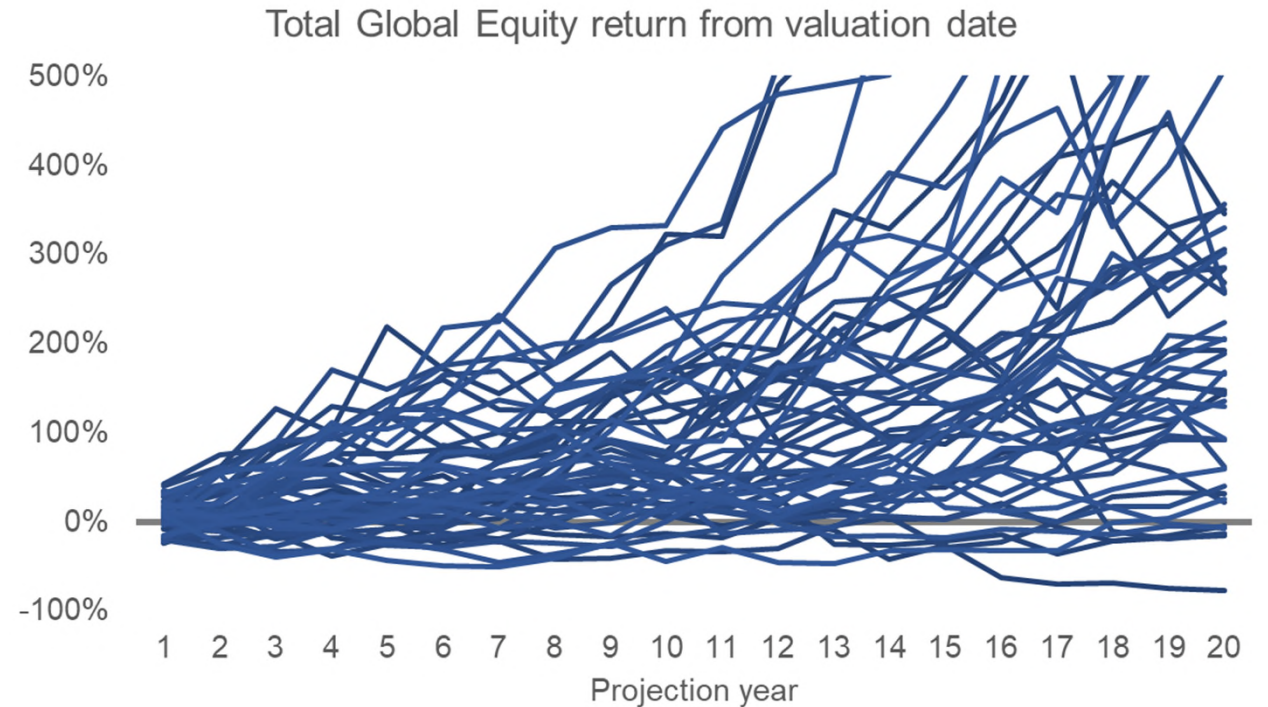
- Extension of 'best-of' underpin for service between 2014 & 2022
- Given the 'best-of' nature, some members may see an increase in benefits
- At 2022, more certainty about the format of the remedy in LGPS
- We have built in allowance for McCloud at this 2022 valuation into employer funding positions

**Overall cost impact to the Fund is small (c0.2% of liabilities), but will vary by employer**

# Method - what we do

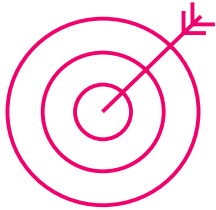
# Risk-based valuation approach

- Future investment returns and inflation are uncertain and volatile
- Use a valuation approach which reflects the real-world
- Capturing uncertainty allows users to better understand risk funding plans
- Model 5,000 different future economic scenarios



**Real world approach applied to each of the Fund's asset classes**

# 3 steps to setting the funding strategy



What is the funding target?

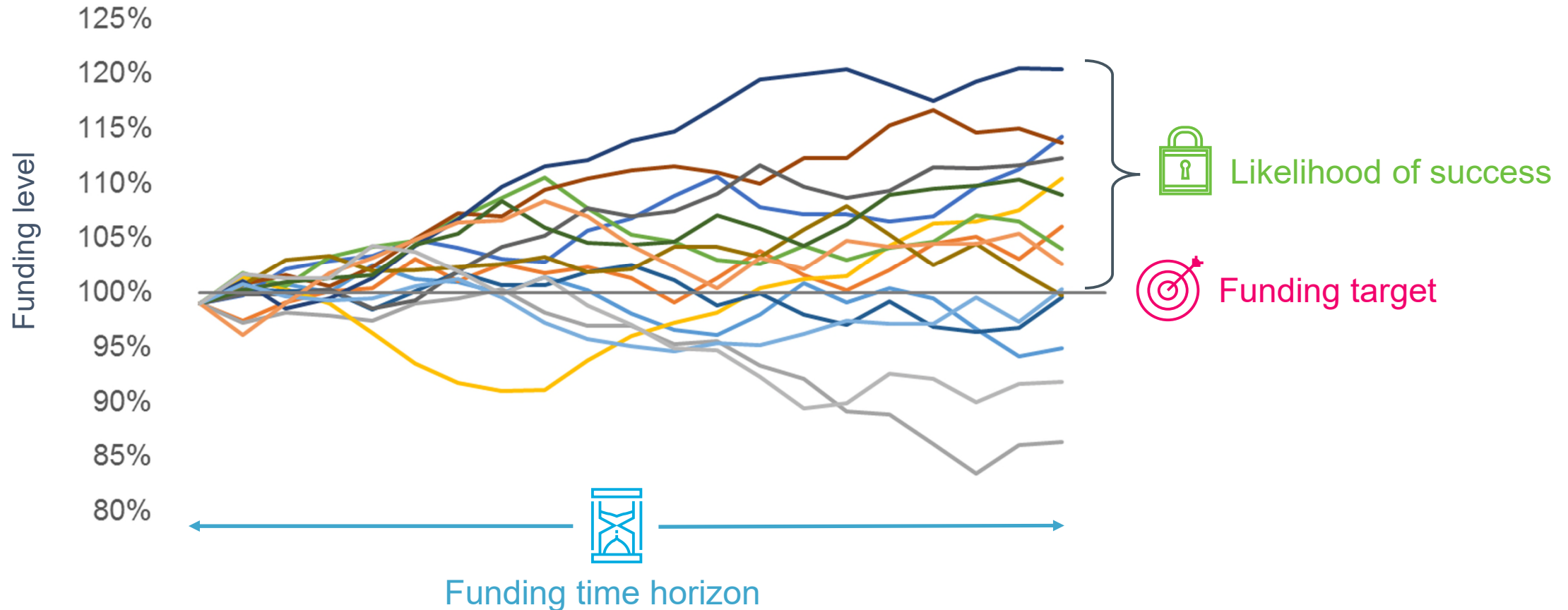


How long do we want to give the employer to get to the target?



How sure do we want to be that the employer hits the target? (75%)

# Setting risk-based contribution rates



**Set contribution rate to have sufficiently high likelihood of meeting the funding target at the end of the time horizon**

# Results - what employers & Officers get

# Single reported 2022 funding position

- Funding position has improved since 2019
- Mainly due to strong investment returns over inter-valuation period
- Important to remember limitations with funding level
  - It only considers past service
  - It is a snapshot on one particular day, it will fluctuate

Valuation Date	31 March 2022	31 March 2019
<b>Past Service Liabilities</b>	<b>(£m)</b>	<b>(£m)</b>
Employees	2,131	1,842
Deferred Pensioners	1,077	966
Pensioners	2,299	2,041
<b>Total Liabilities</b>	<b>5,507</b>	<b>4,849</b>
<b>Assets</b>	<b>5,790</b>	<b>4,312</b>
<b>Surplus/(Deficit)</b>	<b>283</b>	<b>(537)</b>
<b>Funding Level</b>	<b>105%</b>	<b>89%</b>

Numbers may not add up due to rounding

**Funding level improvement comparable to LGPS peers\***

# Individual funding positions

## Funding profile

Balance between past and future service matters at 2022

## Membership experience

Events such as ill-health retirements, salary increases will affect employer funding positions

## Membership profile

Differences such as age and gender will affect the contribution rate

## Contributions being paid

Higher contributions will result in a larger funding level improvement

Difference in average life expectancy (from fund average) for each employer



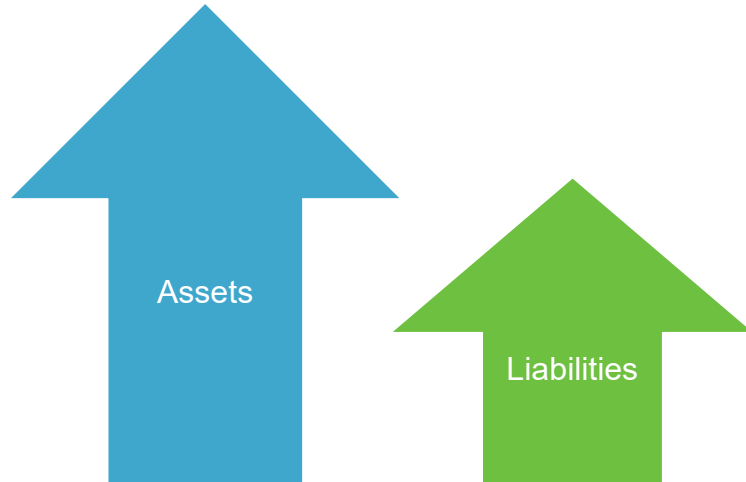
**No two employers are the same**



# Funding themes at 2022 valuation

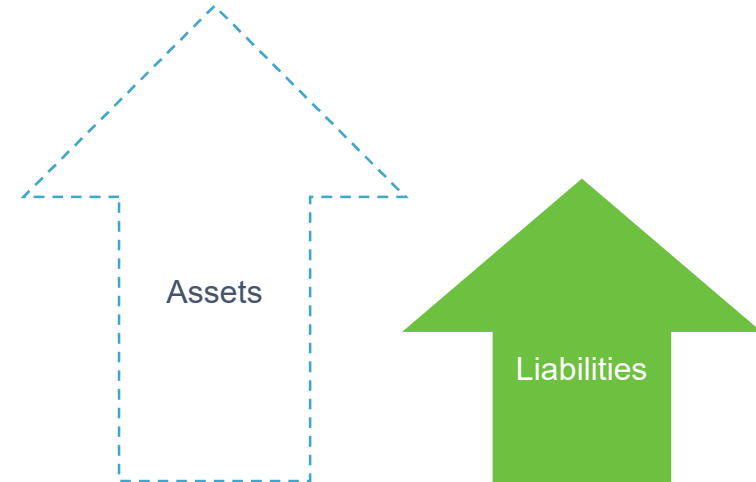
## Funding position + secondary contributions

Change from 2019



**Likely** see an improvement in funding position and lower secondary contributions...

## Primary contributions



...but primary rates don't benefit from asset performance and may see upward pressure due to inflation pressures

**Net impact will vary by employer, depending on funding profile**

# Your own contribution rates from 1 April

## Contribution rates

Employer contribution rates for year ending	Primary	Secondary		Total	
	% of pay	% of pay	£	% of pay	£
31 March 2023				25.4%	0
31 March 2024	23.5%	1.9%	0	25.4%	0
31 March 2025	23.5%	1.9%	0	25.4%	0
31 March 2026	23.5%	1.9%	0	25.4%	0

The above contribution rates are the minimum rate required by the Fund. In most circumstances you can pay additional contributions to improve your funding position but this should be referred to the actuary first. The Primary Rate includes an allowance of 0.4% of pay for administration expenses. Employer contribution rates are due in addition to employee contributions. The average employee contribution rate is 6.0% of pay.

**Outlined on p1 of employer results schedules**

# Funding Strategy Statement review

- No material changes in funding strategy at 2022 valuation
- Improved structure and layout
- Improve accessibility and navigation
- Updated FSS will be sent round for consultation to all employers

100 HYMANS ROBERTSON  
Leicestershire County Council Pension Fund  
Funding Strategy Statement  
September 2022  
DRAFT



**Please read, understand what it means for you  
and let the Fund know your thoughts**

# 2022 valuation timetable

## Q4 2021 – Q1 2022

Pre-valuation work:

- Planning
- Data cleansing
- Review of assumptions
- Review of stabilisation mechanism for precepting employers



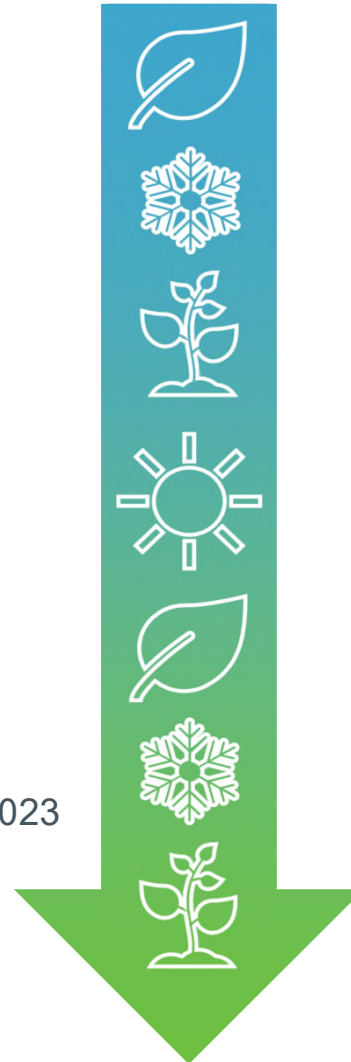
## Q3 2022

Data cleansed and submitted to actuary  
Review of strategy for all employer groups  
Initial results & discussions with Officers



## Q1 2023

Funding strategy statement finalised  
Final valuation report signed off by 31 March 2023



## Q2 2022

Contribution rate modelling for stabilised employers



## Q4 2022

Employer results issued to employers  
Employer Forum & consultation period  
Funding Strategy Statement consultation



## 1 April 2023

New employer contributions come into payment

# What employers need to do



## **Read the results schedule**

Check the data is correct, understand your current funding position and the contributions that you will pay from 1 April 2023



## **Review the updated Funding Strategy Statement**

Understand how the Fund's strategy applies to your participation in the fund



## **Talk to the Fund**

Ask any questions and let them know about any possible changes in circumstances

Thank you

This Powerpoint presentation contains confidential information belonging to Hymans Robertson LLP (HR). HR are the owner or the licensee of all intellectual property rights in the Powerpoint presentation. All such rights are reserved. The material and charts included herewith are provided as background information for illustration purposes only. This Powerpoint presentation is not a definitive analysis of the subjects covered and should not be regarded as a substitute for specific advice in relation to the matters addressed. It is not advice and should not be relied upon. This Powerpoint presentation should not be released or otherwise disclosed to any third party without prior consent from HR. HR accept no liability for errors or omissions or reliance upon any statement or opinion herein.

# Liability driven investments (LDI)

---

## **Pensions experts 'shocked' at hidden borrowing across UK schemes**

**MPs hear evidence of risky 'liability driven investing' which some blame for recent bond market meltdown**

The Fund does not and has not held any liability driven investments (LDI) like some Pension Funds which you may have heard of in the news during late September and October. The Fund as a result was not a seller of assets to raise collateral to support LDI investments and suffered no immediate effects, beyond the usual consequence of market volatility.

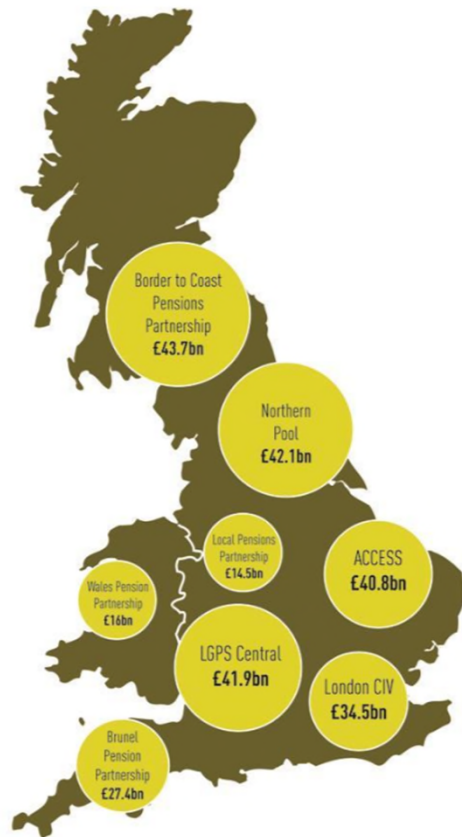
Assets such as government bonds and liquid stocks were impacted as result of forced selling in the market which the Fund does hold but have recovered somewhat in the weeks following the sell offs.

The need to raise collateral was forced in some cases by the reduction in value of bonds post the previous Chancellor's mini budget on the 23<sup>rd</sup> September. Pension Funds who needed to raise cash usually sell their most liquid assets, in many cases these are listed equities and bonds. The selling of these bonds further depressed the prices of UK bonds which in turn led to the Bank of England (BoE) intervention to stabilise prices.

## **Bank confirms pension funds almost collapsed amid market meltdown**

**Official explains how promise to buy up to £65bn of government debt staved off destructive UK financial spiral**

# What is 'pooling'



---

Government instigated 'pooling' of pension funds in 2015 with the publication of criteria and guidance on pooling of Local Government Pension Scheme (LGPS) assets.

---

Administering authorities formed their own groups and eight asset pools were formed. LGPS Central ("Central") is one of the eight pools, Leicestershire County Council is an equal shareholder with seven other Councils.

---

The scale of each pool gives significant buying power in the investment market, allowing forecast savings of up to £2 billion by 2033.

---

Total pooled or committed to pool funds by the 8 joint owners totals c£18bn at 30<sup>th</sup> September.

---

Pooling has progressed at varying speed across the country. Significant progress has been made at the LCCPF. As at 30<sup>th</sup> September 2021 the LCCPF had pooled or committed to pool c£2.3bn of Fund assets