



# London Borough of Harrow Pension Fund

Annual Report and Financial Statements for  
the year ended 31 March 2014



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## 1. Introduction

The main purpose of the Pension Fund Annual Report is to account for the income, expenditure and net assets of the London Borough of Harrow Pension Fund ('the Fund') for the financial year to 31 March 2014. This report also explains the administration and management of the Fund, the investment and funding policy objectives and asset allocation, as well as highlighting market and Fund performance.

Information about the economic resources controlled by the Fund is provided by the net assets statement. The actuarial funding level is reported in paragraph 12.14 and in the Statement of the Consulting Actuary.

The Pension Fund Committee is responsible for overseeing the management, administration and strategic direction of the Fund. The Committee continuously reviews the Fund's investment strategy to improve returns within acceptable risk parameters. This in turn minimises the amount the Council and other employers will need to make in contributions to the scheme to meet future liabilities.

During 2013-14, overall, equity markets continued to perform strongly with most developed markets producing returns approaching 20% in local currency, though some of this return was eroded for UK investors in the US and Japan by the relative strength of Sterling against the Dollar and the Yen. UK equities were below the overseas average but still returned 11% for the year. UK bonds realised only their third year of negative results in the last twenty years whilst, on the other hand, property returned 11% for the year.

The market value of the Fund as at 31 March 2014 was £590.8m compared to £552.2m as at 31 March 2013. The Fund was ranked 19<sup>th</sup> in the local authority annual league table of investment returns for the year.



**Simon George BA(HONS) ACMA ACMT**

Director of Finance and Assurance  
XX September 2014

## **2. Audit Opinion and Certificate**

### **INDEPENDENT AUDITOR'S STATEMENT TO THE MEMBERS OF LONDON BOROUGH OF HARROW ON THE PENSION FUND FINANCIAL STATEMENTS**

We have examined the pension fund financial statements for the year ended 31 March 2014, which comprise the Fund Account, the Net Assets Statement and the related notes 12.1 to 12.15.

This report is made solely to the members of London Borough of Harrow, as a body, in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission. Our audit work has been undertaken so that we might state to the Authority those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

#### **Respective responsibilities of the Director of Finance and Assurance and the auditor**

As explained more fully in the Statement of the Director of Finance and Assurance's Responsibilities, the Director of Finance and Assurance is responsible for the preparation of the pension fund's financial statements in accordance with applicable United Kingdom law.

Our responsibility is to report to you our opinion on the consistency of the pension fund financial statements within the pension fund annual report with the pension fund financial statements in the statement of accounts of London Borough of Harrow, and its compliance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

We also read the other information contained in the pension fund annual report as described in the contents section and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the pension fund financial statements.

We conducted our work in accordance with Bulletin 2008/3 issued by the Auditing Practices Board. Our report on the administering authority's full annual statement of accounts describes the basis of our opinion on those financial statements.

#### **Opinion**

In our opinion, the pension fund financial statements are consistent with the full annual statement of accounts of London Borough of Harrow for the year ended 31 March 2014 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

Paul Schofield (Engagement Lead)  
For and on behalf of Deloitte LLP  
Appointed Auditor  
St Albans, UK

XX September 2014

### 3. Scheme Management and Advisors

Administering Authority	London Borough of Harrow
Pension Fund Committee	Councillor Richard Romain (Chairman) Councillor Keith Ferry (Vice Chairman) Councillor Sachin Shah Councillor Tony Ferrari
Co-optees	Howard Bluston Stephen Compton – UNISON Pamela Belgrave - GMB
Officer	Simon George, Director of Finance and Assurance
Actuary	Hymans Robertson LLP
Investment Consultant	Aon Hewitt
Investment Managers	Aviva Investors Global Services Limited Baring Asset Management BlackRock Investment Management (UK) Limited Fidelity Worldwide Investments Longview Partners Pantheon Ventures Record Currency Management Limited Standard Life Investments State Street Global Advisors Limited Wellington Management Company.
AVC Providers	Clerical and Medical Equitable Life Assurance Society Prudential Assurance
Custodian	JP Morgan and Bank of New York Mellon
Auditor	Deloitte LLP
Performance Measurement	WM Company
Bankers	The Royal Bank of Scotland

## 4. Scheme Overview

The London Borough of Harrow Pension Fund is part of the Local Government Pension Scheme (LGPS) which is governed by various regulations. Its benefits are therefore defined and guaranteed in law. The LGPS is contracted out of the State Second Pension (S2P) and must, in general, provide benefits at least as good as most members would have received had they been members of S2P.

The London Borough of Harrow Pension Fund is a funded pension scheme which means that contributions into the Fund are made by employers and employees which are then used to make investments upon which a return is anticipated. Benefits are paid using the Fund's cash flow.

The purpose of the Fund is to provide pensions to all the Council's employees with the exception of teaching staff. Also included are certain employees of admitted and scheduled bodies who have gained admittance to the Fund in accordance with the Fund's admittance criteria.

**Scheduled Employer:** This is a statutorily defined body listed within Local Government Pension Scheme (LGPS) Regulations and has a statutory obligation to participate in the LGPS (e.g. a local authority, a further or higher education establishment).

**Admitted Employer:** There are two types of admission body:  
Community Admission Body – These are typically charities or other not-for-profit public sector bodies providing a public service which has sufficient links with the administering employer to be regarded as having a community of interest.

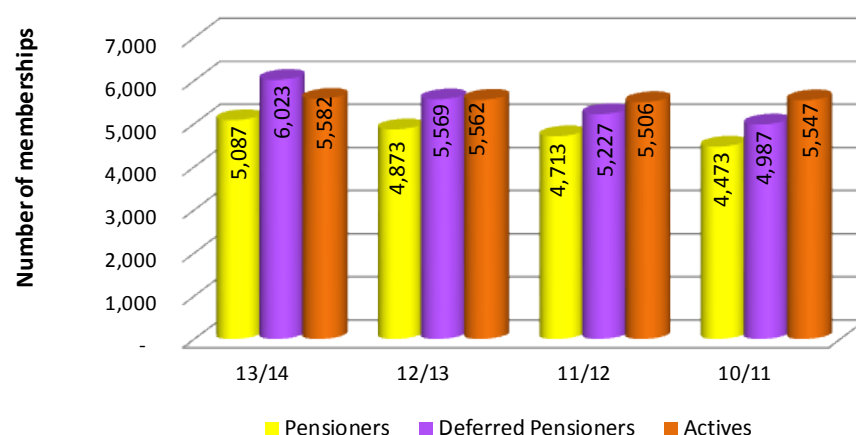
Transferee Admission Body – These are typically private sector companies or charities who will have taken on staff from a local authority as a result of an outsourcing of services.

Membership of the Fund is voluntary. Full-time, part-time and casual employees, where there is a mutuality of obligation and who have a contract of more than three months, are brought into the Fund automatically but have the right to "opt out" if they so wish. Casual employees with no mutuality of obligation are not eligible for membership.

Employee contribution rates are set by regulations and are dependent upon each member's full time equivalent salary. Employee contributions attract tax relief at the time they are deducted from pay and the employee also pays lower National Insurance contributions between the Lower and Upper Earnings Limits, unless the employee has opted to pay the married woman's reduced rate.

Employers participating in the Fund pay different rates of contributions depending on their history, their staff profile and any deficit recovery period agreed with the Fund. Employer contribution rates are reviewed as part of the triennial actuarial valuation. The last valuation took place as at 31 March 2013 and showed that the fund was 70% funded. The deficit is to be funded by additional employer contributions over the course of 20 years.

## Membership of the Pension Fund



Employer	Status	Actives	Deferred	Pensioners	Total	%
Harrow Council	Scheduled	4,272	5,297	4,804	14,373	86.12
Alexandra School	Scheduled	32	1	0	33	0.20
Avanti Free School	Scheduled	15	1	0	16	0.10
Bentley Wood School	Scheduled	53	35	6	94	0.56
Canons High School	Scheduled	86	23	5	114	0.68
Harrow College	Scheduled	176	235	128	539	3.23
Harrow High School	Scheduled	91	19	3	113	0.68
Hatch End High School	Scheduled	81	110	6	197	1.18
Jubilee Academy	Scheduled	16	2	0	18	0.11
Krishna Avanti Primary School	Scheduled	19	0	0	19	0.11
North London Collegiate School	Scheduled	71	19	26	116	0.69
Nower Hill High School	Scheduled	145	57	2	204	1.22
Park High School	Scheduled	67	26	2	95	0.57
Rooks Heath College	Scheduled	113	21	2	136	0.81
St Dominics 6th Form College	Scheduled	50	20	30	100	0.60
Salvatorian College	Scheduled	57	26	3	86	0.51
Stanmore College	Scheduled	102	116	60	278	1.67
Capita Business Services Ltd	Admitted	11	4	5	20	0.12
Carillion Services	Admitted	87	4	4	95	0.57
Family Action	Admitted	2	0	0	2	0.01
Granary Kids	Admitted	2	1	0	3	0.02
Govindas	Admitted	5	0	0	5	0.03
Harrisons Catering	Admitted	22	3	0	25	0.15
Julius Rutherford & Co	Admitted	1	2	1	4	0.02
Linbrook Services Ltd	Admitted	4	1	0	5	0.03
Temco Facilities Services Ltd	Admitted	2	0	0	2	0.01
	<b>Total</b>	<b>5,582</b>	<b>6,023</b>	<b>5,087</b>	<b>16,692</b>	<b>100</b>

From April 2008 the payment of a pension is calculated at 1/60<sup>th</sup> of the final year's pay multiplied by the number of years of service, with an option to exchange part of the pension into a tax free lump sum. The calculation of benefits in respect of pre April 2008 pensionable

service is based on the accrual rate of 1/80<sup>th</sup> of the final year's pay for each year of membership plus a lump sum of three times the pension. Actual membership may be enhanced in cases of ill health retirement. Employers may choose to augment the active member's number of years of service (other than on ill health grounds). In all cases, it is possible to exchange part of the pension for a tax free lump sum.

New LGPS regulations are due to come into force from 1 April 2014. The changes are summarised below:

- Basis of pension to become career average revalued earnings rather than final salary
- Accrual rate (rate at which pension is earned) to be changed to 1/49<sup>th</sup> from 1/60<sup>th</sup>
- Revaluation rate to be based on Consumer Prices Index (CPI) rather than final salary
- Pensionable pay now to include non-contractual overtime and additional hours for part time staff
- Members can now pay 50% contributions for 50% of pension benefit
- Normal pension age to be equal to the individual member's state pension age rather than the age of 65
- Death in service survivor benefits and ill health provision to reflect the change in normal pension age

The investment objective of the Pension Fund is to ensure that the Fund has sufficient assets to pay pensions and other benefits by maximising investment returns within acceptable risk tolerances.



## 5. Governance Arrangements

The London Borough of Harrow is the Administering Authority for the Pension Fund. Council has delegated to the Pension Fund Committee various powers and duties in respect of its administration of the Fund. The Committee convenes approximately six times a year and contains four Councillors with full voting rights. Representatives from the trade unions are able to participate as members of the Committee but do not have voting rights.

The Pension Fund Committee has the following terms of reference:

- to exercise on behalf of the Council, all the powers and duties of the Council in relation to its functions as Administering Authority of the LB Harrow Pension Fund (the Fund), save for those matters delegated to other Committees of the Council or to an Officer;
- the determination of applications under the Local Government Superannuation Regulations and the Teachers' Superannuation Regulations;
- to administer all matters concerning the Council's pension investments in accordance with the law and Council policy;
- to establish a strategy for the disposition of the pension investment portfolio;
- to appoint and determine the investment managers' delegation of powers of management of the Fund;
- to determine cases that satisfy the Early Retirement provision under Regulation 26 of the Local Government Pension Scheme Regulations 1997 (as amended), and to exercise discretion under Regulation 8 of the Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2000 (as amended), subject to the conditions now agreed in respect of all staff, excluding Chief Officers;
- to apply the arrangements to Chief Officers where the application has been recommended by the Chief Executive, either on the grounds of redundancy, or in the interests of the efficiency of the service, and where the application was instigated by the Chief Executive in consultation with the leaders of the political groups;
- to approve any severance packages for officers of £100,000 or over irrespective of the grade of officer. The definition of severance package is in accordance with the DCLG supplementary statutory guidance 'Openness and accountability in local pay: Guidance under section 40 of the Localism Act 2011' issued in February 2013; and
- to report back to Council for information purposes on all such approved severance packages.

The dates of the Pension Fund Committee meetings, along with meeting agendas, reports and minutes are available on the Harrow Council website:

<http://www.harrow.gov.uk/www2/mgCommitteeDetails.aspx?ID=1297>

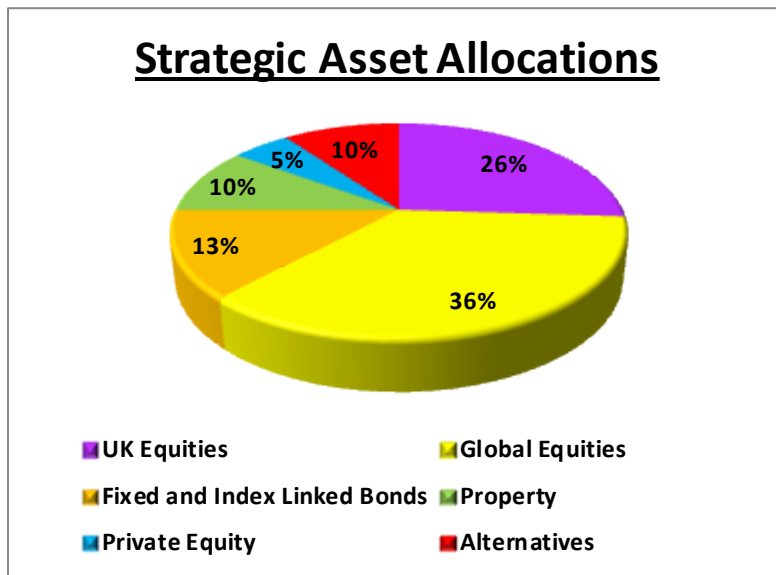
## 6. Investment Policy and Performance

The investment objective of the Fund is to achieve a return that is sufficient to meet the primary funding objective of minimising the level of employer contribution in order to meet the cost of pension fund benefits as required by statute, subject to an appropriate level of risk (implicit in the target) and liquidity.

The Council has delegated the management of the Fund's investments to professional investment managers, appointed in accordance with the LGPS regulations, whose activities are specified in detailed investment management agreements and regularly monitored.

The Fund Statement of Investment Principles specifies that the Fund may invest in accordance with the Regulations in equities, fixed interest and other bonds and property, in the UK and overseas markets. The Regulations specify other investment instruments that may be used, for example, financial futures, traded options, insurance contracts, stock lending, sub-underwriting contracts.

To support the Fund's objective of achieving a return that is sufficient to meet the cost of benefits and achieving this within acceptable risk parameters the Committee, in conjunction with the Fund's investment advisor, set the following strategic asset allocation in March 2013:



The Committee aims to achieve its investment objective by maintaining a high allocation to growth assets, mainly equities, reflecting the security of the sponsor's covenant, the funding level, the long time horizon of the Fund and the projected asset class returns and volatility. Diversifying investments reduces the risk of a sharp fall in one particular market having a substantial impact on the whole Fund.

Following the strategy review concluded in March 2013 cash balances and realisations from listed equities managed by Fidelity were used to invest 10% of the Fund in two multi-asset class mandates managed by Barings and Standard Life.

The following table compares the actual asset allocation as at 31 March 2014 to the benchmark:

<b>Asset (%)</b>	<b>Actual</b>	<b>Target</b>
UK Equities	26	26
Global Equities	39	36
Fixed and Index Linked Bonds	12	13
Property	8	10
Private Equity	4	5
Alternatives	10	10
Cash	1	0
<b>Total</b>	<b>100</b>	<b>100</b>

The Committee believes in appointing fund managers with clear performance benchmarks that place maximum accountability for performance against that benchmark with the investment manager. Fund managers are set risk parameters to provide them with some flexibility in achieving the asset allocation to allow them to make the most of market conditions. They must seek approval for any positions that go beyond the agreed risk parameters set for their strategies. Following the manager changes discussed above, the Fund has ten investment managers to give diversification of investment style and spread of risk. The Committee will continue to monitor the ability of the investment managers to achieve their target returns.

### **Investments held by Fund Managers**

	<b>2013-14</b>	<b>2013-14</b>	<b>2012-13</b>	<b>2012-13</b>
	<b>£000</b>	<b>%</b>	<b>£000</b>	<b>%</b>
Aviva	<b>45,051</b>	<b>8</b>	41,905	8 UK Property
State Street	<b>155,512</b>	<b>27</b>	142,591	27 UK Equities Passive
BlackRock	72035	12	72059	14 Corporate and Index-linked bonds
Fidelity	<b>68,381</b>	<b>12</b>	98,872	18 Global Equities
Longview	<b>49,507</b>	<b>8</b>	40,109	7 Global Equities
Wellington	<b>113,911</b>	<b>19</b>	109,156	21 Global Equities
Barings	<b>26,630</b>	<b>5</b>	0	0 Alternatives
Standard Life	<b>27,890</b>	<b>5</b>	0	0 Alternatives
Pantheon	<b>24,648</b>	<b>4</b>	26,328	5 Private Equity
Record	<b>1,113</b>	<b>0</b>	-2,274	0 Passive currency
<b>Total Fund</b>	<b>584,678</b>	<b>100</b>	<b>528,746</b>	<b>100</b>

## **Market commentary**

The Federal Reserve (Fed) continued its open-ended quantitative easing (QE) programme to support the US economy. However, investors became anxious in May as Fed Chairman Bernanke signalled a reduction in QE sooner than expected, possibly in September. In the event, the Fed actually initiated its withdrawal of QE in December. As the Fed continued to wind down its asset purchases, Bernanke's successor Janet Yellen emphasised her commitment to maintain accommodative monetary policy in order to support continuing economic growth.

Both Janet Yellen and Bank of England Governor Mark Carney changed course on their respective forward guidance policies, playing down dependence on the unemployment rate, which had been falling faster than anticipated in both the US and UK.

Tensions in the Ukraine surfaced in early 2014, sparking a fresh bout of volatility in equity markets, after which Russia's president Vladimir Putin calmed investors by saying that he wanted to rebuild ties with independent Ukraine.

The Eurozone emerged from recession in Q2 2013, led by stronger German growth, although many peripheral countries continued to struggle. Deflationary concerns caused the European Central Bank to lower its policy rate to 0.25%.

For many developed economies, economic data picked up over the year, with a string of strong Purchasing Managers' Index (PMI) releases globally in the second half of 2013. Growth in emerging economies slowed however, with the larger economies, such as China, particularly disappointing investors.

### Equities

Markets brushed aside concerns over a reduction in QE, and despite various economic and political difficulties, global equity returns were strong over the year to 31 March 2014, and the MSCI All Country World Index returned 17.4% in local currency terms. However, sterling strength over the year eroded the majority of these returns, and the sterling return on the index was 6.7%.

Despite some encouraging economic data and having the fastest developed market GDP growth, UK equity market returns over the past 12 months were overshadowed by other developed markets. The UK equity market returned 8.8%.

Over the past 12 months, US equities provided the highest return in local currency terms (22.2%) whilst returning 11.3% in sterling terms due to sterling strength. Despite investors having to adjust to the prospect of a return to normal monetary policy, equities were able to sustain gains over the period.

Continental European equities returned 21.2% in local currency terms, which equated to 17.3% in sterling terms, higher than in any other region.

Japanese equities performed exceptionally well in 2013 as new government and central bank leadership led to an aggressive stimulus package in an attempt to jumpstart growth and end years of deflation. However, Japanese equities lost their momentum at the start of 2014 as investors became worried about the implications of a weaker Chinese economy on Japanese exports and the stalling progress of reforms. Japanese equities returned 18.4% in yen terms, but the combination of sterling strength and yen weakness meant that the return to sterling investors was -1.6%.

Emerging Markets lagged developed markets and were the worst performers in both local currency (3.8%) and sterling (-9.9%) terms. This poor performance was due to a slowdown in emerging market growth and weaker commodity prices. Investors also grew concerned about the impact of Fed monetary policy on the region.

### Gilts

UK fixed interest gilts provided negative return over the year as better economic data and speculation over an end to QE in the US put upward pressure on UK bond yields.

UK corporate bonds returned 1.6% over the year as the narrowing of credit spreads offset the rise in gilt yields.

### UK Property

UK property returns were positive, with the IPD Monthly Index rising 14.0% over the period, its highest 12-month return since December 2010.

### Currencies and interest rates

Bank of England (BoE) policy rates remained at 0.5%, unchanged since March 2009. New BoE Governor Mark Carney, who started in July, issued forward guidance that interest rates would stay low until unemployment falls. After falling faster than anticipated, the unemployment rate was dropped as the main trigger for allowing interest rates to rise. Improving UK economic data caused sterling to appreciate against most major currencies over the year. Sterling ended the year up 7.2% on a trade-weighted basis.

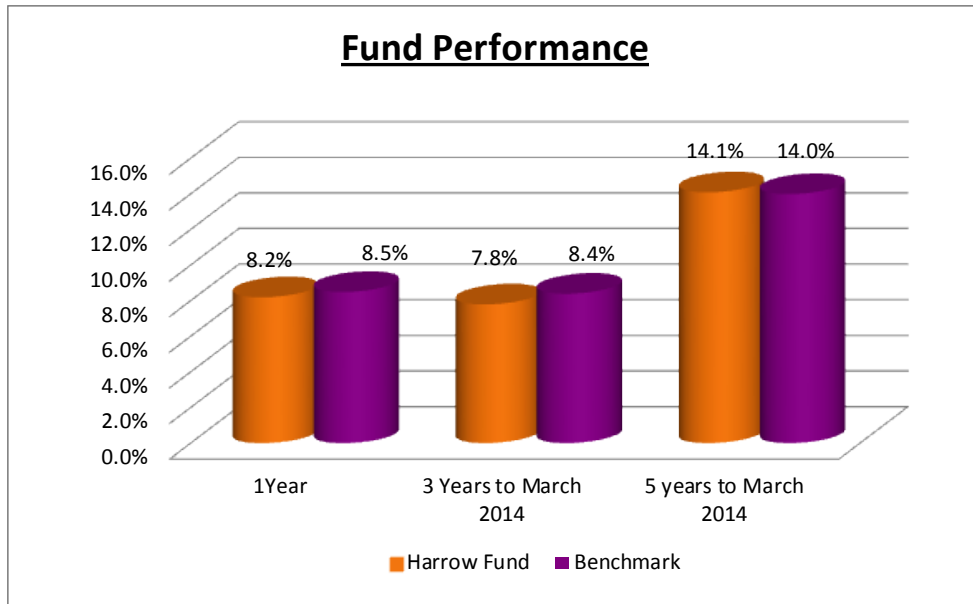
The Federal Funds rate remained between 0% and 0.25%. QE3 continued throughout the year with \$85bn a month of asset purchases. However, in December, the Fed started to wind down its asset purchases, which now stand at \$55bn per month. The US dollar appreciated on a trade-weighted basis by 1.8%, though this was largely a result of the hefty devaluation of the Japanese yen. The US dollar depreciated by 8.9% against sterling.

The ECB cut rates by 25 basis points to 0.5% in May 2013, after which weak inflation data and a reduction in growth forecasts prompted the ECB to further cut their policy rate to 0.25% in November. The euro depreciated by 2.2% against sterling over the year.

The Bank of Japan (BoJ) left rates at between 0 and 0.1%, unchanged since December 2008. In April the new BoJ Governor announced a massive escalation in monetary easing to boost growth and tackle deflation. The yen depreciated by 16.8% against sterling over the year as a result.

### Fund performance

The Committee uses WM Performance Services as its independent investment performance measurer. Investment returns over 1, 3 and 5 years are shown below.



Source: WM Performance Services

The Fund's return of 8.2% during 2013-14 was due to positive returns on equities, property and private equity, this was partly offset by a negative return on bonds.

Returns over all three time periods were strong, reflecting recovery from the significantly lower returns achieved at the height of the financial crisis in 2008.

The average local authority fund (as measured by WM Performance Services) returned 6.4% on its assets during the year. The Council's Fund was ranked 19th (67<sup>th</sup> 2012-13) in the local authority annual league table of investment returns for the year. Asset allocation added 0.2% to the return relative to the local authority universe whilst the successful stock selection by some of the managers realised a relative outperformance of 1.6%.

## **7. Statements and Publications**

### **Governance Compliance Statement**

The Local Government Pension Scheme (Administration) Regulations 2008 Regulation 31 requires all administering authorities to produce a Governance Compliance Statement. This Statement must set out whether the Administering Authority delegates its function and if so what the terms, structure and operation of the delegation are. The Administering Authority must also state the extent to which a delegation complies with guidance given by the Secretary of State. The current Statement can be found in Appendix 1.

### **Communications Policy Statement**

The Local Government Pension Scheme (Administration) Regulations 2008 require all administering authorities to produce a Communications Policy Statement. This statement sets out the Fund's strategy for communicating with members, members' representatives, prospective members and employing authorities, together with the promotion of the Scheme to prospective members and their employing authorities. The latest Statement can be found in Appendix 2.

### **Local Government Pension Scheme Guide**

A brief guide to the Local Government Pension Scheme can be found in Appendix 3

### **Statement of Investment Principles**

Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 requires administering authorities to publish a Statement of Investment Principles. This Statement provides details of the Fund's investment policies including

- The types of investment to be held
- The balance between different types of investment
- Risk measurement and management

The Statement also details the Fund's compliance with the six principles set out in the Chartered Institute of Public Finance and Accountancy's publication 'Investment Decision Making and Disclosure in the Local Government Pension Scheme 2009 – a guide to the application of the 2008 Myners Principles to the management of LGPS funds'.

The current version can be found in Appendix 4.

### **Funding Strategy Statement**

Regulation 35 of the Local Government Pension Scheme (Administration) Regulations 2008 requires all administering authorities to produce a Funding Strategy Statement. The purpose of the Funding Strategy Statement is to explain the funding objectives of the Fund, in particular:

- How the costs of the benefits provided under the LGPS are met through the Fund
- The objectives in setting employer contribution rates
- The funding strategy that is adopted to meet these objectives.

The Funding Strategy Statement is reviewed every three years at the same time as the triennial actuarial valuation of the Fund. An interim review of the statement may be carried out and a revised Statement published if there has been a material change in the policy matters set out in the Statement or there has been a material change to the Statement of Investment Principles. The current full Statement can be found in Appendix 5.

## **8. Risk Management**

The Fund's primary long term risk is that the assets will fall short of its liabilities (i.e. promised benefits payable to members). The Pension Fund Committee is responsible for managing and monitoring risks and ensuring that appropriate risk management processes are in place and operating effectively. The aim of risk management is to limit risk to those that are expected to provide opportunities to add value.

The most significant risks faced by the Fund and the procedures in place to manage these risks are described below:

### **a. Governance and Regulatory Risks**

The failure to exercise good governance and operate in line with regulations can lead to financial as well as reputation risk. These risks are managed through:

- Regular reviews of the Statement of Investment Principles and Funding Strategy Statement that set out the high level objectives of the Fund and how these will be achieved.
- Tailored training for members.
- Reviews of the Pension Fund Committee agenda and papers by Harrow's Legal Department.

### **b. Sponsor Risk**

The Fund is currently in deficit and achieving a fully funded status may require the continued payment of deficit contributions. The Actuary reviews the required level of contributions every three years. To protect the Fund and the Administering Employer, bonds and other forms of security are received from Admitted employers.

### **c. Investment Risk**

The Fund is invested in a range of asset classes as detailed in paragraphs 12.7 and 12.9. This is done in line with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 which require pension funds to invest any monies not immediately required to pay benefits. These Regulations require the formulation of a Statement of Investment Principles which sets out the Fund's approach to investment including the management of risk. The predominant asset class is listed equities, which has both a greater expected return and volatility than the other main asset classes. Potential risks affecting investments include:

#### Pricing Risk

The valuation of investments is constantly changing, impacting on the potential realisation proceeds and income. For example, the value of the Fund fell by 31% in the 15 months to March 2009 before increasing by 54% in the next 21 months to December 2010. During the last year the net assets of the Fund have increased by 7%. Most of the price changes relate to the global value of equities. Changes of a similar magnitude are possible in future.

Procedures in place to manage the volatility of investments include:



- Diversification of the investments between asset classes and geographical areas to include fixed interest and index linked bonds, property, multi assets mandates and private equity. The investment strategy is reviewed regularly by the Pension Fund Committee and market conditions are reviewed to monitor performance at every meeting to determine if any strategic action is required.
- Global equities are managed by three active managers to reduce the risk of underperformance against benchmarks. The Investment Advisor provides quarterly reports on the performance and skills of each fund manager to the Pension Fund Committee.
- The benefit liabilities are all sterling based and to reduce the currency risk from non sterling investments, 50% of the overseas currency exposures are hedged to sterling.

#### Liquidity Risk

Investments in some asset classes e.g. private equity and property can be illiquid in that they cannot be realised at short notice. Around 12% of Harrow's fund is in illiquid assets. This is deemed appropriate for a scheme that continues to have a positive cashflow. All cash balances are managed in accordance with the Council's Treasury Management Strategy Statement and are all currently on overnight deposit and readily accessible.

#### Counterparty Risk

The failure by a counterparty, including an investee company, can lead to an investment loss. This risk is mainly managed through wide diversification of counterparties and also through detailed selection of counterparties by external fund managers.

#### **d. Actuarial risks**

The value of the liability for future benefits is impacted by changes in inflation, salary levels, life expectancy and expected future investment returns. Although there are opportunities to use financial market instruments to manage some of these risks, the Pension Fund Committee does not currently believe these to be appropriate. Recent changes to the benefit structure will reduce some of these risks. All are monitored through the actuarial valuation process and additional contributions required from employers should deficits arise.

#### **e. Operational Risk**

Operational risk relates to losses (including error and fraud) from failures in internal controls relating to investment managers and internally e.g. administration systems.

Controls at external fund managers are monitored through the receipt of audited annual accounts for each investment fund together with annual assessments of the control environment including reviews of internal controls reports certified by reporting accountants.

Controls within the Administering Authority are reviewed by Harrow's Internal Audit Team

## 9. Communications

Registered Address	London Borough of Harrow Civic Centre Station Road Harrow HA1 2XF
Administration Enquiries	Email address: <a href="mailto:Pension@harrow.gov.uk">Pension@harrow.gov.uk</a> Telephone Number: 020 8424 1186.
Complaints and Advice	The Pensions Advisory Service 11 Belgrave Road London SW1V 1RB  Website: <a href="http://www.pensionsadvisoryservice.org.uk">www.pensionsadvisoryservice.org.uk</a>
The Office of the Pensions Ombudsman	The Pensions Ombudsman 11 Belgrave Road London SW1V 1RB  Tel No. 0207 630 2200 Fax No. 0207 821 0065  Email: <a href="mailto:enquiries@pensions-ombudsman.org.uk">enquiries@pensions-ombudsman.org.uk</a>  Website: <a href="http://www.pensions-ombudsman.org.uk">www.pensions-ombudsman.org.uk</a>

## **10. Statement of Responsibilities for the Financial Statements**

### **The Council's Responsibilities**

The Council is required:

- To make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In Harrow, that officer is the Chief Financial Officer, i.e., the Director of Finance and Assurance;
- To manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- To approve the Financial Statements.

### **The Director of Finance and Assurance's Responsibilities**

The Director of Finance and Assurance is responsible for the preparation of the Fund's statement of accounts in accordance with proper practices set out in the CIPFA Code of Practice on Local Authority Accounting.

In preparing this statement of accounts, the Director of Finance and Assurance has:

- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent;
- Complied with the Code of Practice on Local Authority Accounting;
- Kept proper accounting records which were up to date;
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that these Financial Statements present fairly the financial position of the London Borough of Harrow Fund of the Local Government Pension Scheme as at 31 March 2014 and its income and expenditure for the year then ended.



**Simon George BA(HONS) ACMA ACMT**  
Director of Finance and Assurance  
XX September 2014

## 11. London Borough of Harrow Pension Fund Financial Statements

### Pension Fund Account for the year ended 31st March 2014

2012-13 £000		Notes	2013-14 £000
	Contributions and Benefits		
<b>-25,351</b>	Contributions receivable	12.2	<b>-25,458</b>
<b>-1,279</b>	Individual transfers in from other schemes		<b>-2,874</b>
<b>24</b>	Other income		<b>-306</b>
	Less:		
<b>26,716</b>	Benefits payable	12.3	<b>31,259</b>
<b>1,062</b>	Payments to and on account of leavers	12.4	<b>1,074</b>
<b>827</b>	Administrative expenses	12.5	<b>981</b>
<b>1,999</b>	Net additions from dealings with members		<b>4,676</b>
	Returns on Investments		
<b>-4,833</b>	Investment income	12.6	<b>-7,468</b>
<b>-60,112</b>	Change in market value of investments	12.7	<b>-35,562</b>
<b>-339</b>	Investment management expenses	12.5	<b>-236</b>
<b>-65,284</b>	Net Returns on Investments		<b>-43,266</b>
<b>-63,285</b>	Net (Increase)/decrease in Fund during the year		<b>-38,590</b>
<b>-488,942</b>	Net assets at start of year		<b>-552,227</b>
<b>-552,227</b>	Net assets at end of year		<b>-590,817</b>

### Net Assets Statement

2012-13 £000		Notes	2013-14 £000
	<b>Investment Assets</b>		
<b>531,020</b>	Pooled investment vehicles	12.9	<b>583,565</b>
<b>865</b>	Derivative contracts	12.10	<b>1,351</b>
<b>531,885</b>			<b>584,916</b>
	<b>Investment Liabilities</b>		
<b>-3,139</b>	Derivative contracts	12.10	<b>-238</b>
<b>528,746</b>			<b>584,678</b>
<b>20,117</b>	Cash deposits	12.7	<b>4,873</b>
<b>548,863</b>	Net Investment Assets		<b>589,551</b>
<b>3,974</b>	Current assets	12.12	<b>2,000</b>
<b>-610</b>	Current liabilities	12.12	<b>-734</b>
<b>552,227</b>	<b>Net assets of the Fund available to fund benefits at 31 March 2014</b>		<b>590,817</b>

The accounts summarise the transactions of the Fund and deal with the net assets. The Net Assets Statement does not take account of the obligations to pay pensions and benefits which fall due after the end of the Fund year. The actuarial position of the Fund, which does take account of such obligations, is dealt with in the actuarial statement included on pages 25 and 26 and these Financial Statements should be read in conjunction with it.



**Simon George BA(HONS) ACMA ACMT**  
 Director of Finance and Assurance  
 XX September 2014

## 12. Notes to the Pension Fund Financial Statements

### 12.1 Accounting Policies, Judgements and Uncertainties

#### Accounting Policies

The accounts have been compiled in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2013-14 and following guidance in the Statement of Recommended Practice "Financial Reports of Pension Schemes" (revised May 2007).

**Basis of Preparation** - Except where otherwise stated, the accounts have been prepared on an accruals basis.

**Investments** - These are shown in the accounts at market value which has been determined as follows:

- All listed investments are quoted at the bid price at the close of business on 31 March of each financial year;
- Unlisted securities are valued having regard to latest dealings, professional valuations, asset values, currency rates and other appropriate financial information adjusted to reflect cash transactions up to 31 March 2014;
- Investments in pooled investment vehicles are stated at the bid value of the latest prices quoted by their respective managers;
- Derivatives are valued at the appropriate closing exchange rate or the bid spot or forward rates. Forward foreign exchange contracts are valued by determining the gain or loss that would arise from closing out the contract at the reporting date by entering into an equal and opposite contract at that date; and
- There are no published price quotations available to determine the value of the Fund's private equity holdings. The value of these holdings is therefore assessed by the manager as at 31 December 2013 and adjusted for drawdowns paid and distributions received in the period 1 January 2014 to 31 March 2014.

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year. Most investments are in pooled funds where the change in market value will reflect investment income earned by the Fund and fees and expenses charged to the Fund.

Investments held in foreign currencies have been valued on the relevant basis and translated into sterling at the rate ruling on 31 March of each financial year.

**Benefits, Refunds of Contributions and Transfer Values** - Benefits payable and refunds of contributions are accounted for in the period in which they are payable.

Transfer values are those sums paid to, or received from, other pension schemes and relate to periods of previous pensionable employment. Transfer values have been included in the accounts on a payments and receipts basis. The transfers can take a considerable time to determine and amounts can vary depending upon the date of settlement.

**Investment Income** - Dividends and interest on government stocks, loans and deposits have been accounted for on an accrued basis. Foreign income has been converted into Sterling at the date of the transaction.

**Investment Management and Administration** - Regulations published in 1989 permit the Council to charge administration costs to the Pension Fund. A proportion of the relevant Council officers' salaries, including related on-costs, have been charged to the Fund based on estimated time spent on Fund administration and investment related business. The fees of the Fund's investment managers have been accounted for on the basis contained within their respective management agreements.

**Assumptions made about the future and other major sources of estimation uncertainty**

The items in the Net Assets Statement as at 31 March 2014 involving assumptions about the future and major sources of estimation uncertainty for which there is a significant risk of material adjustment to the value disclosed within the next financial year are as follows:

	<b>Uncertainties</b>	<b>Effect if actual results differ from assumptions</b>
Unquoted property & private equity investments	There are no publicly listed prices for the Fund's investments in property and private equity and therefore there is a degree of estimation and judgement involved in the valuations used based on recognised professional guidance.	Total property and private equity investments disclosed in the Financial Statements amount to £69.7m. A 10% change in value will result in a change in value of +/- £7 million.
Actuarial present value of promised retirement benefits	Estimation of Fund deficit depends on a number of complex judgements relating to the discount rate used, and factors such as projected salary growth and inflation, commutation rates and mortality rates. The effects of changes in individual assumptions can be measured.	A decrease of 0.5% in the discount rate assumption would increase the pension liability by approximately £76m. An increase of 0.5% in assumed salary or pension inflation would increase the pension liability by approximately £19m and £56m respectively. A one year increase in assumed life expectancy would increase the pension liability by approximately £26m.

**Critical judgements in applying accounting policies**

The most significant judgements in applying accounting policies are as follows:

Unquoted private equity investments

Private equity investments are valued based on forward looking estimates and judgements made by the general partners (i.e. those controlling the partnerships) to the funds invested in, using guidelines issued by the Private Equity Industry Guidelines Group in the USA (known as the Private Equity Valuation Guidelines) and the International Private Equity and

Venture Capital Valuation Guidelines, which have been adopted by almost all venture capital associations, including the BVCA.

Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits, as disclosed in note 12.14, is prepared by the Fund's actuary, adopting prescribed assumptions as set out in IAS19. These assumptions may differ from those used by the actuary at formal triennial valuations to determine the level of contributions payable by employers. The liability disclosed in note 12.14 is subject to significant variances depending on the assumptions adopted.

## 12.2 Contributions

2012-13 £000		2013-14 £000
	<b>Employers - normal</b>	
-15,161	London Borough of Harrow	-15,042
-3,330	Scheduled Bodies	-3,756
-494	Admitted Bodies	-344
	<b>Members - normal</b>	
-5,225	London Borough of Harrow	-5,094
-1,024	Scheduled Bodies	-1,137
-117	Admitted Bodies	-85
<u>-25,351</u>		<u>-25,458</u>

## 12.3 Benefits

2012-13 £000		2013-14 £000
	<b>Pensions</b>	
21,085	London Borough of Harrow	22,359
709	Scheduled Bodies	868
141	Admitted Bodies	69
<u>21,935</u>		<u>23,296</u>
	<b>Commutation of Pensions and Lump Sum Retirement Benefits and Commitments</b>	
3,840	London Borough of Harrow	5,909
288	Scheduled Bodies	625
24	Admitted Bodies	423
<u>4,152</u>		<u>6,957</u>
	<b>Lump Sum Death Benefits</b>	
611	London Borough of Harrow	841
18	Scheduled Bodies	135
	Admitted Bodies	30
<u>629</u>		<u>1,006</u>
<u>26,716</u>		<u>31,259</u>

## 12.4 Payments to and on Account of Leavers

2012-13 £000		2013-14 £000
2	Refunds to members	17
1,060	Individual transfers to other schemes	1,057
<u>1,062</u>		<u>1,074</u>



## 12.5 Investment Management and Administration Expenses

2012-13		2013-14
£000		£000
-339	Investment management expenses	-236
	Scheme administration	
682	London Borough of Harrow	778
145	Miscellaneous (including Actuary Fees)	203
<u>827</u>	<b>Total Administration Expenses</b>	<u>981</u>
<u>488</u>	<b>Total Expenses</b>	<u>745</u>

External audit fees of £21,000, the same as in the previous year, were charged.

## 12.6 Investment Income

2012-13		2013-14
£000		£000
-4,628	Income from pooled investment	-7,407
-205	Interest on cash deposits	-61
<u>-4,833</u>		<u>-7,468</u>

All investments other than cash are held in pooled investments and only the income that is distributed is included above. Income retained within pooled funds is reflected within the change in market value of investments.

## 12.7 Investments

	Value at 01-Apr-13 £000	Purchases at Cost & Derivative Payments £000	Sale Proceeds & Derivative Receipts £000	Change in Market Value £000	Value at 31-Mar-14 £000
Pooled Investment Vehicles					
Property	41,905	0	0	3,146	45,051
Other	489,115	57,804	-35,202	26,797	538,514
Derivatives	-2,274	1,508	-3,740	5,619	1,113
	<u>528,746</u>	<u>59,312</u>	<u>-38,942</u>	<u>35,562</u>	<u>584,678</u>
Cash Deposits	20,117				4,873
	<u>548,863</u>				<u>589,551</u>

The change in market value reflects higher valuations for equities partly offset by a fall in the value of the bond holdings.

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include fees, commissions, stamp duty and other fees.

All fund managers operating the pooled investment vehicles are registered in the United Kingdom.

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

Derivative receipts (£3.7m) are in respect of realised profits on forward foreign exchange trades settled during the period.

## 12.8 Investments Exceeding 5% of the Total Value of Net Assets

2012-13 £m		2013-14 £m
142.6	SSGA MPF UK Equity Index Sub-Fund	155.5
109.2	Wellington Global Pooled Value Equity Portfolio	113.9
86.8	Fidelity Institutional Select Global Pooled Equities	61.2
57.5	BlackRock Institutional Bond Fund-Corp Bond 10 Yrs A class	57.6
40.1	Longview Partners Invest - Global Pooled Equities FD K Class	49.5
41.9	Aviva Investors UK Real Estate Fund of Funds Open Ended	45.1
478.1		482.8

## 12.9 Pooled Investment Vehicles

2012-13 £000		2013-14 £000
	<b>UNITED KINGDOM</b>	
	<b>Managed funds - Property</b>	
41,905	Unit Trusts	45,051
	<b>Managed funds - Other</b>	
142,592	Unitised Insurance Policy	155,513
	<b>Fixed interest securities</b>	
57,527	Corporate	57,566
	<b>Index linked securities</b>	
14,532	Public Sector	14,468
	<b>GLOBAL</b>	
	<b>Managed funds - Other</b>	
149,265	Unit Trusts	191,308
125,199	Other	119,659
531,020	<b>TOTAL</b>	583,565

## 12.10 Derivatives

2012-13 £000		2013-14 £000
	<b>Investment Assets</b>	
865	Forward foreign exchange contracts	1,351
	<b>Investment Liabilities</b>	
-3,139	Forward foreign exchange contracts	-238
-2,274	<b>Net Derivatives</b>	1,113

Counterparty	Duration	No. of Contracts	Value at 31-Mar-14	
			Assets £000	Liabilities £000
Barclays Bank - London	7 days - 7 mths	5	377	-41
Deutsche Bank - London	7 days - 6 mths	4	567	-17
Northern Trust	7 days - 6 mths	6	246	-6
Royal Bank of Canada - London	7 days - 6 mths	9	48	-8
Standard Chartered	7 days - 3 mths	7	10	-11
State Street - London	3 mths - 6 mths	5	6	-42
Toronto Dominion - Toronto	7 days - 6 mths	5	49	-60
Westpac - Sydney	7 days - 6 mths	5	48	-53
		<b>46</b>	<b>1,351</b>	<b>-238</b>

The scheme objective in using derivatives is to reduce risk in the portfolio by entering into forward contracts to mitigate the effect of currency risk from overseas investments held in the portfolio without disturbing the underlying assets. The overseas equity portfolio is 50% hedged against the currency risk arising from developed market currencies. Exposures to currencies that have a higher bid offer spread e.g. emerging markets, are not hedged. Non sterling currency exposure hedged at the year end is £105m. The main currency exposures before hedging in sterling are US\$ £55m, Yen £17m and Euro £13m.

## 12.11 Additional Voluntary Contributions (AVCs)

Members of the Fund are able to accrue additional benefits through the payment of AVCs, which are invested outside the Fund with insurance companies. These amounts are not included in the Pension Fund Financial Statements in accordance with section 4 (2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. However, the note below details the change in value of AVCs during the year.

2012-13		2013-14
2,099	Value of AVC Fund at 1 April	2,211
356	Employee contributions	371
107	Investment income and change in market value	86
0	Transfer values in	10
-351	Benefits paid and transfers out	-268
<b>2,211</b>	<b>Value of AVC Fund at 31 March</b>	<b>2,410</b>

## 12.12 Current Assets & Liabilities

2012-13 £000		2013-14 £000
	<b>Current Liabilities</b>	
-149	Unpaid benefits	-154
-461	Other unpaid liabilities	-580
<u>-610</u>		<u>-734</u>
	<b>Current Assets</b>	
3,778	Cash balances held by London Borough of Harrow	1,678
177	Contributions due from employers	283
19	Other current assets	39
<u>3,974</u>		<u>2,000</u>
<u>3,364</u>	<b>Net Current Assets</b>	<u>1,266</u>

## 12.13 Related Party Transactions

2012-13 £000		2013-14 £000
-15,161	Employer's pension contribution to the Fund	-15,042
682	Administration expenses paid to the Council	778
3,778	Cash held by Council	1,678

The Fund is required under IAS24 to disclose details of material transactions with related parties. The Council is a related party to the Pension Fund. Details of the contributions made to the Fund by the Council and expenses refunded to the Council are set out above.

The Pension Fund has operated a separate bank account since April 2011. However, due to the ease of administration and to avoid any undue cost to the Fund some transactions continue to be processed through the Council's bank account and as such these balances are settled on a monthly basis.

## 12.14 Actuarial Value of Retirement Benefits

Disclosure of the year end actuarial value of benefits calculated under IAS 19 assumptions is required by CIPFA's Code of Practice on Local Authority Accounting 2013/14. The IAS 19 valuation is based on prescribed assumptions that differ from those used in the triennial valuation that determines the required level of contributions.

The actuarial value of benefits and the main assumptions used by the actuary are set out below.

Rate of inflation	2.80%
Rate of increase in salaries	4.10%
Rate of increase in pensions	2.80%
Rate for discounting scheme liabilities	4.30%
Longevity at 65 for current pensioners:	
Male	22.1 years
Female	24.4 years
Longevity at 65 for future pensioners:	
Male	24.5 years
Female	26.9 years

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation at 31 March 2013. The liability at 31 March 2014 (£824m) has been estimated by the actuary as comprising £314m in respect of employee members, £148m in respect of deferred pensioners and £362m in respect of pensioners. The actuary is satisfied that the aggregate liability is a reasonable estimate of the actuarial present value of benefit promises.

The value of the Fund as at 31 March 2014 represents 71.7% of the value of benefits determined under IAS19 assumptions. The deficit is expected to be addressed through a combination of investment returns in excess of the discount rate and additional deficit contributions from Employers.

## 12.15 Actuarial Valuation

An actuarial valuation of the Fund was carried out as at 31 March 2013. The market value of the Fund's assets at the valuation date was £552m and the total accrued liabilities of the Fund were £786m. The Fund deficit was therefore £234m, producing a funding level of 70.3% (compared to 73.5% at 31 March 2010).

To reach the funding level of 100% over a period of 20 years, the common employer's contribution rate is 34.4% of pensionable pay. Projected Unit Method is used to determine this rate. Adjustments have been made to the common rate of employer's contribution to take account of certain circumstances that are peculiar to individual employers.

The main actuarial assumptions used in the 2013 actuarial valuation are detailed below:

### Assumption

Price inflation (CPI)	2.5%
Pay increases	3.8%
Gilt based discount rate	3.0%
Funding basis discount rate	4.6%
Longevity at 65 for current pensioners:	
Male	22.1 years
Female	24.4 years
Longevity at 65 for future pensioners:	
Male	24.5 years
Female	26.9 years

### **13. Statement of the Consulting Actuary**

This statement has been prepared in accordance with Regulation 34(1)(d) of the Local Government Pension Scheme (Administration) Regulations 2008, and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2013/14.

#### **Description of Funding Policy**

The funding policy is set out in the administering authority's Funding Strategy Statement (FSS), dated March 2014. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (**NB** this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

The FSS sets out how the administering authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the administering authority to be sufficiently strong, contributions have been stabilised below the theoretical rate required to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is still a better than 50% chance that the Fund will return to full funding over 20 years.

#### **Funding Position as at the last formal funding valuation**

The most recent actuarial valuation carried out under Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 was as at 31 March 2013. This valuation revealed that the Fund's assets, which at 31 March 2013 were valued at £552 million, were sufficient to meet 70% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2013 valuation was £234 million. Individual employers' contributions for the period 1 April 2014 to 31 March 2017 were set in accordance with the Fund's funding policy as set out in its FSS.

#### **Principal Actuarial Assumptions and Method used to value the liabilities**

Full details of the methods and assumptions used are described in the valuation report dated 28 March 2014.

## Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

## Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2013 valuation were as follows:

Financial assumptions	31 March 2013	
	%	p.a.
	Nominal	Real
Discount rate	4.60%	2.10%
Pay increases	3.80%	1.30%
Pension increases	2.50%	-

	Males	Females
Current Pensioners	22.1 years	24.4 years
Future Pensioners*	24.5 years	26.9 years

\*Currently aged 45

Copies of the 2013 valuation report and Funding Strategy Statement are available on request from London Borough of Harrow, the administering authority to the Fund.

## Experience over the period since April 2013

Experience has been slightly better than expected since the last valuation (excluding the effect of any membership movements). Real bond yields have risen and asset returns have been a little better than expected meaning that funding levels are likely to have improved since the 2013 valuation.

The next actuarial valuation will be carried out as at 31 March 2016. The Funding Strategy Statement will also be reviewed at that time.

## Gemma Sefton FFA

Associate of the Institute and Faculty of Actuaries

For and on behalf of Hymans Robertson LLP  
23 May 2014

**APPENDIX 1**

# **Governance Compliance Statement**

**London Borough of Harrow Pension Fund**



## 1.1.1.1 September 2014

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## **Introduction**

This is the Governance Compliance Statement of The London Borough of Harrow Pension Fund, administered by Harrow Council, the Administering Authority. The statement provides an overview of Harrow's approach towards the governance of the Pension Fund.

Any enquiries in relation to this Governance Compliance Statement should be sent to:

Linda D'Souza (Service Manager – Shared Services)

Harrow Council London

Shared Services

3<sup>rd</sup> Floor, South Wing

Civic Centre

Station Road

Harrow

HA1 2XF

TEL: 020 8424 1426

Fax: 0208 424 1196

Email: [linda.d'souza@harrow.gov.uk](mailto:linda.d'souza@harrow.gov.uk)

## Regulatory Framework

This compliance statement is required by the provision of regulation 55 of the Local Government Pension Scheme Regulations 2013.

The provision requires Harrow Council as the Administering Authority to prepare a written statement setting out: -

*“... (a) whether the authority delegates its function, or part of its functions under these Regulations to a committee, a sub-committee or an officer of the authority;*

*(b) if the authority does so—*

*(i) the terms, structure and operational procedures of the delegation,*

*(ii) the frequency of any committee or sub-committee meetings,*

*(iii) whether such a committee or sub-committee includes representatives of Scheme employers or members, and, if so, whether those representatives have voting rights;*

*(c) the extent to which a delegation, or the absence of a delegation, complies with guidance given by the Secretary of State and, to the extent it does not so comply, the reasons for not complying, and*

*(d) details of the terms, structure and operational procedures relating to the local pension board established under regulation 53(4) (Scheme managers).”*

This statement will be revised and republished following any material change on any of the matters set out above. A current version of the compliance statement will always be available either through the pensions unit at the address on page three, on the intranet under – ‘Employment with the Council’ – ‘Employees Pension’ – ‘Policy Statements’ – ‘Governance Compliance Statement’.

## Delegated Functions

Harrow Council has delegated its functions to the following:

- i) Pension Fund Committee
- ii) Officer Sub – Group
- iii) Divisional Director HRD & Shared Services
- vi) Director of Finance & Assurance
- vii) Chief Officers

### Pension Fund Committee

The Pension Fund Committee is comprised of four Members representing two different political parties with voting rights and three Independent Advisors without voting rights. Council Senior Officers attend each meeting and Trade Union representatives of Scheme members (UNISON and GMB) are also invited as observers.

The Committee meets approximately four times a year and has the following responsibilities:

- ❑ to exercise on behalf of the Council, all the powers and duties of the Council in relation to its functions as Administering Authority of the LB Harrow Pension Fund (the fund), save for those matters delegated to other Committees of the Council or to an Officer;
- ❑ the determination of certain applications under the Local Government Pension Scheme Regulations;
- ❑ to administer all matters concerning the Council's pension investments in accordance with the law and Council policy;
- ❑ to establish a strategy for the disposition of the pension investment portfolio; and
- ❑ to appoint and determine the investment managers' delegation of powers of management of the fund;
- ❑ to approve any severance packages for Officers of £100,000 or over irrespective of the grade of Officer. The definition of severance package is in accordance with the DCLG supplementary statutory guidance 'Openness and accountability in local pay: Guidance under section 40 of the Localism Act 2011 issued in February 2013;
- ❑ to report back to Council for information purposes on all such approved severance packages.

- ❑ To determine applications in respect of Chief Officers where the application has been recommended by the Chief Executive in consultation with the Leaders of the political groups.

Within its Terms of Reference, the Committee therefore carries out functions such as:

- ❑ provide a response to any draft LGPS amendment regulations or other discussion paper relating to the LGPS.
- ❑ In some instances, decide to whom a death grant is paid.
- ❑ consider policy matters in relation to the pension scheme and the Council's early retirement policy.
- ❑ at least once every three months, review the investments made by the Fund Managers and from time to time consider the desirability of continuing or terminating the appointment of the Fund Managers.
- ❑ receive actuarial valuations of the Fund.

### **Officer Sub – Group**

The Officer Sub – Group is comprised of three Officers representing Finance, Legal and HR. Council Senior Officers attend each meeting.

The Sub-Group meets on an ad-hoc basis and have the following responsibilities:

- ❑ To determine all early retirement applications in line with Council Policy

### **Divisional Director HRD & Shared Services**

The Senior HR Officer (currently Divisional Director HRD & Shared Services) has the following responsibility:

- ❑ To determine flexible retirement applications where there is no cost to the pension fund.

## **Director of Finance and Assurance**

### **Pension Fund Investment**

In respect of the discretionary management arrangements the Director of Finance and Assurance has the following responsibilities:

- ❑ In the name of the Mayor and Burgesses of Harrow Council and on behalf of the Pension Fund and in consultation with the Fund's managers, to invest in stocks and shares as authorised by the Trustee Investments Act and Pension Fund Regulations, and to authorise the Council's seal to be affixed to stock transfer forms, rights issues and other investment forms.
- ❑ To enter into agreements on the terms and conditions on which these investments are made by the Fund's managers.
- ❑ To enter into under-writing agreements.
- ❑ To monitor the investment decisions of the Fund managers and under the terms of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 to ensure the need for diversification and stability of investments

### **Chief Officers**

Chief Officers are specifically authorised to take decisions on behalf of the Council or its non-Executive Committees in cases of urgency, using the procedure for non-executive decisions on minor matters or the procedure for urgent non-executive decisions.

#### *Urgent Non-Executive Decisions and Minor Matters*

In relation to matters which are the responsibility of a Council Committee, subject to consultation with the Chair of the relevant committee and the nominated members of the two other main political groups or their nominees, Chief Officers shall have the power to act on behalf of the Council in cases of urgency and on minor matters, where the urgent matter is of such a nature that it may be against the Council's interest to delay and where it is not practicable to obtain the approval of the Council Committee. In the event of disagreement between the Members consulted, the matter shall be referred to the Chief Executive who may take the decision after consultation with the Leaders of all political groups or their nominees, and if appropriate, with the statutory officers. The safeguards set out below must be followed.

## **Safeguards**

The procedure must only be used when considered essential to achieving the efficient administration of the service and for urgent matters consideration must be given to whether the matter can wait until the next scheduled meeting or whether the calling of a special meeting can be justified.

All decisions taken by officers under this delegated power must be reported for information to the next meeting of the appropriate committee.

## **Local Pension Board**

A local Pension Board will be in place by April 2015.

## Statement of compliance to guidance

Regulation 55(1)(c) requires LGPS administering authorities to measure their governance arrangements against the principles set out in the statutory guidance. Where compliance does not meet the published standard, there is a requirement to give, in their governance compliance statement, the reasons for not complying.

### Principle A – Structure

- a) The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.
- b) That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.
- c) That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.
- d) That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.

	Not Compliant*			Fully Compliant	
a)					√
b)			√		
c)					NA
d)					NA

\* Please use this space to explain the reason for non-compliance.

**No formal representation of ex-members with voting rights (pensioners/deferred members).**

### Principle B – Representation

- a) That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:-
- i) employing authorities (including non-scheme employers, eg, admitted bodies);
  - ii) scheme members (including deferred and pensioner scheme members),
  - iii) where appropriate, independent professional observers, and
  - iv) expert advisors (on an ad-hoc basis).



b) That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.

	<b>Not Compliant*</b>				<b>Fully</b>
	<b>Compliant</b>				
a)				√	
b)					√

\* Please use this space to explain the reason for non-compliance.

**No formal representation of ex-members with voting rights (pensioners/deferred members).**

### **Principle C – Selection and role of lay members**

a) That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.

b) That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.

	<b>Not Compliant*</b>				<b>Fully</b>
	<b>Compliant</b>				
a)					√
b)					√

\* Please use this space to explain the reason for non-compliance.

### **Principle D – Voting**

a) The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.

	<b>Not Compliant*</b>				<b>Fully</b>
	<b>Compliant</b>				
a)					√

\* Please use this space to explain the reason for non-compliance

### **Principle E – Training/Facility time/Expenses**

- a) That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.
- b) That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.
- c) That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken

	<b>Not Compliant*</b>			<b>Fully</b>	
	<b>Compliant</b>				
a)				√	
b)				√	
c)			√		

\* Please use this space to explain the reason for non-compliance .

**No formal documentation exists on the policy for training, facility time and expenses.**  
**No formal training log exists.**

### **Principle F – Meetings (frequency/quorum)**

- a) That an administering authority's main committee or committees meet at least quarterly.
- b) That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.
- c) That an administering authority who does not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented

	<b>Not Compliant*</b>			<b>Fully</b>	
	<b>Compliant</b>				
a)					√
b)					<b>NA</b>
c)				√	

\* Please use this space to explain the reason for non-compliance.

**No formal representation of ex-members with voting rights (pensioners/deferred members).**

### **Principle G – Access**

a) That subject to any rules in the council’s constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.

	<b>Not Compliant*</b>				<b>Fully Compliant</b>
a)					√

\* Please use this space to explain the reason for non-compliance.

### **Principle H – Scope**

a) That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements

	<b>Not Compliant*</b>				<b>Fully Compliant</b>
a)					√

\* Please use this space to explain the reason for non-compliance.

### **Principle I – Publicity**

a) That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.

	<b>Not Compliant*</b>				<b>Fully Compliant</b>
a)					√

\* Please use this space to explain the reason for non-compliance.

Please use this space if you wish to add anything to explain or expand on the ratings given above

The statement is published in various formats to LGPS employers, all types of scheme membership (i.e. actives/pensioners/deferreds), unions and non – LGPS employers.

# **Communications Policy Statement**

**London Borough of Harrow Pension Fund**

**September 2014**

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## **Introduction**

This is the Communications Policy Statement of the Harrow Council Pension Fund, administered by Harrow Council, the Administering Authority.

The Fund liaises with a number of employers, namely:-

- ❖ **Alexandra Academy**
- ❖ **Avanti House Free School**
- ❖ **Aylward Academy**
- ❖ **Bentley Wood Academy**
- ❖ **Canons High Academy**
- ❖ **Capita**
- ❖ **Chartwells**
- ❖ **Govindas**
- ❖ **Granary Childcare**
- ❖ **Harrisons**
- ❖ **Harrow Academy**
- ❖ **Harrow College**
- ❖ **Hatch End Academy**
- ❖ **Heathland Academy**
- ❖ **Jubilee Academy**
- ❖ **Julius Rutherford**
- ❖ **Krishna Avanti Academy**
- ❖ **Laing**
- ❖ **Linbrooks**
- ❖ **North London Collegiate School**
- ❖ **Nower Hill Academy**
- ❖ **Park Academy**
- ❖ **Rooks Heath Academy**
- ❖ **Salvatorian College**
- ❖ **St. Dominic's VI Form College**
- ❖ **Stanmore College**
- ❖ **Taylor Shaw**
- ❖ **Temco**
- ❖ **Whitefriars Academy**

and approximately 16,692 scheme members (5,582 active members, 6,023 deferred members and 5,087 pensioner members) in relation to the Local Government Pension Scheme. The delivery of the benefits involves communication with a number of other interested parties. This statement provides an overview of how we communicate and how we intend to measure whether our communications are successful.

It is effective from 1 September 2014.

Any enquiries in relation to this Communication Policy Statement should be sent to:

Linda D'Souza: Service Manager – Shared Services

Harrow Council

Shared Services

3<sup>rd</sup> Floor, South Wing

Civic Centre

Station Road

Harrow

HA1 2XF

TEL: 020 8424 1186

Fax: 0208 424 1196

email: [linda.d'souza@harrow.gov.uk](mailto:linda.d'souza@harrow.gov.uk)

## Regulatory Framework

This policy statement is required by the provisions of Regulation 61 of the Local Government Pension Scheme Regulations 2013. The provision requires Harrow Council as the Administering Authority to: “...prepare, maintain and publish a written statement setting out its policy concerning communications with:

- (a) members.
- (b) representatives of members.
- (c) prospective members and
- (d) Scheme employers.”

In addition it specifies that the statement must include information relating to:

- “(a) the provision of information and publicity about the Scheme to members, representatives of members and Scheme employers;
- (b) the format, frequency and method of distributing such information or publicity; and
- (c) the promotion of the Scheme to prospective members and their employers.”

As a provider of an occupational pension scheme, Harrow Council is already obliged to satisfy the requirements of the Occupational Pension Schemes (Disclosure of information) Regulations and other legislation, for example the Pensions Act 2014. Previously the disclosure requirements have been prescriptive, concentrating on timescales rather than quality. From 6 April 2006 more generalised disclosure requirements were introduced, supported by a Code of Practice. The type of information that pension schemes are required to disclose will remain very much the same as before, although the prescriptive timescales are being replaced with a more generic requirement to provide information within a “reasonable period”. The draft Code of Practice<sup>1</sup> issued by the Pensions Regulator in September 2005 sets out suggested timescales in which the information should be provided. While the Code itself is not a statement of the law, and no penalties can be levied for failure to comply with it, the Courts or a tribunal must take account of it when determining if any legal requirements have not been met. A summary of our expected timescales for meeting the various disclosure of information requirements are set out in the Performance Management section of this document, alongside those proposed by the Pension Regulator in the draft Code of Practice.

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<sup>1</sup> Code of Practice – Reasonable periods for the purposes of the Occupational Pension Schemes (Disclosure of Information) Regulations 2006 issued September 2005



## **Responsibilities and Resources**

The legal duty for the proper administration of the Harrow Council Pension Fund lies with Harrow Council. Communication material is raised through the Shared Services Pensions Team and validated through the Harrow Communications Unit. The Shared Services Pensions Team write all communications including information published on the Internet/Intranet. The team is also responsible for arranging all forums, pension surgeries, workshops and meetings covered within this statement. The Shared Services Pensions Team report through the recognised organisational unit hierarchical structure, ultimate responsibility for ensuring compliance lies with the Divisional Director of HR and Development & Shared Services.

Printing documentation is carried out internally through Shared Services.

## **Communication with key audience groups**

### **Our audience**

The Shared Services Pensions Team communicates with a number of stakeholders on an on-going basis. For the purpose of this communication policy statement, the team are considering engagement with the following audience groups:

- active members;
- deferred members;
- pensioner members;
- debit / credit members;
- prospective members;
- scheme employers and admission bodies;
- union representatives;
- Elected Members;
- chief officers
- Shared Services pensions administration staff

In addition there are a number of other stakeholders with whom Harrow Council communicate on a regular basis, such as Her Majesty's Revenue and Customs, Communities & Local Government, Department of Works and Pensions, Pensions Advisory Service, Solicitors, actuaries and other pension providers. Harrow Council has also considered, as part of this policy, how it communicates/engages with these interested parties.

### **How we communicate**

#### **General communication**

Harrow Council has set in place a number of initiatives that will assist in moving towards the Government's e-gov agenda. Pension information, for the most part, is delivered through paper based communications. Harrow has put in place alternative communication mediums (e.g. documents in Braille, large print, audio tapes, etc) to ensure that it caters for the needs of special groups. Additionally Harrow utilises Internet/Intranet mediums and is currently investigating, in consultation with Harrow's Audit unit, both email and internet self-service as mediums that will facilitate a gradual move away from paper communications and reduce communication costs.

Within the pension team, staff are responsible for all administration of the Local Government Pension Scheme. Any member of staff within the team can deal with general telephone calls, written correspondence or visitors. Communications of more complicated pension issues are managed amongst the Pensions senior management.

Telephony feed is either through a dedicated direct dial number or alternatively directly to the main Harrow Council switchboard and then onward transfer to one of the pension teams' extensions.

#### **Branding**

As the Pension Fund is administered by Harrow Council, all literature and communications will conform to the Council's branding policy.

**Accessibility**

Harrow Council serves a culturally rich and diverse client base and is conscious of the fact that access to information requires varied forms of communication. Any material required in an alternative format or language is managed in line with a specific request. All publications include details of how a request for alternative communication format is requested.

## Policy on Communication with Active, Deferred and Pensioner Members

Our objectives with regard to communication with members are:

Key communication objectives will, over and above individual communications with members (e.g. notification of scheme benefits, response to an individual enquiries, etc), be managed as detailed below:

- for the LGPS to be used as a tool in the recruitment and retention of employees, and therefore assisting in both Harrow Council and associated bodies becoming employers of choice.
- to better educate and explain to members the benefits of the LGPS.
- to provide the diverse client base with increased opportunity to engage on pension related matters through the most appropriate medium.
- as a result of improved communication, for enquires and complaints to be resolved at the earliest opportunity and to the client's satisfaction.
- In line with the Government's agenda in relation to individuals making adequate financial arrangements for retirement, increase take up of LGPS membership.
- to ensure that all stakeholders, whether they be active members, pensioners or Elected Members have sufficient material to hand to inform pension-related judgements.

<b>Method of Communication</b>	<b>Media</b>	<b>Frequency of issue</b>	<b>Method of Distribution</b>	<b>Audience Group (Active, Deferred, Pensioner or All)</b>
Scheme Guide	Paper based and through Harrow's Internet/Intranet	At joining and major scheme changes	Post to home address/via scheme employers & online	Active
Newsletters	Paper based and through Harrow's Internet/Intranet	Annually and ad hoc to reflect timely notification of major scheme changes	Post to home address & online	Separately for active, deferred and pensioners
Pension Fund Report and Accounts	Paper based and through Harrow's Internet/Intranet	Annually	Hard copy on request & online	All
Pension Fund Accounts – Summary	Paper based and through Harrow's Internet/Intranet	Annually	Post to home address.& online	Separately for active and deferred
Annual Benefit Statements	Paper based	Annually	Post to home address	Active and deferred
Factsheets	Paper based and through Harrow's Internet/Intranet	Topic specific information sheets	Post to home address & online	Active and deferred
Website – Harrow Intranet	Electronic	Continually available	Loaded for key communications	All

Pension Surgeries	Face to face	On request	On request	Active
One to one education sessions	Personal interview	On request	On request	All
Question and Answer sessions	Paper based, Harrow Intranet & seminars	Quarterly	Various	Active

## Explanation of communications

**Scheme Guide** - A booklet providing a relatively detailed overview of the LGPS, including who can join, how much it costs, the retirement and death benefits and how to increase the value of benefits.

**Newsletters** - An annual newsletter which provides updates in relation to changes to the LGPS as well as other related news, such as European / British pension matters, payroll pay dates/deadlines, a summary of the accounts for the year, contact details, etc.

**Pension Fund Report and Accounts** – Details of the value of the Pension Fund during the financial year, income and expenditure as well as other related details, (e.g. current employer bodies and scheme membership numbers. This is a somewhat detailed and lengthy document and, therefore, it will not be routinely distributed except on request. A summary document, as detailed below, will be distributed.

**Pension Fund Report and Accounts Summary** – provides a handy summary of the position of the Pension Fund during the financial year, income and expenditure as well as other related details.

**Annual Benefit Statements** – For active members these include the current value of benefits to 31 March as well as the projected benefits at Normal Pension Age. The associated death benefits are also shown as well as details of any individuals the member has nominated to receive the lump sum death grant. The annual benefit statement is a combined publication and includes the members' state benefits as advised through the Department for Works and Pensions.

For deferred members, the benefit statement includes the current value of the deferred benefits and the earliest payment date of the benefits as well as the associated death benefits.

**Fact sheets** – These are leaflets that provide some detail in relation to specific topics, such as topping up pension rights, death benefits and pension rights on divorce etc.

**Harrow Intranet** – The Intranet will provide scheme specific information, forms that can be printed or downloaded, access to documents (e.g. newsletters and report and accounts), frequently asked questions and answers, links to related sites and contact information.

**Harrow website** – The website also provides scheme specific information, forms that can be printed or downloaded, access to documents (e.g. newsletters and report and accounts), frequently asked questions and answers, links to related sites and contact information.

**Pension Surgeries** – Pension surgeries provide the opportunity for groups of staff (i.e. 6 or more) to arrange a personal visit, at their place of work, from a member of the team.

**One to one education sessions** – These sessions offer the individual a confidential interview with a member of the team.

**Question and Answer Sessions** – Organised on a quarterly basis this gives pension scheme member's the opportunity to quiz the Harrow Pension team on all pension specific matters.

## Policy on promotion of the scheme to Prospective Members and their Employing Bodies

Our objectives with regard to communication with prospective members are:

- for the LGPS to be used as a tool in the recruitment of employees, and therefore assisting in both Harrow Council and associated bodies becoming employers of choice.
- to better educate and explain to members the benefits of the LGPS.
- to provide the diverse prospective client base with increased opportunity to engage on pension related matters through the most appropriate medium.
- In line with the Government's agenda in relation to individuals making adequate financial arrangements for retirement, increase take up of LGPS membership.
- to ensure that prospective members have sufficient material to hand to inform pension-related judgements.

The Shared Services Pensions Office does not have immediate access to prospective members, however, the benefits of a final salary defined benefit scheme is referenced in job vacancy advertisements. Promotional material and educational visits are provided for employing bodies.

<b>Method of Communication</b>	<b>Media</b>	<b>Frequency of Issue</b>	<b>Method of Distribution</b>	<b>Audience Group</b>
Overview of the LGPS - Guide	Paper based, and Internet	On commencing employment	Via employers	New employees
Promotional Brochure	Paper based	Annually	Via employers	Existing/New employees
Membership Specific Reminder	Paper based	Annually	Post to home address	Current Non LGPS Harrow Council employees

### **Explanation of communications**

Overview of the LGPS – Guide - A short leaflet that summarises the costs of joining the LGPS and the benefits of doing so. All this information is available on Harrow's Internet pages.

Promotional Brochure – These will be designed to help those who are not in the LGPS to understand the benefits of participating in the scheme and provide guidance on how to join the scheme.

Membership Specific Reminder – Through a combination of individual letter and promotional brochure provide current Harrow Council employees, who have not joined the LGPS, with sufficient information to revisit their earlier decision.

## Policy on communication with Employing Bodies

Our objectives with regard to communication with employers are:

- to establish sound working arrangements to assist with a free flow of relevant information.
- Given the increased costings associated with funding a final salary defined benefit scheme, provide the employing bodies with sufficient information to assist them in their planning for future employer contribution rates.
- to provide a database infrastructure that will assist in maintaining an accurate database.
- To provide literature and processes around starters, changes during employment, leavers, retirees thereby ensuring smooth data transfers in relation to all staffing issues.
- to ensure they understand the benefits of being an LGPS employer.
- to assist the employing body in the development of their discretionary policy.

Our objectives will be met by providing the following communications:

<b>Method of Communication</b>	<b>Media</b>	<b>Frequency of issue</b>	<b>Method of Distribution</b>	<b>Audience Group</b>
Employers' Guide	Paper based and electronic file format	At joining and updated as necessary	Post , email and via data storage medium	Main contact for all employers
Newsletters	Paper based	Annually	Post & email	Main contact for all employers
Annual employers meeting	Annual meeting with key employing body personnel	Annually	Meeting	Employing body management
Employers' focus groups	Quarterly seminars	Quarterly	Attendance at seminars	All LGPS employees
Harrow Pension Fund Report and Accounts	Paper based	Annually	Post	Employing body
IAS19 report	Paper based and electronic file format.	Annually	Hard copy post and data storage medium.	Employing Body.
Service Level Agreement	Paper based and electronic file format.	Start of admission agreement and revised at contract renewal.	Hard copy post and data storage medium	Admitted Body

## **Explanation of communications**

Employers' Guide - A detailed communication that provides guidance on the employer's duties responsibilities. Assists employer in ensuring that it meets its statutory obligations within the prescribed timescales (e.g. publication of policy on discretions).

Newsletters – A technical briefing document that will include recent changes to the scheme, the impact on Pension Section administration and other relevant information.

Annual Employer's Meeting – A formal seminar style event where the Harrow Pension team provide an annual update and the employing body get to question all aspects of the support arrangements.

Employers' focus groups – Generally workgroup style sessions set up to debate current issues within the LGPS with representatives of all employing bodies.

Harrow Pension Fund Report and Accounts Summary – provides a handy summary of the position of the Pension Fund during the financial year, income and expenditure as well as other related details.

IAS19 Report – This is a national accounting standard that all authorities administering pension funds must follow. IAS19 requires an organisation to account for retirement benefits when it is committed to give them, even if the actual giving will be many years to come.

Service Level Agreement – Document that sets out, alongside the admission agreement, the duties and responsibilities of both parties for the duration of the service contract.

## **Policy on communication with Union Representatives**

Our objectives with regard to communication with union representatives are:

- to foster close working relationships in communicating the benefits of the scheme to union members
- to ensure they are aware of the Pension Fund's policy in relation to any decisions that need to be taken concerning the scheme
- to engage in discussions over the future of the scheme and to ensure that Union representatives have full vision and opportunity to respond on all CLG and HMRC consultations
- to harness union communications in a joint venture to explain the benefits of the LGPS to prospective and current members
- to liaise with unions and provide every assistance in supporting union officers in their learning and understanding of the LGPS

Our objectives will be met by providing the following communications:

<b>Method of communication</b>	<b>Media</b>	<b>Frequency of Issue</b>	<b>Method of Distribution</b>	<b>Audience Group</b>
Briefing papers	Paper based and electronic	As and when there are scheme changes	Email or hard copy	All union members of the LGPS
Education sessions	Paper based and electronic	On request or following suggestion of Harrow's Pensions Team	Various	Union representatives
Pension Fund Committee meetings	Reports & Meeting	In line with published Committee meeting cycle	Notification through Committee Services	Named union representatives



### ***Explanation of communications***

Briefing papers – a briefing that highlights key issues and developments relating to the LGPS and the Fund.

Education sessions – these are education sessions that are available on request for union representatives, [e.g. to improve their understanding of the basic principles of the scheme, or to explain possible changes to policies]

Pension Fund Committee meetings – a formal meeting of Elected Members, attended by Council Senior Officers, Investment Managers, invited Pension specialists and union members.

### **Policy on communication with Elected Members**

Our objectives with regard to communication with Elected Members:

- to ensure that Elected Members receive sufficient briefings/training to allow them to carry out their statutory duties and responsibilities in line with HMRC and LGPS legislation.
- to seek Elected Member approval to the development or amendment of discretionary policies,
- to seek Elected Members approval to formal responses to government consultation in relation to the scheme
- to ensure that Elected Members have full vision of actuarial reports, particularly those that impact on the Harrow Pension Fund.

Our objectives will be met by providing the following communications:

<b><i>Method of Communication</i></b>	<b><i>Media</i></b>	<b><i>Frequency of Issue</i></b>	<b><i>Method of Distribution</i></b>	<b><i>Audience Group</i></b>
Training sessions	Pension seminars	Following member elections or timely briefings to ensure Elected Members are aware of scheme changes.	LGPS specific seminar	All Elected Members.
Briefing papers	Paper based and electronic	As and when required	Email or hard copy	All Elected Members
Pension Meetings	Meeting	In line with the published Committee cycle.	Members elected onto Licensing & General Purposes Committee and Pension Fund Committee	All members of the Pension Committee/Panel
Report and verbal briefing	Meeting	As and when required	Report and verbal briefing	Cabinet

### ***Explanation of communications***

Training Sessions – providing a broad overview of the main provisions of the LGPS, and Elected Member's key duties and responsibilities.

Briefing papers – a briefing that highlights key issues and developments to the LGPS.

Pension Meetings – Reports submitted to the Pension Fund Committee.

Report and Verbal Briefing – Occasions when The Cabinet require vision of forthcoming pension changes that could impact on Corporate Priorities or have significant budget implications.

### **Policy on communication with Shared Services Pensions Team**

Our objectives with regard to communication with pension administration staff are:

- ensure they are aware of changes and proposed changes to the LGPS scheme.
- to provide new and established staff with access to both internal and external training
- through a combination of utilising task management and re-engineering service processes continuously monitor and develop potential for service improvements; readjusting performance measures and targets, where appropriate

Our objectives will be met by providing the following communications:

<b>Method of Communication</b>	<b>Media</b>	<b>Frequency of Issue</b>	<b>Method of Distribution</b>	<b>Audience Group</b>
Identify training/development needs as part of Appraisal	Appraisal documentation	Annual exercise, reviewed at 6 months. Informal bi-monthly meetings	Appraisal process	All pensions staff
Staff meetings	Informal briefings	As and when required	By arrangement	All pensions staff
Attendance at external courses	Externally provided	As and when required	By email, paper based	All pensions staff

### **Explanation of communications**

Appraisal – Formal staff review process where future training/development needs are identified in relation to the team’s strategic priorities.

Staff meetings - Informal training sessions – which provide new and established staff with timely update on changes to pension legislation or processes and an opportunity to discuss such amendments with senior members

Attendance at external courses – to provide more tailored training where it is cost-effective to use external trainers

### **Policy on communication with tax payers**

Our objectives with regard to communication with tax payers are:

- to provide key information in a timely manner, ensuring full compliance with the requirements of the Data Protection and Freedom of Information Acts.

Our objectives will be met by providing the following communications:

<b>Method of Communication</b>	<b>Media</b>	<b>Frequency of Issue</b>	<b>Method of Distribution</b>	<b>Audience Group</b>
Reports/written response/electronic postings	Various	Reports published annually and ‘As and When	Various	All Harrow constituents and other interested parties.

		required' in relation to general enquiries		
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### ***Explanation of communications***

Reports/written response/electronic postings – Annual reports are published either through established communications (e.g. newsletters) or posted on the Council's Intranet site. Other ad hoc requests are responded to in light of the specific information request and utilising the most appropriate communications medium.

### **Policy on communication with other stakeholders/interested parties**

Our objectives with regard to communication with other stakeholder/interested parties are:

- to meet our statutory obligations in relation to notifications and consultations
- to ensure the proper administration of the scheme
- to deal with the resolution of pension disputes
- to administer the Fund's Additional Voluntary Contribution schemes

Our objectives will be met by providing the following communications:

<b><i>Method of Communication</i></b>	<b><i>Media</i></b>	<b><i>Frequency of Issue</i></b>	<b><i>Method of Distribution</i></b>	<b><i>Audience Group</i></b>
Pension Fund valuation reports <ul style="list-style-type: none"> <li>• Rates &amp; Adjustment (R&amp;A) certificate</li> <li>• Revised R&amp;A certificates</li> <li>• Cessation valuations</li> </ul>	Electronic	Every three years	Via email	Communities & Local Government (CLG), Her Majesty's Revenue and Customs (HMRC)/all scheme employers
New admission agreements	Hard copy/electronic format	As new employers are entered into the Fund	Post/electronic submission	CLG/HMRC
Formal resolution of pension disputes	Hard copy or electronic format	As and when a dispute requires resolution	Via email or post	Scheme member or their representatives, the Pensions Advisory Service/ the Pensions Ombudsman
Completion of questionnaires	Hard copy or electronic format	As and when required	Via email or post	CLG/HMRC/the Pensions Regulator

## **Explanation of communications**

Pension Fund Valuation Reports – a statutory report issued every three years by the scheme appointed actuary, setting out the estimated assets and liabilities of the Fund as a whole, as well as setting out individual employer contribution rates for a three year period commencing one year from the valuation date

New admission agreements – a legal requirement to notify both the Secretary of State and the HMRC of new admitted bodies.

Resolution of pension disputes – a formal notification of pension dispute resolution, together with any additional correspondence relating to the dispute

Completion of questionnaires – Annual Survey

## **Performance Measurement**

The Shared Services Pensions Team already has performance measures set in place and in order to measure the success of our communications with active, deferred and pensioner members, we will use the following methods:

### **Timeliness**

We will measure against the following target delivery timescales:

<b>Communication</b>	<b>Audience</b>	<b>Statutory delivery period</b>	<b>Target delivery period</b>
Scheme booklet	New joiners to the LGPS	Within two months of joining	Within 3 days of joining the LGPS
Annual Benefit Statements as at 31 March	Active members	On request	July each year
Telephone calls	All	Not applicable	All phone calls to be answered within 3 rings
Issue of retirement benefits	Active and deferred members retiring	Within two months of retirement	Retirement benefits to be issued within 3 working days of retirement
Issue of deferred benefits	Leavers	Within two months of withdrawal	Within working 8 days of relevant paperwork
Transfers in	Joiners/active members	Within two months of request	Within 5 days of receiving relevant paperwork
Issue of forms i.e. expression of wish	Active members	N/A	Within 3 days of joining the LGPS
Changes to scheme rules	Active/deferred and pensioner members, as required	Within two months of the change coming into effect	Within one month of change coming into effect
Annual Pension Fund Report and Accounts	All	Within two months of request	Within five working days

## Quality

<b>Audience</b>	<b>Method</b>	<b>To consider</b>	<b>Notes</b>
Active and deferred members	Paper based survey with annual benefit statements	All services	Client can benchmark against published service targets.
All member types	Assessment against system report	Performance against task management pre-defined performance measures.	One task chosen each quarter from: retirements new starts and transfers in transfers out deferred leavers
All member types	Focus group meeting on half yearly basis	All services and identify improvement areas/new services	Representative group of all member types. To include union representatives.
Employers	Focus Groups	Scheduled / Admitted body specific issues	Regular feedback sessions.

## Results

The Pensions office publish, annually, performance against client-agreed targets. Elected Members receive copy of all performance reports through the Committee reporting cycle.

## Review Process

Our communication policy will be reviewed on an annual basis, to ensure it meets audience needs and regulatory requirements. A current version of the policy statement will always be available either through the Pensions office, at:-

Shared Services  
Harrow Council  
3rd Floor South Wing  
Civic Centre Station Road  
Harrow Middlesex HA1 2XF

or on our Internet site under [www.harrowpensionfund.org](http://www.harrowpensionfund.org)

## APPENDIX 3



### A brief guide to the Local Government Pension Scheme (LGPS)

#### Employees in England and Wales – April 2014

##### Highlights of the LGPS

###### The LGPS gives you:

###### **Secure benefits –**

the scheme provides you with a future income, independent of share prices and stock market fluctuations.

###### **At a low cost to you –**

with tax-efficient savings and lower National Insurance contributions for most people under **State Pension Age**.

###### **And your employer pays in too –**

the scheme is provided by your employer who meets the balance of the cost of providing your benefits in the LGPS.

###### You can look forward to your retirement with the LGPS with:

###### **A secure pension –**

worked out every **scheme year** and added to your **pension account**. The pension added to your account is equal to a 49th of your pay in that year. At the end of every **scheme year** the value of the pension in your account is adjusted to take into account the cost of living (as currently measured by the **Consumer Prices Index (CPI)**).

###### **Flexibility to pay more or less contributions –**

you have the option in the LGPS to pay half your normal contributions in return for half your normal pension. This is known as the 50/50 section of the scheme and is designed to help members stay in the scheme when times are financially tough. You can also boost your pension by paying more contributions, which you would get tax relief on.

###### **Tax-free cash –**

you have the option when you draw your pension to exchange part of it for some tax-free cash.

###### **Peace of mind –**

your family enjoys financial security, with immediate life cover and a pension for your spouse, **civil partner** or **eligible cohabiting partner** and **eligible children** in the event of your death in service and, if you ever become seriously ill and you've met the 2 years **vesting period**, you could receive immediate ill health benefits.

### **Freedom to choose when to take your pension –**

you do not need to have reached your **Normal Pension Age** in order to take your pension as, once you've met the 2 years **vesting period**, you can choose to retire and draw your pension at any time between age 55 and 75. Your **Normal Pension Age** is simply the age you can retire and take the pension you've built up in full. However, if you choose to take your pension before your **Normal Pension Age** it will normally be reduced, as it's being paid earlier. If you take it later than your **Normal Pension Age** it's increased because it's being paid later.

### **Redundancy and Efficiency Retirement –**

if you are made redundant or retired in the interests of business efficiency at or after age 55 you will, provided you've met the 2 years **vesting period**, receive immediate payment of the benefits you've built up.

### **Flexible retirement –**

if you reduce your hours or move to a less senior position at or after age 55 you can, provided your employer agrees, and you've met the 2 years **vesting period**, draw some or all of the benefits you have built up, helping you ease into retirement, although your benefits may be reduced for early payment.

### **The scheme**

This guide is a short description of the conditions of membership and main scheme benefits that apply if you pay into the LGPS on or after 1 April 2014.

### **What kind of scheme is it?**

The LGPS is a tax approved, defined benefit occupational pension scheme set up under the Superannuation Act 1972 (in the future scheme rules will be made under the Public Service Pension Schemes Act 2013) and is contracted out of the State Second Pension scheme (S2P). The LGPS is a qualifying scheme under the automatic enrolment provisions of the Pensions Act 2008. Your pension is worked out every year and added to your **pension account**. The amount in your **pension account** is revalued at the end of each **scheme year** so your pension keeps up with the cost of living.

The LGPS is very secure because the benefits are set out in law.

### **Who can join?**

The LGPS covers employees working in local government and for other organisations that have chosen to participate in it. To be able to join the LGPS you need to be under age 75 and work for an employer that offers membership of the scheme. If you are employed by a designating body, such as a town or parish council, or by a non-local government organisation which participates in the LGPS (an **admission body**), you can only join if your employer nominates you for membership of the scheme. Police officers, operational firefighters and, in general, teachers and employees eligible to join another statutory pension scheme (such as the NHS Pension Scheme) are not allowed to join the LGPS.

If you start a job in which you are eligible for membership of the LGPS you will be brought into the scheme (unless your contract of employment is for less than 3 months and you are not an **Eligible Jobholder**, but even then you can opt to join by completing an application form).

If you are brought into the scheme you have the right to opt out. You cannot complete an opt out form until you have started your employment.

### **How do I ensure that I have become a member of the LGPS?**

On joining the LGPS relevant records and a **pension account** (for each employment if you have more than one employment) will be set up and an official notification of your membership of the LGPS will be sent to you. **You should check your pay slip to make sure that pension contributions are being deducted.**

### **Can I opt-out of the LGPS and re-join at a later date?**

Yes you can opt-out of the scheme but if you are thinking of opting out you might want to first consider an alternative option which is to elect to move to the 50/50 section of the scheme. The 50/50 section allows you to pay half your normal contributions in return for half your normal pension build up. To find out more, see the section on **flexibility to pay less.**

If having considered the 50/50 option you still decide the LGPS is not for you, you can leave the LGPS at any time on or after your first day of eligible employment by giving your employer notice in writing. You might, however, want to take independent financial advice before making the final decision to opt out.

If you opt out of the LGPS before completing 3 months membership you will be treated as never having been a member and your employer will refund the contributions to you through your pay.

If you opt out of the LGPS with 3 or more months membership and before completing the 2 years **vesting period** you can take a refund of your contributions (less any statutory deductions) or transfer out your pension to another scheme.

If you opt out of the LGPS after meeting the 2 years **vesting period** you will have deferred benefits in the scheme and will generally have the same options as anyone leaving their job before retirement.

If you opt-out, you can, provided you are otherwise eligible to join the scheme, opt back into the scheme at any time before age 75.

If you opt out of the LGPS then:

- on the date your employer is first required to comply with the automatic enrolment provisions under the Pensions Act 2008, your employer will automatically enrol you back into the LGPS if you are an **Eligible Jobholder** at that time in the job you've opted out from, or
- if on the date your employer is first required to comply with the automatic enrolment provisions under the Pensions Act 2008 you are not an **Eligible Jobholder** at that time in the job you opted out from your employer will, if you subsequently become an **Eligible Jobholder** in that job, automatically enrol you back into the LGPS from the **automatic enrolment date.**

Your employer must notify you if this happens. You would then have the right to again opt out of the LGPS.

If you stay opted out your employer will normally automatically enrol you back into the LGPS approximately every 3 years from the date they have to comply with the automatic enrolment provisions.

### **What do I pay?**

Your contribution rate depends on how much you are paid but it's currently between 5.5% and 12.5% of your **pensionable pay**. If you elect for the 50/50 section of the scheme you would pay half the rates listed below. The rate you pay depends on which pay band you fall into.



Here are the pay bands and the rates that apply from April 2014.

<b>Contribution table 2014/15</b>	
<b>If your Pay is:</b>	<b>You pay a contribution rate of:</b>
Up to £13,500	5.5%
£13,501 to £21,000	5.8%
£21,001 to £34,000	6.5%
£34,001 to £43,000	6.8%
£43,001 to £60,000	8.5%
£60,001 to £85,000	9.9%
£85,001 to £100,000	10.5%
£100,001 to £150,000	11.4%
Over £150,000	12.5%

The intention is that contribution rates and / or pay bands will be reviewed on a regular basis and may change in the future.

### **Do I get tax relief?**

As a member of the LGPS, your contributions will attract tax relief at the time they are deducted from your **pay** and you will be contracted out of the State Second Pension scheme (S2P). There are restrictions on the amount of tax relief available on pension contributions. If the value of your pension savings increase in any one year by more than the annual allowance of £40,000 you may have to pay a tax charge. Most people will not be affected by the annual allowance.

### **What about my National Insurance contributions?**

Whilst you are a member of the LGPS you will currently, prior to **State Pension Age**, pay reduced National Insurance contributions.

### **Does my employer contribute?**

Your employer pays the balance of the cost of providing your benefits in the LGPS. Every three years an independent review is undertaken to calculate how much your employer should contribute to the scheme.

### **Is there flexibility to pay less contributions?**

Yes, in the scheme there is an option known as 50/50 which provides members with the facility to pay half the normal contributions and to build up half the normal pension during the time the reduced contributions are being paid - see the section on **flexibility to pay less**.

### **Can I make extra contributions to increase my benefits?**

You can increase your benefits by paying additional contributions (known as Additional Pension Contributions, APCs) to buy extra LGPS pension, or by making payments to the scheme's **Additional Voluntary Contributions (AVC)** arrangement. Your pension fund can give you more information on these options. Contact details are at the end of this guide.

You are also able to make payments to a personal pension or stakeholder pension or free-standing AVC scheme of your own choice. You may wish to take independent financial advice before you make a decision about paying extra.

### **What if I've been a member before and can now re-join the LGPS?**

If you rejoin the LGPS and you have deferred benefits in an LGPS fund in England and Wales your deferred benefits will normally be automatically joined with your new active **pension account**. If you want to retain separate deferred benefits then you must make such an election within 12 months of

rejoining the scheme. If you rejoin the LGPS in England and Wales and have a deferred refund this **must** be joined with your new active **pension account**.

### **What about any non-LGPS pension rights I have?**

If you have paid into another non-LGPS pension arrangement, you may be able to transfer your previous pension rights into the LGPS (provided you are not already drawing them as a pension). You only have 12 months from joining the LGPS to opt to transfer your previous pension rights, unless your employer and pension fund allows you longer.

### **What if I'm already receiving an LGPS pension – will it be affected?**

If you are already drawing a pension from the scheme, some or all of which you built up before 1 April 2014, and you are re-employed in local government or by an employer who offers membership of the LGPS you must tell the LGPS fund that pays your pension about your new position, regardless of whether you join the scheme in your new position or not. They will let you know whether your pension in payment is affected in any way.

If you are drawing a pension from the scheme, all of which you built up after 31 March 2014, and you are re-employed in local government or by an employer who offers membership of the LGPS you do not need to inform the LGPS fund that pays your pension as there is no effect on your pension in payment. The only exception to this is if you are in receipt of an ill-health pension that is stopped if you are in any gainful employment, in which case you must inform the employer who awarded you that pension and they will let you know whether your pension in payment should be stopped.

## **Contribution Flexibility**

### **Flexibility to pay less**

When you join the scheme you will be placed in the main section of the scheme. However, once you are a member of the scheme you will be able to elect in writing, at any time, to move to the 50/50 section if you wish.

The 50/50 section gives you the ability to pay half your normal contributions. This flexibility may be useful during times of financial hardship as it allows you to remain in the scheme, building up valuable pension benefits, as an alternative to opting out of the scheme.

A 50/50 option form is available from your employer. If you have more than one job in which you contribute to the scheme you would need to specify in which of the jobs you wish to be moved to the 50/50 section.

If you elect for 50/50 you would be moved to that section from the next available pay period. You would then start paying half your normal contributions and build up half your normal pension during the time you are in that section. When you make an election for the 50/50 section your employer must provide you with information on the effect this will have on your benefits in the scheme.

If you were to die in service whilst in the 50/50 section of the scheme the lump sum death grant and any survivor pensions would be worked out as if you were in the main section of the scheme. If you are awarded an ill-health pension which includes enhanced membership, the enhanced membership is added to your **pension account** as if you were in the main section of the scheme.

The 50/50 section is designed to be a short-term option for when times are tough financially. Because of this your employer is required to re-enrol you back into the main section of the scheme approximately three years from the date they first have to comply with the automatic enrolment provisions of the Pensions Act 2008 (and approximately every three years thereafter). If you wished to

continue in the 50/50 section at that point you would need to make another election to remain in the 50/50 section.

There is no limit to the number of times you can elect to move between the main and the 50/50 section, and vice versa.

### **Flexibility to pay more**

There are a number of ways you can provide extra benefits, on top of the benefits you are already looking forward to as a member of the LGPS.

### **You can improve your retirement benefits by paying:**

- Additional Pension Contributions (APCs) to buy extra LGPS pension,
- **Additional Voluntary Contributions (AVCs)** arranged through the LGPS (in-house AVCs),
- Free Standing Additional Voluntary Contributions (FSAVCs) to a scheme of your choice,
- Contributions to a stakeholder or personal pension plan.

Your pension fund can give you more information on the first two of these options. Contact details are at the end of this guide.

### **Your Pension**

Your LGPS benefits are made up of:

- An annual pension that, after leaving, increases every year in line with the cost of living for the rest of your life, and
- The option to exchange part of your pension for a tax-free lump sum paid when you draw your pension benefits.

### **How is my pension worked out?**

Every year, you will build up a pension at a rate of 1/49<sup>th</sup> of the amount of **pensionable pay** you received in that **scheme year** if you are in the main section of the scheme (or half this rate of build up for any period you have elected to be in the 50/50 section of the scheme). If during the **scheme year** you had been on leave on reduced contractual pay or no pay due to sickness or injury, or had been on **relevant child related leave** or **reserve forces service leave** then, for the period of that leave, your pension is based on your **assumed pensionable pay**. The amount of pension built up during the **scheme year** is then added to your **pension account** and revalued at the end of each **scheme year** so your pension keeps up with the cost of living.

**If you joined the LGPS before 1 April 2014**, your benefits for membership before 1 April 2014 were built up in the final salary scheme and are calculated differently using your membership built up to 31 March 2014 and your final year's pay.

**The examples below** show how benefits based on membership in the LGPS built up after 31 March 2014 are worked out.

**If you are nearing retirement and you were a member of the scheme before 1 April 2014** there is an additional protection in place to ensure that you will get a pension at least equal to that which you would have received in the scheme had it not changed on the 1 April 2014. This protection is known as the **underpin**.

The **underpin** applies to you if you were:

- an active member on 31 March 2012, and
- you are within 10 years of your protected **Normal Pension Age** on 1 April 2012, and
- you haven't had a continuous break in active membership of a public service pension scheme of more than 5 years (after 31 March 2012), and
- you've not drawn any benefits in the LGPS before protected **Normal Pension Age**, and
- you leave with an immediate entitlement to benefits.

If you are covered by the underpin a calculation will be performed at the date you cease to contribute to the Scheme, or at your protected **Normal Pension Age** if earlier, to check that the pension you have built up (or, if you have been in the 50/50 section of the scheme at any time, the pension you would have built up had you always been in the main section of the scheme) is at least equal to that which you would have received had the scheme not changed on 1 April 2014. If it isn't, the difference will be added into your **pension account** when you draw your benefits.

### **What pensionable pay is used to work out my pension?**

Your pension for membership in the LGPS built up after 31 March 2014 is worked out using your **pensionable pay** which is the amount of pay on which you pay your pension contributions.

However if during the **scheme year** you had been on leave on reduced contractual pay or no pay due to sickness or injury, or had been on **relevant child related leave** or **reserve forces service leave** then, for the period of that leave, your pension is worked out based on your **assumed pensionable pay**.

### **Can I exchange part of my pension for a lump sum?**

You can exchange part of your annual pension for a one off tax-free cash payment. You will receive £12 lump sum for each £1 of pension given up. You can take up to 25% of the capital value of your pension benefits as a lump sum providing the total lump sum does not exceed £312,500 (2014/15 figure) less the value of any other pension rights you have in payment. Details of the maximum tax-free cash payment you can take will be given to you shortly before your retirement. It is at that time you need to make a decision.

### **How is my pension worked out - an example**

Let's look at the build-up in a member's **pension account** for 5 years in the scheme.

Let's assume that the member joins the scheme on 1 April 2014, that their **pensionable pay** is £24,500 in **scheme year** 1 and their **pensionable pay** increases by 1% each year. Let's also assume that the cost of living (revaluation adjustment) is 3% each year.

Scheme Year	Opening Balance	Pension Build up in Scheme year Pay/ Build up rate = Pension	Total Account 31 March	Cost of living Revaluation adjustment	Update Total Account
1	£0.00	£24,500/49 = <b>£500.00</b>	£500.00	3% = £15.00	£500.00 + £15.00 = <b>£515.00</b>
2	£515.00	£24,745/49 = <b>£505.00</b>	£1,020.00	3% = £30.60	£1,020.00 + £30.60 = <b>£1,050.60</b>
3	£1,050.60	£24,992.45/49 = <b>£510.05</b>	£1,560.65	3% = £46.82	£1,560.65 + £46.82 = <b>£1,607.47</b>
4	£1,607.47	£25,242.37/49= <b>£515.15</b>	£2,122.62	3% = £63.68	£2,122.62 + £63.68 = <b>£2,186.30</b>
5	£2,186.30	£25,494.79/49 = <b>£520.30</b>	£2,706.60	3% = £81.20	£2,706.60 + £81.20 = <b>£2,787.80</b>

#### If you joined the LGPS before 1 April 2014

Your benefits for membership before 1 April 2014 are calculated differently.

**For membership built up to 31 March 2008**, you receive a pension of 1/80th of your *final pay* plus an automatic tax-free lump sum of 3 times your pension.

**For membership built up from 1 April 2008 to 31 March 2014**, you receive a pension of 1/60th of your *final pay*. There is no automatic lump sum for membership built up after March 2008, but you do have the option to exchange some of your pension for a tax-free lump sum.

#### Taking AVCs as cash

If you pay **Additional Voluntary Contributions (AVCs)** via the LGPS you may elect to take up to 25% of your AVC fund as a tax-free lump sum provided the lump sum doesn't exceed £312,500 (2014/15 figure) less the value of any other pension rights you have in payment.

If your election to start paying AVCs was made before 1 April 2014 you can elect to take up to 100% of your AVC account as a tax-free lump sum if you draw it at the same time as your main LGPS pension benefits **provided**, when added to any LGPS lump sum, it does not exceed 25% of the overall value of your LGPS benefits (including your AVC fund) and the total lump sum does not exceed £312,500 (2014/15 figure) less the value of any other pension rights you have in payment.

Details of this option will be given to you shortly before your retirement.

#### Retirement

##### When can I retire and draw my LGPS pension?

You can choose to retire and draw your pension from the LGPS at any time from age 55 to 75, provided you have met the 2 years **vesting period** in the scheme.

The **Normal Pension Age** in the LGPS is linked to your **State Pension Age** (but with a minimum of age 65). If the **State Pension Age** changes in the future then this change will also apply to your **Normal Pension Age** for benefits built up after 31 March 2014.

If you choose to take your pension before your **Normal Pension Age** it will normally be reduced, as it's being paid earlier. If you take it later than your **Normal Pension Age** it's increased because it's being paid later. You must draw your benefits in the LGPS before your 75<sup>th</sup> birthday.

You may have to retire at your employer's instigation, perhaps because of redundancy, business efficiency or permanent ill health. Your LGPS benefits, even in these circumstances can, provided you have met the 2 years **vesting period** in the scheme provide you with an immediate retirement pension, which may even be enhanced.

If you voluntarily choose to retire before, on or after your **Normal Pension Age** you can defer drawing your benefits but you must draw them before age 75. If you draw your pension after your **Normal Pension Age**, your benefits will be paid at an increased rate to reflect late payment.

If you built up membership in the LGPS before 1 April 2014 then you will have membership in the final salary scheme. These benefits have a different **Normal Pension Age**, which for most is age 65.

#### **Will my pension be reduced if I voluntarily retire before my Normal Pension Age?**

If you choose to retire before your **Normal Pension Age** your benefits will normally be reduced to take account of being paid for longer. Your benefits are initially calculated as detailed under the heading **How is my pension worked out?** and are then reduced. How much your benefits are reduced by depends on how early you draw them.

**If you were a member of the LGPS on 30 September 2006**, some or all of your benefits paid early could be protected from the reduction if you have rule of 85 protection.

#### **What if I lose my job through redundancy or business efficiency?**

If you are aged 55 or over you will be entitled to the immediate unreduced payment of your LGPS benefits, provided, you have met the 2 years **vesting period** in the scheme. However, any additional pension paid for by Additional Pension Contributions (APCs) or Shared Cost Additional Pension Contributions (SCAPCs) would be paid at a reduced rate if the retirement occurred before your **Normal Pension Age** (to take account of the additional pension being paid for longer). Also if you have bought additional pension by Additional Regular Contributions (ARCs), that additional pension would be paid at a reduced rate if the retirement occurred before your pre 1 April 2014 **Normal Pension Age** which, for most, is age 65.

#### **What happens if I have to retire early due to ill health?**

If you have to leave work due to illness you may be able to receive immediate payment of your benefits.

To qualify for ill health benefits you have to have met the 2 years **vesting period** in the scheme and your employer, based on an opinion from an independent occupational health physician appointed by them, must be satisfied that you will be permanently unable to do your own job until your **Normal Pension Age** and that you are not immediately capable of undertaking gainful employment.

Ill health benefits can be paid at any age and are not reduced on account of early payment – in fact, your benefits could be increased to make up for your early retirement if you are unlikely to be capable of gainful employment within 3 years of leaving.

#### **What if I want to have a gradual move into retirement?**

This is known as flexible retirement. From age 55, if you reduce your hours or move to a less senior position, and provided you have met the 2 years **vesting period** in the scheme and your employer agrees, you can draw some or all of the pension benefits you have built up – helping you ease into retirement. If you take flexible retirement before your **Normal Pension Age** your benefits may be

reduced to take account of their early payment unless your employer agrees to waive the reduction in whole or in part. If your employer agrees to flexible retirement you can still draw your wages / salary from your job on the reduced hours or grade and continue paying into the LGPS, building up further benefits in the scheme. Flexible retirement is at the discretion of your employer and they must set out their policy on this in a published statement.

### **What if I carry on working after my Normal Pension Age?**

If you carry on working after your **Normal Pension Age** you will continue to pay into the LGPS, building up further benefits. When you eventually retire you will receive your pension unless you choose to delay drawing it. You must draw your pension by no later than age 75. Your pension will be paid at an increased rate to reflect the fact that it will be paid for a shorter time.

### **How does my pension keep its value?**

On retiring on or after age 55 your LGPS pension increases in line with the cost of living every year throughout your retirement. As the cost of living increases, so will your pension. If you are retired on ill health grounds, your pension is increased each year regardless of your age.

### **Protection for your family**

#### **What benefits will be paid if I die?**

**If you die in service as a member of the LGPS** the following benefits are payable:

- A lump sum death grant of three times your **assumed pensionable pay**.
- Pensions for **eligible children**.
- A spouse's, **civil partner's** or, subject to certain qualifying conditions, an **eligible cohabiting partner's** pension, equal to 1/160<sup>th</sup> of your **pensionable pay** (or **assumed pensionable pay** where applicable) times the period of your membership in the scheme after 31 March 2014, plus 49/160ths of the amount of any pension credited to your pension account following a transfer of pension rights into the scheme, plus an amount equal to 1/160th of your **assumed pensionable pay** for each year of membership you would have built up from your date of death to your **Normal Pension Age**. For membership built up **before** 1 April 2014 the pension payable is equal to 1/160<sup>th</sup> of your **final pay** times the period of your membership in the scheme up to 31 March 2014 upon which your pension is based, unless you marry after retiring in which case it could be less. For a **civil partner** or an **eligible cohabiting partner** this pension is based on the period of membership after 5 April 1988 (plus, in the case of an **eligible cohabiting partner's** pension, any of your membership before 6 April 1988 for which you've paid additional contributions so that it counts towards an **eligible cohabiting partner's** pension).

If you are in the 50/50 section of the scheme when you die this does not impact on the value of any pension for your **spouse, civil partner, eligible cohabiting partner** or **eligible children**.

**If you die after retiring on pension**, a spouse's, **civil partner's** or, subject to certain qualifying conditions, an **eligible cohabiting partner's** pension and pensions for **eligible children** are payable. The pension payable to a spouse, **civil partner** or **eligible cohabiting partner** is equal to 1/160th of the **pensionable pay** (or **assumed pensionable pay** where applicable) upon which your pension was calculated times the period of your membership in the scheme after 31 March 2014, plus 49/160ths of the amount of any pension credited to your **pension account** following a transfer of pension rights into the scheme from another pension scheme or arrangement. For membership built up **before** 1 April 2014 the pension payable to a spouse, **civil partner** or **eligible cohabiting partner** is equal to 1/160th of your **final pay** times the period of your membership in the scheme up to 31 March 2014 upon which your pension is based, unless you marry after retiring in which case it could be less. For a **civil partner** or an **eligible cohabiting partner** this pension is based on the period of membership after 5 April 1988 (plus, in the case of an **eligible cohabiting partner's** pension, any of

your membership before 6 April 1988 for which you've paid additional contributions so that it counts towards an **eligible cohabiting partner's pension**).

**A lump sum death grant** will be paid if you die and less than 10 years pension has been paid and you are under age 75. The amount payable would be 10 times the level of your annual pension prior to giving up any pension for a tax-free cash lump sum, reduced by any pension already paid to you and the amount of any tax-free cash lump sum you chose to take when you drew your pension at retirement. If you are receiving a pension and are also an active member of the scheme, or have a separate deferred benefit when you die this may impact on the death grant you receive.

### **What conditions need to be met for an eligible cohabiting partner's survivor's pension to be payable?**

If you have a cohabiting partner, of either opposite or same sex, they will be entitled to receive a survivor's pension on your death if they meet the criteria to be considered to be an **eligible cohabiting partner**.

For an **eligible cohabiting partner's** survivor's pension to be payable, all of the following conditions must have applied for a continuous period of at least 2 years on the date of your death:

- you and your cohabiting partner are, and have been, free to marry each other or enter into a **civil partnership** with each other, and
- you and your cohabiting partner have been living together as if you were husband and wife, or **civil partners**, and
- neither you or your cohabiting partner have been living with someone else as if you/they were husband and wife or **civil partners**, and
- either your cohabiting partner is, and has been, financially dependent on you or you are, and have been, financially interdependent on each other.

On your death, a survivor's pension would be paid to your cohabiting partner if:

- all of the above criteria apply at the date of your death, and
- your cohabiting partner satisfies the pension fund that the above conditions had been met for a continuous period of at least 2 years immediately prior to your death.

### **Who is the lump sum death grant paid to?**

The LGPS allows you to say who you would like any death grant to be paid to by completing and returning an expression of wish form. **This form is available from Harrow pension fund**. The scheme's administering authority, however, retains absolute discretion when deciding on who to pay any death grant to. You can find out how to contact the pension fund at the end of this guide.

### **Leavers without an immediate entitlement to benefits**

**If you leave your job before retirement and have met the 2 years vesting period** you will have built up an entitlement to a pension. You will have two options in relation to that pension entitlement:

- you can choose to keep your benefits in the LGPS. These are known as deferred benefits and will increase every year in line with the cost of living, or
- alternatively, you may be able to transfer your deferred benefits to another pension arrangement.

**If you leave your job before retirement and have not met the 2 years vesting period** you will have three options:

- you will normally be able to claim a refund of your contribution, or
- you may be able to transfer your benefits to a new pension arrangement, or



- you can delay your decision until you either re-join the LGPS, transfer your benefits to a new pension arrangement, or want to take a refund of contributions. A refund of contributions must, in any event, be paid within 5 years of your leaving the scheme (or age 75 if earlier).

### Refunds of Contributions

If you leave, or opt out of the scheme after 3 months' membership, and you've not met the 2 years **vesting period** you will normally be able to take a refund of your contributions. There will be a deduction for tax and the cost, if any, of buying you back into the State Second Pension scheme (S2P). A refund of contributions must be paid within 5 years of your leaving the scheme (or age 75 if earlier).

### Deferred benefits

If you leave before your **Normal Pension Age** and you meet the 2 years **vesting period** you will be entitled to deferred benefits within the LGPS. Your deferred LGPS benefits will be calculated as described in the **How is my pension worked out** section using the length of your membership up to the date that you left the scheme. During the period your pension benefits are deferred they will be increased each year in line with the cost of living.

Unless you decide to transfer your deferred benefits to another pension scheme, they will normally be paid unreduced at your **Normal Pension Age**, but:

- they may be put into payment earlier and in full if, because of ill health, you are permanently incapable of doing the job you were working in when you left the LGPS and you are unlikely to be capable of undertaking any gainful employment within 3 years of applying for the benefit or by your **Normal Pension Age**, whichever is the earlier; or
- you can, if you wish, elect to receive your deferred benefits early from age 55 onwards, or
- you can, if you wish, elect not to draw your deferred benefits at your **Normal Pension Age** and defer drawing them till some time later (although they must be paid by age 75).

Benefits paid earlier than your **Normal Pension Age**, other than on the grounds of permanent ill health, may be reduced to take account of their early payment and the fact that your pension will be paid for longer. Conversely, benefits paid after your **Normal Pension Age** will be increased.

If you leave with deferred benefits and you die before they come into payment, a lump sum death grant equal to 5 years' pension will be paid. If you have deferred benefits and are also an active member of the scheme when you die this may impact on the death grant you receive. The LGPS allows you to say who you would like any death grant to be paid to by completing an expression of wish form. **This form is available from Harrow pension fund.** You can find out how to contact the pension fund at the end of this guide. The scheme's administering authority, however, retains absolute discretion when deciding on who to pay any death grant to.

If you leave with deferred benefits and die before they come into payment a spouse's, **civil partner's** or, subject to certain qualifying conditions, an **eligible cohabiting partner's pension** and pensions for **eligible children** are payable. The pension payable to a spouse, **civil partner** or **eligible cohabiting partner** is equal to 1/160th of the **pensionable pay** (or **assumed pensionable pay** where applicable) upon which your pension was calculated times the period of your membership in the scheme after 31 March 2014, plus 49/160ths of the amount of any pension credited to your **pension account** following a transfer of pension rights into the scheme from another pension scheme or arrangement. For membership built up **before** 1 April 2014 the pension payable to a spouse, **civil partner** or **eligible cohabiting partner** is equal to 1/160th of your **final pay** times the period of your membership in the scheme up to 31 March 2014 upon which your pension is based, unless you marry after retiring in which case it could be less. For a **civil partner** or an **eligible cohabiting partner** this pension is based on the period of membership after 5 April 1988 (plus, in the case of an **eligible cohabiting partner's** pension, any of your membership before 6 April 1988 for which you've paid additional contributions so that it counts towards an **eligible cohabiting partner's** pension).

What if I have two or more LGPS jobs?

If you have two or more jobs in which you pay into the LGPS at the same time and you leave one (or more) but not all of them, and you are entitled to deferred benefits from the job (or jobs) you have left, your deferred benefits from the job that has ended are automatically transferred to the active **pension account** for the job you are continuing in, unless you elect to keep them separate. If you wish to keep your deferred benefits separate you must elect to do so within 12 months of re-joining the LGPS, unless your employer allows you longer. If you are not entitled to deferred benefits from the job (or jobs) you have left, you cannot have a refund of your contributions and you must transfer your benefits to the **pension account** for the job you are continuing in.

### **Transferring your benefits**

If you leave the scheme and you are entitled to deferred benefits or a refund you can generally transfer the cash equivalent of your pension benefits into another pension arrangement or a new employer's pension scheme. This may even be to an overseas pension scheme or arrangement that meets HM Revenue and Customs conditions. You cannot transfer your benefits if you leave less than one year before your **Normal Pension Age**. An option to transfer must be made at least 12 months before your **Normal Pension Age** or, if later, within 6 months of leaving.

Your new pension provider will require a transfer value quotation which, under the provisions introduced by the Pensions Act 1995, your pension fund will guarantee for a period of three months from the date of calculation.

Alternatively, if you return to employment with an employer participating in the LGPS and rejoin the LGPS after having previously built up LGPS pension rights (i.e. you previously left an LGPS employment with deferred benefits) then these deferred benefits will automatically be transferred to the active **pension account** for your new job, unless you elect to keep them separate. If you wish to keep your deferred benefits separate you must elect to do so within 12 months of re-joining the LGPS, unless your employer allows you longer. If you rejoin the LGPS after having previously left an LGPS employment without building up pension rights but you deferred taking a refund of contributions (normally where you have less than two years membership) then this deferred refund **must** be joined with your new active **pension account** in the scheme.

**Keep in touch** – remember to let the pension fund know if you move house.

Help with pension problems

### **Who can help me if I have a query or complaint?**

If you are in any doubt about your benefit entitlements, or have a problem or question about your LGPS membership or benefits, please contact your pension fund. They will seek to clarify or put right any misunderstandings or inaccuracies as quickly and efficiently as possible. If your query is about your contribution rate, please contact your employer's personnel/HR or payroll section so they can explain how they have decided which contribution band you are in.

If you are still dissatisfied with any decision made in relation to the scheme you have the right to have your complaint reviewed under the Internal Disputes Resolution Procedure and, as the scheme is well regulated. There are also a number of other regulatory bodies that may be able to assist you.

The various procedures and bodies are:

- **Internal Disputes Resolution Procedure**

In the first instance you should write to the adjudicator appointed by the body who made the decision about which you wish to appeal. You must do this within six months of the date of the notification of the decision or the act or omission about which you are complaining (or such longer

period as the adjudicator considers reasonable). This is a formal review of the initial decision or act or omission and is an opportunity for the matter to be reconsidered. The adjudicator will consider your complaint and notify you of his or her decision. If you are dissatisfied with that person's decision, (or their failure to make a decision) you may apply to the scheme's administering authority to have it reconsidered.

A leaflet explaining the Internal Disputes Resolution Procedure including relevant time limits is available from the pension fund.

- **The Pensions Advisory Service (TPAS)**

TPAS is available at any time to assist members and beneficiaries of the scheme in connection with any pension query they may have or any difficulty which they cannot resolve with the scheme administrator. TPAS can be contacted at:

11 Belgrave Road  
London  
SW1V 1RB

Telephone 0845 601 2923

Website [www.pensionsadvisoryservice.org.uk](http://www.pensionsadvisoryservice.org.uk)

- **Pensions Ombudsman**

In cases where a complaint or dispute has not been satisfactorily resolved through the Internal Disputes Resolution Procedure or with the help of TPAS, an application can be made to the Pensions Ombudsman within three years of the event that gave rise to the complaint or dispute. The Ombudsman can investigate and determine any complaint or dispute involving maladministration of the scheme or matters of fact or law and his or her decision is final and binding (unless the case is taken to the appropriate court on a point of law). Matters where legal proceedings have already started cannot be investigated by the Pensions Ombudsman. The Pensions Ombudsman can be contacted at:

11 Belgrave Road  
London  
SW1V 1RB

Telephone 0207 630 2200

Website [www.pensions-ombudsman.org.uk](http://www.pensions-ombudsman.org.uk)

- **The Pensions Regulator**

This is the regulator of work based pension schemes. The Pensions Regulator has powers to protect members of work based pension schemes and a wide range of powers to help put matters right, where needed. In extreme cases, the regulator is able to fine trustees or employers, and remove trustees from a scheme. You can contact the Pensions Regulator at:

Napier House  
Trafalgar Place  
Brighton  
BN1 4DW

Telephone 0870 6063636

Website [www.thepensionsregulator.gov.uk](http://www.thepensionsregulator.gov.uk)

### **How can I trace my pension rights?**

The Pension Tracing Service holds details of pension schemes, including the LGPS, together with relevant contact addresses. It provides a tracing service for ex-members of schemes with pension entitlements (and their dependants) who have lost touch with previous schemes. All occupational and personal pension schemes have to register if the pension scheme has current members contributing to the scheme or people expecting benefits from the scheme. If you need to use this tracing service please write to:

The Pension Tracing Service  
The Pension Service  
Tyneview Park  
Whitley Road  
Newcastle upon Tyne  
NE98 1BA  
Telephone 0845 6002 537  
Website [www.gov.uk/find-lost-pension](http://www.gov.uk/find-lost-pension)

Don't forget to keep your pension providers up to date with any change in your home address.

### Some terms we use

#### Additional Voluntary Contributions (AVCs)

These are extra payments to increase your future benefits. You can also pay AVCs to provide additional life cover.

All local government pension funds have an AVC arrangement in which you can invest money through an AVC provider, often an insurance company or building society. AVCs are deducted directly from your pay and attract tax relief.

#### Admission Body

An admission body is an employer that chooses to participate in the scheme under an admission agreement. These tend to be employers such as charities and contractors.

#### Assumed Pensionable Pay

This provides a notional **pensionable pay** figure to ensure your pension is not affected by any reduction in **pensionable pay** due to a period of sickness or injury on reduced contractual pay or no pay, or **relevant child related leave** or **reserve forces service leave**.

If you have a period of reduced contractual or no pay due to sickness or injury or you have a period of **relevant child related leave** or **reserve forces service leave** then your employer needs to provide the pension fund with the **assumed pensionable pay** you would have received during that time. This requires a calculation to be carried out by your employer to determine what your pay would have been for the period when you were on reduced contractual pay or no pay due to sickness or the period of **relevant child related leave** or **reserve forces service leave**.

The **assumed pensionable pay** is calculated as the average of the **pensionable pay** you received for the 12 weeks (or 3 months if monthly paid) before the period of reduced pay or no pay for sickness or injury or before the start of the **relevant child related leave** or **reserve forces service leave**. This figure is then grossed up to an annual figure and then divided by the period of time you were on reduced pay or no pay for sickness or injury or on **relevant child related leave** or **reserve forces service leave**.

#### Automatic enrolment date

This is the earlier of:

- the day you reach age 22 provided you are earning more than £10,000 a year in the job, or
- the beginning of the pay period in which you first earn more than £10,000 in the job, on an annualised basis, provided you are aged 22 or more and under **State Pension Age** at that time.

#### Civil Partnership (Civil Partner)

A **Civil Partnership** is a relationship between two people of the same sex (**civil partners**) which is formed when they register as civil partners of each other.

### **Consumer Prices Index (CPI)**

The **Consumer Price Index (CPI)** is the official measure of inflation of consumer prices in the United Kingdom. This is currently the measure used to adjust your **pension account** at the end of every **scheme year** when you are an active member of the scheme and, after you have ceased to be an active member, it is used to increase (each April) the value of your deferred pension in the scheme and any pension in payment from the scheme. The adjustment ensures your pension keeps up with the cost of living.

### **Eligible children**

**Eligible children** are your children. They must, at the date of your death:

- be your natural child (who must be born within 12 months of your death), or
- be your adopted child, or
- be your step-child or a child accepted by you as being a member of your family (this doesn't include a child you sponsor for charity) and be dependent on you.

**Eligible children** must meet the following conditions:

- be under age 18, or
- be aged 18 or over and under 23 and in full-time education or vocational training (although your administering authority can continue to treat the child as an eligible child notwithstanding a break in full-time education or vocational training), or
- be unable to engage in gainful employment because of physical or mental impairment and either:
  - has not reached the age of 23, or
  - the impairment is, in the opinion of an independent registered medical practitioner, likely to be permanent and the child was dependent on you at the date of your death because of that mental or physical impairment.

### **Eligible cohabiting partner**

An **eligible cohabiting partner** is a partner you are living with who, at the date of your death, has met all of the following conditions for a continuous period of at least 2 years:

- you and your cohabiting partner are, and have been, free to marry each other or enter into a **civil partnership** with each other, and
- you and your cohabiting partner have been living together as if you were husband and wife, or **civil partners**, and
- neither you or your cohabiting partner have been living with someone else as if you/they were husband and wife or **civil partners**, and
- either your cohabiting partner is, and has been, financially dependent on you or you are, and have been, financially interdependent on each other.

Your partner is financially dependent on you if you have the highest income. Financially interdependent means that you rely on your joint finances to support your standard of living. It doesn't mean that you need to be contributing equally. For example, if your partner's income is a lot more than yours, he or she may pay the mortgage and most of the bills, and you may pay for the weekly shopping.

On your death, a survivor's pension would be paid to your cohabiting partner if:

- all of the above criteria apply at the date of your death, and
- your cohabiting partner satisfies your pension fund that the above conditions had been met for a continuous period of at least 2 years immediately prior to your death.

You are not required to complete a form to nominate a cohabiting partner for entitlement to a cohabiting partner's pension. However, you can provide your pension fund with your cohabiting partner's details. Your pension fund will require evidence upon your death to check that the conditions for a cohabiting partner's pension are met.

### **Eligible Jobholder**

An **eligible jobholder** is a worker who is aged a least 22 and under **State Pension Age** and who earns more than the annual amount of £10,000.

### **Final pay**

This is usually the pay in respect of your final year of scheme membership on which you paid contributions, or one of the previous 2 years if this is higher, and includes your normal pay, contractual shift allowance, bonus, contractual overtime (but not non-contractual overtime), Maternity Pay, Paternity Pay, Adoption Pay, and any other taxable benefit specified in your contract as being pensionable.

### **Normal Pension Age**

**Normal Pension Age** is linked to your **State Pension Age** for benefits built up from April 2014 (but with a minimum of age 65) and is the age at which you can take the pension you have built up in full. If you choose to take your pension before your **Normal Pension Age** it will normally be reduced, as it's being paid earlier. If you take it later than your **Normal Pension Age** it's increased because it's being paid later.

You can use the Government's **State Pension Age** calculator ([www.gov.uk/calculate-state-pension](http://www.gov.uk/calculate-state-pension)) to find out your **State Pension Age**. Please note that this calculator does not include proposed changes to **State Pension Age**.

Remember that your **State Pension Age** may change in the future and this would also change your **Normal Pension Age** in the LGPS for benefits built up from April 2014. Once you start drawing your pension any subsequent change to your **State Pension Age** will not affect your **Normal Pension Age** in the LGPS.

If you were paying into the LGPS before 1 April 2014 your final salary benefits retain their protected **Normal Pension Age** - which for most is age 65. However all pension benefits drawn on normal retirement must be taken at the same date i.e. you cannot separately draw your final salary benefits (built up before April 2014) at age 65 and your benefits built up in your **pension account** (built up from April 2014) at your **Normal Pension Age** (which for your benefits built up from April 2014 is linked to your **State Pension Age**).

### **Pension Account**

Each **scheme year** the amount of pension you have built up during the year is worked out and this amount is added into your active **pension account**. Adjustments may be made to your account during the **scheme year** to take account of any transfer of pension rights into the account during the year, any additional pension you may have decided to purchase during the year or which is granted to you by your employer, any reduction due to a Pension Sharing Order or qualifying agreement in Scotland (following a divorce or dissolution of a **civil partnership**) and any reduction due to an Annual Allowance tax charge that you have asked the scheme to pay on your behalf. Your account is then revalued to take account of the cost of living. This adjustment is carried out in line with the Treasury Revaluation Order index which, currently, is the rate of the **Consumer Prices Index (CPI)**.

You will have a separate **pension account** for each employment. That **pension account** will hold the entire pension built-up for that employment.

In addition to an active member's **pension account** there are also:

- a deferred member's **pension account**;
- a deferred refund account;
- a retirement **pension account**;
- a flexible retirement **pension account**;

- a deferred pensioner member's account;
- a pension credit account; and
- a survivor member's account.

These accounts will be adjusted by any debits for any Pension Sharing Order or qualifying agreement in Scotland (following a divorce or dissolution of a **civil partnership**) and for any Annual Allowance tax charge that you have asked the scheme to pay on your behalf.

### **Pensionable Pay**

The pay on which you normally pay contributions is your normal salary or wages plus any shift allowance, bonuses, overtime (both contractual and non-contractual), Maternity Pay, Paternity Pay, Adoption Pay and any other taxable benefit specified in your contract as being pensionable.

You do not pay contributions on any travelling or subsistence allowances, pay in lieu of notice, pay in lieu of loss of holidays, any payment as an inducement not to leave before the payment is made, any award of compensation (other than payment representing arrears of pay) made for the purpose of achieving equal pay, pay relating to loss of future pensionable payments or benefits, any pay paid by your employer if you go on **reserve forces service leave** nor (apart from some historical cases) the monetary value of a car or pay received in lieu of a car.

### **Relevant Child Related Leave**

**Relevant child related leave** includes periods of Ordinary Maternity, Adoption or Paternity Leave (normally first 26 weeks) and any periods of paid Additional Maternity, Adoption or Paternity Leave (normally after week 26 weeks up week 39).

### **Reserve Forces Service Leave**

This occurs when a Reservist is mobilised and called upon to take part in military operations. The period of mobilisation can range from three months or less and up to a maximum of 12 months. During a period of **reserve forces service leave** you will continue to build up a pension based on the rate of **assumed pensionable pay** you would have received had you not been on **reserve forces service leave**.

### **Scheme Year**

The scheme year runs from 1 April to 31 March each year.

### **State Pension Age**

This is the earliest age you can receive the state basic pension. **State Pension Age** is currently age 65 for men. **State Pension Age** for women is currently being increased to be equalised with that for men and will reach 65 by November 2018.

#### **State Pension Age equalisation timetable for women**

<b>Date of Birth</b>	<b>New State Pension Age</b>
Before 6 April 1950	60
6 April 1950 - 5 April 1951	In the range 60 - 61
6 April 1951 - 5 April 1952	In the range 61 - 62
6 April 1952 - 5 April 1953	In the range 62 - 63
6 April 1953 - 5 August 1953	In the range 63 - 64
6 August 1953 - 5 December 1953	In the range 64 - 65

The **State Pension Age** will then increase to 66 for both men and women from December 2018 to October 2020.

#### **Increase in State Pension Age from 65 to 66 for men and women**

Date of Birth	New State Pension Age
6 December 1953 - 5 October 1954	In the range 65 - 66
After 5 October 1954	66

Under current legislation the **State Pension Age** is due to rise to 67 between 2034 and 2036 and to 68 between 2044 and 2046. However, the government has announced plans to revise the legislation so that the date when the **State Pension Age** rises to 67 is between 2026 and 2028 and that rises above age 67 will be linked to increases in life expectancy. To find out your **State Pension Age** please visit <https://www.gov.uk/calculate-state-pension>.

### Vesting Period

The **vesting period** in the LGPS is 2 years. You will meet the 2 years **vesting period** if:

- you have been a member of the LGPS in England and Wales for 2 years, or
- you have brought a transfer of pension rights into the LGPS in England or Wales from a different occupational pension scheme or from a European pensions institution and the length of service you had in that scheme or institution was 2 or more years or, when added to the period of time you have been a member of the LGPS is, in aggregate, 2 or more years, or
- you have brought a transfer of pension rights into the LGPS in England or Wales from a pension scheme or arrangement where you were not allowed to receive a refund of contributions, or
- you have previously transferred pension rights out of the LGPS in England or Wales to a pension scheme abroad (i.e. to a qualifying recognised overseas pension scheme), or
- you already hold a deferred benefit or are receiving a pension from the LGPS in England or Wales (other than a survivor's pension or pension credit member's pension), or
- you have paid National Insurance contributions whilst a member of the LGPS and cease to contribute to the LGPS in the tax year of attaining pension age,
- you cease to contribute to the LGPS at age 75, or
- you die in service.

### Further information and disclaimer

This guide is for employees in England or Wales and reflects the provisions of the LGPS and overriding legislation from 1 April 2014.

The national web site for members of the LGPS who contribute to the scheme on or after 1 April 2014 can be found at [www.lgps2014.org](http://www.lgps2014.org).

This guide cannot cover every personal circumstance. For example, it does not cover all ill health retirement benefits. Nor does it cover rights that apply to a limited number of employees e.g. those whose total pension benefits exceed the lifetime allowance (£1.25 million in 2014/15), those whose pension benefits increase in any tax year by more than the annual allowance (£40,000 in 2014/15), those to whom protected rights apply, those whose rights are subject to a pension sharing order following divorce or dissolution of a civil partnership. In the event of any dispute over your pension benefits the appropriate legislation will prevail. This short guide does not confer any contractual or statutory rights and is provided for information purposes only.

More detailed information about the scheme is available from:

Harrow Pension Fund  
 Shared Services – Pensions, 3<sup>rd</sup> Floor South Wing, Civic Centre,  
 Station Road, Harrow, HA1 2XF.  
**Tel: 020 8424 1186 Fax: 020 8424 7520**  
**Email: [pension@harrow.gov.uk](mailto:pension@harrow.gov.uk)**  
**Website: [Harrowpensionfund.org](http://Harrowpensionfund.org)**



**LONDON BOROUGH OF HARROW  
PENSION FUND**

***STATEMENT OF  
INVESTMENT PRINCIPLES***

# LONDON BOROUGH OF HARROW PENSION FUND

## STATEMENT OF INVESTMENT PRINCIPLES

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Approved by Harrow Council:

Date June 2013

## **Introduction**

- 1.1 This is the Statement of Investment Principles (SIP) adopted by Harrow Council (the Council) in relation to the investment of assets of the Council's Pension Fund (the Fund). The Council is the Administering Authority of the Fund and, in that role it has responsibility to ensure the proper management of the Fund.
- 1.2 This SIP meets the requirements of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 ("The Regulations") and has been prepared after taking appropriate advice.
- 1.3 The Council, as administering authority, decides on the investment policies most suitable to meet the liabilities of the Pension Fund and has ultimate responsibility for investment strategy. These powers are exercised on its behalf by the Council's Pension Fund Committee. The Committee monitors investments, including manager performance, on a quarterly basis. Advice is received as required from the officers and the professional advisers. In addition, the Committee requires managers to periodically attend its meeting. The Committee is responsible for monitoring compliance with guidance given by the Secretary of State for Communities and Local Government. No exceptions have been identified.
- 1.4 The Council has delegated the management of the Fund's investments to professional investment managers, appointed in accordance with the LGPS regulations, whose activities are specified in either detailed investment management agreements or subscription agreements and regularly monitored. The Board is satisfied that the appointed fund managers have sufficient expertise and experience to carry out their role
- 1.5 The LGPS is established by statute. The Pension Fund is a legally distinct account with contributions made by employees (fixed percentage of earnings) and employers. The primary objective of the Fund is to maximise performance and so minimise the level of employer contributions in order to meet the cost of pension benefits as required by statute. A related objective is to minimise the volatility of employer contribution rates as investment returns vary from year to year.

## **Investment Objectives**

- 2.1 The investment objective of the Fund is to achieve a return that is sufficient to meet the primary funding objective as set out above, subject to an appropriate level of risk (implicit in the target) and liquidity. Over the long-term, it is expected that the Fund's investment returns will be at least in line with the assumptions underlying the actuarial valuation.

## **Investment Style**

- 3.1 It is the Council's current policy that external fund managers are employed to administer the Fund's assets. The current structure as set out in the table below was implemented following the DGF manager selection day on 11<sup>th</sup> February 2013. A decision was made at the most recent Pension Fund Committee meeting on 6<sup>th</sup> March 2013, to invest 10% of the Fund in two DGFs amounting to £27 million in each of Barings and Standard Life., to be funded by a reduction in Equities together with the use of cash. The assets of the fund are mostly in "growth assets" i.e. those expected to generate additional ('excess') returns over the long term. These include equity, and private equity. The asset allocation also has a small allocation to "cash flow matching" assets, mainly index linked bonds. Corporate bonds, property and active currency provide both diversification and expected returns in excess of liabilities.

The table below shows the asset allocation structure.

Asset Class	Allocation	Range	Approach
UK Equities	26%		Passive
Overseas Equities	36%		Active Global Strategy
<b>Total Equities</b>	62%	58-68%	
<b>Bonds</b>	13%	11-15%	Active Sterling aggregate benchmark plus gilts
	Corporate bonds 10.4%		
	Index Linked gilts 2.6%		
<b>Alternatives:-</b>	10%	8-12%	
<b>Property</b>	10%	8-12%	Active Management
<b>Private Equity</b>	5%	N/A	Active Management
<b>Currency</b>	0%	N/A	
<b>Total</b>	<b>100%</b>		

- 3.2 The above allocations, ranges and the management structure comply with the limits set out in table 1 of The Regulations with the exception that the limit on single insurance contracts has been increased from 25% to the upper limit of 35% to permit investment in a passive UK equity portfolio. This decision will apply until the completion of the next strategic review or if earlier 31<sup>st</sup> March 2014. The decision to increase the limit complies with The Regulations.
- 3.3 The investment style is to appoint fund managers with clear performance benchmarks and place maximum accountability for performance against that benchmark with the investment manager. Multiple fund managers are appointed to give diversification of investment style and spread of risk. The fund managers appointed are mainly remunerated through fees based on the value of assets under management. Private equity managers are remunerated through fees based on commitments and also performance related fees.
- 3.4 The investment strategy is reviewed periodically, with a major review taking place following each triennial actuarial review.
- 3.5 As of April 2012 cash balances are held in either or both of the two Pension Fund bank accounts; Current and Call account.
- 3.6 Actual asset allocations are monitored against the above structure and rebalanced as appropriate. The Section 151 officer has delegated authority to undertake a quarterly rebalancing of the equity and bond portfolios should they breach the above ranges. Any rebalancing activity authorised by the Section 151 officer will be reported to the next meeting

of the Pension Fund Committee. Rebalancing within the bond portfolio is delegated to the fund manager.

- 3.7 Where appropriate, custodians are appointed to provide trade settlement and processing and related services. Where investments are held through funds, the fund appoints its own custodian.
- 3.8 A currency hedge equal to 50% on the non sterling equity exposure is maintained.
- 3.9 The Council does not engage in stock lending activities.

### **Performance**

- 4.1 Performance targets are set on a three-year rolling basis in relation to the benchmark. The investment managers' performance is reviewed at quarterly and annual intervals by the WM Company who provides independent performance statistics.

### **Types of Investments**

- 5.1 A management agreement is in place for each fund manager, setting out where relevant, the benchmark, performance target and asset allocation ranges. The agreements also set out any statutory or other restrictions determined by the Council. Investment may be made in accordance with the Regulations in equities, fixed interest and other bonds and property, in the UK and overseas markets. The Regulations specify other investment instruments that may be used, for example, financial futures, traded options, insurance contracts, stock lending, sub-underwriting contracts.
- 5.2 The Regulations also specify certain limitations on investments. Principally, these place a limit of 10% of the whole fund in any single holding, or deposits with a single bank or institution, or investments in unlisted securities. The Council does however have discretion to adopt a higher statutory limit in respect of specific investments subject to formal agreement by the Council.

### **Investment Risk**

- 6.1 Whilst the objective of the Council is to maximise the return on its investments, it recognises that this has to be within certain risk parameters and that no investment is without an element of risk. The Council acknowledges that the predominantly equity based investment strategy may entail risk to contribution stability, particularly due to the short term volatility that equity investments can involve. The longer term nature of the fund and the expected higher longer term returns expected of equity investments over bonds mean, however, that a high equity allocation remains an appropriate strategy for the Fund. Total risk arising from the investment strategy and its implementation is monitored as part of the triennial strategy review. Control ranges have been set to aid the monitoring of return and risk targets.
- 6.2 A policy of diversification for its investments and investment managers helps the Council to mitigate overall risk. Benchmarks and targets against which investment managers are expected to perform are further measures put in place to manage the risks for the fund. Manager performance is monitored quarterly with investigation of any significant deviations from intended strategy.
- 6.3 The fund has a positive cash flow that enables investment in illiquid asset class's e.g. private equity and property. More than 70% of the fund is invested in equities and bonds that are highly liquid.

- 6.4 The Council has established a currency hedge covering 50% of the global equity portfolio to dampen the effect of foreign currency fluctuations against sterling.
- 6.5 Demographic factors including the uncertainty around longevity / mortality projections (e.g. longer life expectancies) contribute to funding risk. There are limited options currently available to fully mitigate or hedge this risk. The Council monitors liabilities using a specialist service (Club Vita) which provides a comprehensive analysis of the Fund's longevity data to enable them to understand and manage this issue in the most effective way.

### **The Realisation of Investments**

- 7.1 A realisable (liquid) investment is one that can be readily converted into cash, for example to satisfy payments out of the Fund. The majority of the Fund's assets are highly liquid and the Council is satisfied that the Fund has sufficient liquid assets to meet all expected and unexpected demands for cash. Assets in the Fund that are considered to be illiquid include property and private equity. As a long term investor the Council considers it prudent to include illiquid assets in its strategic asset allocation in order to benefit from the additional diversification and extra return this should provide.
- 7.2 The Council has delegated to the fund managers responsibility for the selection, retention and realisation of assets.

### **Investment Advice**

- 8.1 Professional advice on investment matters is taken from the investment practice of Aon Hewitt. Hymans Robertson provides actuarial services.

### **Social, Environmental or Ethical**

- 9.1 The extent to which social, environmental and ethical considerations are taken into account in these decisions is left to the discretion of the fund managers. However, the Council expects that the extent to which social, environmental and ethical issues may have a financial impact on the portfolio will be taken into account by the fund managers in the exercise of their delegated duties. The Council expects the fund managers to positively engage and seek to influence companies in which the Fund invests to take account of key social, environmental and ethical considerations.

### **Exercise of the Rights (including voting rights) attaching to investments**

- 10.1 The Council is an active shareholder and will exercise its rights (including voting rights) to promote and support good corporate governance principles which in turn will feed through into good investment performance.
- 10.2 In practice, the Fund's equity holdings are wholly invested through pooled funds in which voting and engagement decisions are made by the fund manager. The Council encourages its fund managers to vote and engage with investee companies worldwide to ensure they comply with best practice in corporate governance in each locality. The fund managers provide reports on their voting and engagement activities.

### **Myners**

- 11.1 The Myners principles codify best practice in investment decision-making. While they are voluntary, pension fund trustees are expected to consider their applicability to their own fund

and report on a 'comply or explain' basis how they used them. The Regulations require administering authorities to publish in their Statement of Investment Principles the extent to which they comply with the six new investment principles set out in the Myners report on Institutional Investment. The principles and best practice guidance are attached in Appendix 1.

- 11.2 The Council do broadly comply with the principles but will continue to examine the requirements of the Myners principles with a view to ensuring greater compliance. Any changes will be reflected in updated versions of the Statement of Investment Principles

#### **Additional Voluntary Contributions (AVC)**

- 12.1 In line with statute, the Council has to appoint AVC providers and the current providers are Clerical Medical and Prudential.

#### **Compliance**

- 13.1 The Council is responsible for monitoring the Fund's overall investment performance and the performance of each manager.
- 13.2 The Council is responsible for monitoring the qualitative performance of the fund managers to ensure that they remain suitable for the Fund. These qualitative aspects include changes in ownership, changes in personnel, and investment administration.
- 13.3 The Council will regularly review the Scheme's compliance with this Statement of Investment Principles. The Statement is reviewed at least every three years and in addition a revised version is issued in the event of significant change occurring.

**Myners Principles:  
Defined Benefit Pension Schemes**

**1 Effective decision-making**

Trustees should ensure that decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation.

Trustees should have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.

Best Principle Guidance

- The board has appropriate skills for, and is run in a way that facilitates, effective decision making.
- There are sufficient internal resources and access to external resources for trustees and boards to make effective decisions.
- It is good practice to have an investment sub-committee, to provide the appropriate focus and skills on investment decision-making.
- There is an investment business plan and progress is regularly evaluated.
- Consider remuneration of trustees.
- Pay particular attention to managing and contracting with external advisers (including advice on strategic asset allocation, investment management and actuarial issues).

**2 Clear objectives**

Trustees should set out an overall investment objective(s) for the fund that takes account of the scheme's liabilities, the strength of the sponsor covenant and the attitude to risk of both the trustees and the sponsor, and clearly communicate these to advisers and investment managers.

Best Practice Guidance

- Benchmarks and objectives are in place for the funding and investment of the scheme.
- Fund managers have clear written mandates covering scheme expectations, which include clear time horizons for performance measurement and evaluation.
- Trustees consider as appropriate, given the size of fund, a range of asset classes, active or passive management styles and the impact of investment management costs when formulating objectives and mandates.
- Consider the strength of the sponsor covenant.



### **3 Risks and Liabilities**

In setting and reviewing their investment strategy, trustees should take account of the form and structure of liabilities. These include the strength of the sponsor covenant, the risk of sponsor default and longevity risk.

#### Best Practice Guidance

- Trustees have a clear policy on willingness to accept underperformance due to market conditions.
- Trustees take into account the risks associated with their liabilities' valuation and management.
- Trustees analyse factors affecting long-term performance and receive advice on how these impact on the scheme and its liabilities.
- Trustees have a legal requirement to establish and operate internal controls.
- Trustees consider whether the investment strategy is consistent with the scheme sponsor's objectives and ability to pay.

### **4 Performance Assessment**

Trustees should arrange for the formal measurement of the performance of investments, investment managers and advisors. Trustees should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to scheme members.

#### Best Practice Guidance

- There is a formal policy and process for assessing individual performance of trustees and managers.
- Trustees can demonstrate an effective contribution and commitment to the role (for example measured by participation at meetings).
- The chairman addresses the results of the performance evaluation.
- State how performance evaluations have been conducted.
- When selecting external advisers take into account relevant factors, including past performance and price.

### **5 Responsible Ownership**

Trustees should adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee (ISC) Statement of Principles on the responsibilities of shareholders and agents. A statement of the scheme's policy on responsible ownership should be included in the Statement of Investment Principles.

Trustees should report periodically to members on the discharge of such responsibilities.

#### Best Practice Guidance

- Policies regarding responsible ownership are disclosed to scheme members in the annual report and accounts or in the Statement of Investment Principles.

- Trustees consider the potential for engagement to add value when formulating investment strategy and selecting investment managers.
- Trustees ensure that investment managers have an explicit strategy, setting out the circumstances in which they will intervene in a company.
- Trustees ensure that Investment consultants adopt the ISC's Statement of Practice relating to consultants.

## **6 Transparency and Reporting**

Trustees should 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.

Trustees should provide regular communication to members in the form they consider most appropriate.

### Best Practice Guidance:

- Reporting ensures that the scheme operates transparently and enhances accountability to scheme members and best practice provides a basis for the continuing improvement of governance standards.

# LONDON BOROUGH OF HARROW PENSION FUND FUNDING STRATEGY STATEMENT MARCH 2014

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## **2 Introduction**

### **1.1 What is this document?**

This is the Funding Strategy Statement (FSS) of the London Borough of Harrow Pension Fund (“the Fund”), which is administered by London Borough of Harrow Council, (“the Administering Authority”).

It has been prepared by the Administering Authority in collaboration with the Fund’s actuary, Hymans Robertson LLP and after consultation with the Fund’s employers and investment adviser. It is effective from 1 April 2014.

### **1.2 What is the London Borough of Harrow Pension Fund?**

The Fund is part of the national Local Government Pension Scheme (LGPS). The LGPS was set up by the UK Government to provide retirement and death benefits for local government employees, and those employed in similar or related bodies, across the whole of the UK. The Administering Authority runs the London Borough of Harrow Fund, to make sure it:

- receives the proper amount of contributions from employees and employers, and any transfer payments;
- invests the contributions appropriately, with the aim that the Fund’s assets grow over time with investment income and capital growth;
- uses the assets to pay Fund benefits to the members (as and when they retire, for the rest of their lives), and to their dependants (as and when members die), as defined in the LGPS Regulations. Assets are also used to pay transfer values and administration costs.

The responsibilities of the key parties involved in the management of the Fund are summarised in [Appendix B](#).

### **1.3 Why does the Fund need a Funding Strategy Statement?**

Employees’ benefits are guaranteed by the LGPS Regulations, and do not change with market values or employer contributions. Investment returns will help pay for some of the benefits, but probably not all, and certainly with no guarantee. Employees’ contributions are fixed in those Regulations also, at a level which covers only part of the cost of the benefits.

Therefore, employers need to pay the balance of the cost of delivering the benefits to members and their dependants.

The FSS focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. This statement sets out how the Administering Authority has balanced the conflicting aims of:

- affordability of employer contributions,
- transparency of processes,
- stability of employers’ contributions, and
- prudence in the funding basis.

There are also regulatory requirements for an FSS, as given in [Appendix A](#).

The FSS is a summary of the Fund's approach to funding its liabilities, and this includes reference to the Fund's other policies; it is not an exhaustive statement of policy on all issues. The FSS forms part of a framework which includes:

- the LGPS Regulations;
- the Rates and Adjustments Certificate (confirming employer contribution rates for the next three years) which can be found in an appendix to the formal valuation report;
- the Fund's policies on admissions, cessations and bulk transfers;
- actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service; and
- the Fund's Statement of Investment Principles (see Section 4).

#### **1.4 How does the Fund and this FSS affect me?**

This depends who you are:

- a member of the Fund, i.e. a current or former employee, or a dependant: the Fund needs to be sure it is collecting and holding enough money so that your benefits are always paid in full;
- an employer in the Fund (or which is considering joining the Fund): you will want to know how your contributions are calculated from time to time, that these are fair by comparison to other employers in the Fund, and in what circumstances you might need to pay more. Note that the FSS applies to all employers participating in the Fund;
- an Elected Member whose council participates in the Fund: you will want to be sure that the council balances the need to hold prudent reserves for members' retirement and death benefits, with the other competing demands for council money;
- a Council Tax payer: your council seeks to strike the balance above, and also to minimise cross-subsidies between different generations of taxpayers.

#### **1.5 What does the FSS aim to do?**

The FSS sets out the objectives of the Fund's funding strategy, such as:

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (**NB** this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

## **1.6 How do I find my way around this document?**

In [Section 2](#) there is a brief introduction to some of the main principles behind funding, i.e. deciding how much an employer should contribute to the Fund from time to time.

In [Section 3](#) we outline how the Fund calculates the contributions payable by different employers in different situations.

In [Section 4](#) we show how the funding strategy is linked with the Fund's investment strategy.

In the [Appendices](#) we cover various issues in more detail:

- A. the regulatory background, including how and when the FSS is reviewed,
- B. who is responsible for what,
- C. what issues the Fund needs to monitor, and how it manages its risks,
- D. some more details about the actuarial calculations required,
- E. the assumptions which the Fund actuary currently makes about the future,
- F. a [glossary](#) explaining the technical terms occasionally used here.

If you have any other queries please contact

[Hasina.Shah@harrow.gov.uk](mailto:Hasina.Shah@harrow.gov.uk).

[Linda.D'Souza@harrow.gov.uk](mailto:Linda.D'Souza@harrow.gov.uk)

## 2 Basic funding issues

(More detailed and extensive descriptions are given in [Appendix D](#)).

### 2.1 How does the actuary calculate a contribution rate?

Employer contributions are normally made up of two elements:

- a) the estimated cost of future benefits being built up from year to year, referred to as the “*future service rate*”; plus
- b) an adjustment for the difference between the assets built up to date and the value of past service benefits, referred to as the “*past service adjustment*”. If there is a deficit the past service adjustment will be an increase in the employer’s total contribution; if there is a surplus there may be a reduction in the employer’s total contribution. Any past service adjustment will aim to return the employer to full funding over an appropriate period (the “deficit recovery period”).

### 2.2 How is a deficit (or surplus) calculated?

An employer’s “funding level” is defined as the ratio of:

- the market value of the employer’s share of assets, to
- the value placed by the actuary on the benefits built up to date for the employers, employees and ex-employees (the “liabilities”). The Fund actuary agrees with the Administering Authority the assumptions to be used in calculating this value.

If this is less than 100% then it means the employer has a shortfall, which is the employer’s deficit; if it is more than 100% then the employer is said to be in surplus. The amount of deficit or shortfall is the difference between the asset value and the liabilities value.

A larger deficit will give rise to higher employer contributions. If a deficit is spread over a longer period then the annual employer cost is lower than if it is spread over a shorter period.

### 2.3 How are contribution rates calculated for different employers?

The Fund’s actuary is required by the Regulations to report the *Common Contribution Rate*, for all employers collectively at each triennial valuation, combining items (a) and (b) above. This is based on actuarial assumptions about the likelihood, size and timing of benefit payments to be made from the Fund in the future, as outlined in [Appendix E](#).

The Fund’s actuary is also required to adjust the *Common Contribution Rate* for circumstances specific to each individual employer. The sorts of specific circumstances which are considered are discussed in [Section 3](#) It is this adjusted contribution rate which the employer is actually required to pay, and the rates for all employers are shown in the Fund’s Rates and Adjustments Certificate.

In effect, the *Common Contribution Rate* is a notional quantity, as it is unlikely that any employer will pay that exact rate. Separate future service rates are calculated for each employer together with individual past service adjustments according to employer-specific circumstances.

Details of the outcome of the Actuarial Valuation as at 31 March 2013 can be found in the formal valuation report dated 31 March 2014, including an analysis at Fund Level of the *Common*

*Contribution Rate.* Further details of individual employer contribution rates can also be found in the formal report.

## **2.4 What else might affect the employer's contribution?**

Employer covenant, and likely term of membership, are also considered when setting contributions: more details are given in [Section 3](#).

For some employers it may be agreed to pool contributions, see [3.4](#).

Any costs of non ill-health early retirements must be paid by the employer, see [3.6](#).

If an employer is approaching the end of its participation in the Fund then its contributions may be amended appropriately, so that the assets meet (as closely as possible) the value of its liabilities in the Fund when its participation ends.

Employers' contributions are expressed as minima, with employers able to pay contributions at a higher rate. Account of the higher rate will be taken by the Fund Actuary at subsequent valuations.

## **2.5 What different types of employer participate in the Fund?**

Historically the LGPS was intended for local authority employees only. However over the years, with the diversification and changes to delivery of local services, many more types and numbers of employers now participate. There are currently more employers in the Fund than ever before, a significant part of this being due to the establishment of new academies.

In essence, participation in the LGPS is open to public sector employers providing some form of service to the local community. Whilst the majority of members will be local authority employees (and ex-employees), the majority of participating employers are those providing services in place of (or alongside) local authority services: academies, contractors, housing associations, charities, etc.

The LGPS Regulations define various types of employer as follows:

**Scheduled bodies** - councils, and other specified employers such as academies and further education establishments. These must provide access to the LGPS in respect of their employees who are not eligible to join another public sector scheme (such as the Teachers Scheme). These employers are so-called because they are specified in a schedule to the LGPS Regulations.

It is now possible for Local Education Authority schools to convert to academy status, and for other forms of school (such as Free Schools) to be established under the academies legislation. All such academies, as employers of non-teaching staff, become separate new employers in the Fund. As academies are defined in the LGPS Regulations as "Scheduled Bodies", the Administering Authority has no discretion over whether to admit them to the Fund, and the academy has no discretion whether to continue to allow its non-teaching staff to join the Fund. There has also been guidance issued by the DCLG regarding the terms of academies' membership in LGPS Funds.

**Designating employers** - employers such as town and parish councils are able to participate in the LGPS via resolution (and the Fund cannot refuse them entry where the resolution is passed). These employers can designate which of their employees are eligible to join the scheme.

Other employers are able to participate in the Fund via an admission agreement, and are referred to as 'admission bodies'. These employers are generally those with a "community of interest" with another scheme employer – **community admission bodies** ("CAB") or those providing a service on behalf of a scheme employer – **transferee admission bodies** ("TAB"). CABs will include housing



associations and charities, TABs will generally be contractors. The Fund is able to set its criteria for participation by these employers and can refuse entry if the requirements as set out in the Fund's admissions policy are not met

## **2.6 How does the Fund recognise that contribution levels can affect council and employer service provision, and Council Tax?**

The Administering Authority and the Fund actuary are acutely aware that, all other things being equal, a higher contribution required to be paid to the Fund will mean less cash available for the employer to spend on the provision of services. For instance:

- Higher pension Fund contributions may result in reduced council spending, which in turn could affect the resources available for council services, and/or greater pressure on Council Tax levels;
- Contributions which academies pay to the Fund will therefore not be available to pay for providing education;
- Other employers will provide various services to the local community, perhaps through housing associations, charitable work, or contracting council services. If they are required to pay more in pension contributions to the LGPS then this may affect their ability to provide the local services.

Whilst all this is true, it should also be borne in mind that:

- The Fund provides invaluable financial security to local families, whether to those who formerly worked in the service of the local community who have now retired, or to their families after their death;
- The Fund must have the assets available to meet these retirement and death benefits, which in turn means that the various employers must each pay their own way. Lower contributions today will mean higher contributions tomorrow: deferring payments does not alter the employer's ultimate obligation to the Fund in respect of its current and former employees;
- Each employer will generally only pay for its own employees and ex-employees (and their dependants), not for those of other employers in the Fund;
- The Fund strives to maintain reasonably stable employer contribution rates where appropriate and possible;
- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice: such a situation may lead to employer insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers' services would in turn suffer as a result;
- Council contributions to the Fund should be at a suitable level, to protect the interests of different generations of Council Tax payers. For instance, underpayment of contributions for some years will need to be balanced by overpayment in other years; the council will wish to minimise the extent to which Council Tax payers in one period are in effect benefiting at the expense of those paying in a different period.

Overall, therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels, and the employers' need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees (see

3.1). In deciding which of these techniques to apply to any given employer, the Fund will consider a risk assessment of that employer using a knowledge base which is regularly monitored and kept up-to-date. This database will include such information as the type of employer, its membership profile and funding position, any guarantors or security provision, material changes anticipated, etc. This helps the Fund establish a picture of the financial standing of the employer, i.e. its ability to meet its long term Fund commitments.

For instance, where an employer is considered relatively low risk then the Fund will permit greater smoothing (such as stabilisation or a longer deficit recovery period relative to other employers) which will temporarily produce lower contribution levels than would otherwise have applied. This is permitted in the expectation that the employer will still be able to meet its obligations for many years to come.

On the other hand, an employer whose risk assessment indicates a less strong covenant will generally be required to pay higher contributions (for instance, with a more prudent funding basis or a shorter deficit recovery period relative to other employers). This is because of the higher probability that at some point it will fail or be unable to meet its pension contributions, with its deficit in the Fund then falling to other Fund employers.

The Fund actively seeks employer input, including to its funding arrangements, through various means: see Appendix A

### **3 Calculating contributions for individual employers**

#### **3.1 General comments**

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, there are a number of methods which the Administering Authority may permit, in order to improve the stability of employer contributions. These include, where circumstances permit:-

- capping of employer contribution rate changes within a pre-determined range (“stabilisation”)
- the use of extended deficit recovery periods
- the phasing in of contribution rises or reductions
- the pooling of contributions amongst employers with similar characteristics
- the use of some form of security or guarantee to justify a lower contribution rate than would otherwise be the case.

These and associated issues are covered in this Section.

The Administering Authority recognises that there may occasionally be particular circumstances affecting individual employers that are not easily managed within the rules and policies set out in the Funding Strategy Statement. Therefore the Administering Authority may, at its sole discretion, direct the actuary to adopt alternative funding approaches on a case by case basis for specific employers.

#### **3.2 The effect of paying contributions below the theoretical level**

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than the theoretical contribution rate. Such employers should appreciate that:

- their true long term liability (i.e. the actual eventual cost of benefits payable to their employees and ex-employees) is not affected by the choice of method,
- lower contributions in the short term will be assumed to incur a greater loss of investment returns on the deficit. Thus, deferring a certain amount of contribution will lead to higher contributions in the long-term, and
- it will take longer to reach full funding, all other things being equal.

Overleaf (3.3) is a summary of how the main funding policies differ for different types of employer, followed by more detailed notes where necessary.

Section 3.4 onwards deals with various other funding issues which apply to all employers.

### 3.3 The different approaches used for different employers

Type of Employer	Scheduled Bodies		Community Admission Bodies and Designating Employers		Transferee Admission Bodies
Sub-type	Council Pool	Academies	Open to new entrants	Closed to new entrants	(all)
<b>Basis used</b>	Ongoing, assumes long-term Fund participation (see <a href="#">Appendix E</a> )		Ongoing, but may move to “gilts basis” - see <a href="#">Note (a)</a>	Ongoing, but may move to “gilts basis” - see <a href="#">Note (a)</a>	Ongoing, assumes fixed contract term in the Fund (see <a href="#">Appendix E</a> )
<b>Future service rate</b>	Projected Unit Credit approach (see <a href="#">Appendix D – D.2</a> )		Projected Unit Credit approach if open (see <a href="#">Appendix D – D.2</a> )	Attained Age approach (see <a href="#">Appendix D – D.2</a> )	Projected Unit Credit approach if open, Attained Age otherwise (see <a href="#">Appendix D – D.2</a> )
<b>Stabilised rate?</b>	Yes - see <a href="#">Note (b)</a>	Yes - see <a href="#">Note (b)</a>	No	No	No
<b>Maximum deficit recovery period – <a href="#">Note (c)</a></b>	20 years	20 years	15 years – subject to security / covenant check	15 years – subject to security / covenant check	Outstanding contract term
<b>Deficit recovery payments – <a href="#">Note (d)</a></b>	Monetary amount	Monetary amount	Monetary amount	Monetary amount	Monetary amount
<b>Treatment of surplus</b>	Covered by stabilisation arrangement	Covered by stabilisation arrangement	Preferred approach: contributions kept at future service rate. However, reductions may be permitted by the Administering Authority		Reduce contributions by spreading the surplus over the remaining contract term
<b>Phasing of contribution changes</b>	Covered by stabilisation arrangement	Covered by stabilisation arrangement	None	None	None
<b>Review of rates – <a href="#">Note (f)</a></b>	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations				Particularly reviewed in last 3 years of contract
<b>New employer</b>	n/a	<a href="#">Note (g)</a>	<a href="#">Note (h)</a>		<a href="#">Notes (h)&amp; (i)</a>

<p><b>Cessation of participation: cessation debt payable</b></p>	<p>Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation debt principles applied would be as per <u>Note (j)</u>.</p>	<p>Can be ceased subject to terms of admission agreement. Cessation debt will be calculated on a basis appropriate to the circumstances of cessation – see <u>Note (j)</u>.</p>	<p>Participation is assumed to expire at the end of the contract. Cessation debt (if any) calculated on ongoing basis. Awarding Authority will be liable for future deficits and contributions arising.</p>
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**Note (a)** (Basis for Community Admission Bodies and Designating Employers closed to new entrants)

In the circumstances where:

- the employer is a Designating Employer, or an Admission Body but not a Transferee Admission Body, and
- the employer has no guarantor, and
- the admission agreement is likely to terminate, or the employer is likely to lose its last active member, within a timeframe considered appropriate by the Administering Authority to prompt a change in funding,

the Administering Authority may vary the discount rate used to set employer contribution rate. In particular contributions may be set for an employer to achieve full funding on a more prudent basis (e.g. using a discount rate set equal to gilt yields) by the time the agreement terminates or the last active member leaves, in order to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required from the employer when a cessation valuation is carried out.

The Administering Authority also reserves the right to adopt the above approach in respect of those Designating Employers and Admission Bodies with no guarantor, where the strength of covenant is considered to be weak but there is no immediate expectation that the admission agreement will cease or the Designating Employer alters its designation.

**Note (b)** (Stabilisation)

Stabilisation is a mechanism where employer contribution rate variations from year to year are kept within a pre-determined range, thus allowing those employers' rates to be relatively stable. In the interests of stability and affordability of employer contributions, the Administering Authority, on the advice of the Fund Actuary, believes that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been "stabilised" (and may therefore be paying less than their theoretical contribution rate) should be aware of the risks of this approach and should consider making additional payments to the Fund if possible.

This stabilisation mechanism allows short term investment market volatility to be managed so as not to cause volatility in employer contribution rates, on the basis that a long term view can be taken on net cash inflow, investment returns and strength of employer covenant.

The current stabilisation mechanism applies if:

- the employer satisfies the eligibility criteria set by the Administering Authority (see below) and;
- there are no material events which cause the employer to become ineligible, e.g. significant reductions in active membership (due to outsourcing or redundancies), or changes in the nature of the employer (perhaps due to Government restructuring).

On the basis of extensive modelling carried out for the 2013 valuation exercise (see [Section 4](#)), the stabilised details are as follows:

Type of employer	Council Pool	Academies
Max cont increase	+0.5% of pay	+1.0% of pay
Max cont decrease	-0.5% of pay	

The stabilisation criteria and limits will be reviewed at 31 March 2016 valuation, to take effect from 1 April 2017. This will take into account employer membership profiles, the issues surrounding employer security, and other relevant factors.

**Note (c)** (Deficit Recovery Periods)

The deficit recovery period starts at the commencement of the revised contribution rate (1 April 2014 for the 2013 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative spreading periods, for example where there were no new entrants.

Where stabilisation applies, the resulting employer contribution rate would be amended to comply with the stabilisation mechanism.

For employers with no (or very few) active members at this valuation, the deficit should be recovered by a fixed monetary amount over a period to be agreed with the body or its successor, not to exceed 20 years.

**Note (d)** (Deficit Recovery Payments)

For employers where stabilisation is not being applied, the deficit recovery payments for each employer covering the three years' period until the next valuation will be set as monetary amounts.

**Note (e)** (Regular Reviews)

Such reviews may be triggered by significant events including but not limited to: significant reductions in payroll, altered employer circumstances, Government restructuring affecting the employer's business, or failure to pay contributions or arrange appropriate security as required by the Administering Authority.

The result of a review may be to require increased contributions (by strengthening the actuarial assumptions adopted and/or moving to monetary levels of deficit recovery contributions), and/or an increased level of security or guarantee.

**Note (g)** (New academy employers)

The Fund's policies on academies' funding issues are as follows:

- a) The new academy will be regarded as a separate employer in its own right and will not be pooled with other employers in the Fund. The only exception is where the academy is part of a Multi Academy Trust (MAT) in which case the academy's figures will be calculated as below but can be combined with those of the other academies in the MAT;

- b) The new academy's past service liabilities on conversion will be calculated based on its active Fund members on the day before conversion. For the avoidance of doubt, these liabilities will include all past service of those members, but will exclude the liabilities relating to any ex-employees of the school who have deferred or pensioner status;
- c) The new academy will be allocated an initial asset share from the ceding council's assets in the Fund. This asset share will be calculated using the estimated funding position of the ceding council at the date of academy conversion. The share will be based on the active members' funding level, having first allocated assets in the council's share to fully fund deferred and pensioner members. The asset allocation will be based on market conditions and the academy's active Fund membership on the day prior to conversion; and
- d) The new academy's initial contribution rate will be calculated using market conditions, the council funding position and, membership data, all as at the day prior to conversion.
- e) For the current valuation period (1 April 2014 to 31 March 2017) the maximum percentage increase in employer's contribution will be limited to 1.0%

**Note (h) (New Admission Bodies)**

With effect from 1 October 2012, the LGPS 2012 Miscellaneous Regulations introduced mandatory new requirements for all Admission Bodies brought into the Fund from that date. Under these Regulations, all new Admission Bodies will be required to provide some form of security, such as a guarantee from the letting employer, an indemnity or a bond. The security is required to cover some or all of the following:

- the strain cost of any redundancy early retirements resulting from the premature termination of the contract;
- allowance for the risk of asset underperformance;
- allowance for the risk of a fall in gilt yields;
- allowance for the possible non-payment of employer and member contributions to the Fund;
- the current deficit.

For all new Transferee Admission Bodies, the security must be to the satisfaction of the Administering Authority as well as the letting employer, and will be reassessed on an annual basis.

The Administering Authority will only consider requests from Community Admission Bodies (or other similar bodies, such as section 75 NHS partnerships) to join the Fund if they are sponsored by a Scheduled Body with tax raising powers, guaranteeing their liabilities and also providing a form of security as above.

The above approaches reduce the risk to other employers in the Fund, of potentially having to pick up any shortfall in respect of Admission Bodies ceasing to exist with an unpaid deficit.

**Note (i) (New Transferee Admission Bodies)**



A new TAB usually joins the Fund as a result of the letting/outsourcing of some services from an existing employer (normally a Scheduled Body such as a council or academy) to another organisation (a “contractor”). This involves the TUPE transfer of some staff from the letting employer to the contractor. Consequently, for the duration of the contract, the contractor is a new participating employer in the Fund so that the transferring employees maintain their eligibility for LGPS membership. At the end of the contract the employees revert to the letting employer or to a replacement contractor.

Ordinarily, the TAB would be set up in the Fund as a new employer with responsibility for all the accrued benefits of the transferring employees; in this case, the contractor would usually be assigned an initial asset allocation equal to the past service liability value of the employees’ Fund benefits. The quid pro quo is that the contractor is then expected to ensure that its share of the Fund is also fully funded at the end of the contract: see [Note \(j\)](#).

Employers which “outsource” have flexibility in the way that they can deal with the pension risk potentially taken on by the contractor. In particular there are three different routes that such employers may wish to adopt. Clearly as the risk ultimately resides with the employer letting the contract, it is for them to agree the appropriate route with the contractor:

i) Pooling

Under this option the contractor is pooled with the letting employer. In this case, the contractor pays the same rate as the letting employer, which may be under the stabilisation approach.

ii) Letting employer retains pre-contract risks

Under this option the letting employer would retain responsibility for assets and liabilities in respect of service accrued prior to the contract commencement date. The contractor would be responsible for the future liabilities that accrue in respect of transferred staff. The contractor’s contribution rate could vary from one valuation to the next. It would be liable for any deficit at the end of the contract term in respect of assets and liabilities attributable to service accrued during the contract term.

iii) Fixed contribution rate agreed

Under this option the contractor pays a fixed contribution rate and doesn’t pay any cessation deficit.

The Administering Authority should be informed when any of the above options are exercised. Any risk sharing agreements should be detailed in a side letter to the admission agreement. It may be the case that this details what the contractor is and isn’t responsible for, however, note all parties should take their own professional advice. For example the contractor should typically be responsible for pension costs that arise from;

- above average pay increases, including the effect in respect of service prior to contract commencement even if the letting employer takes on responsibility for the latter under (ii) above;

- redundancy and early retirement decisions.

**Note (j)** (Admission Bodies Ceasing)

Notwithstanding the provisions of the Admission Agreement, the Administering Authority may consider any of the following as triggers for the cessation of an admission agreement with any type of body:

- Last active member ceasing participation in the Fund;
- The insolvency, winding up or liquidation of the Admission Body;
- Any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Fund;
- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or
- The failure by the Admission Body to renew or adjust the level of the bond or indemnity, or to confirm an appropriate alternative guarantor, as required by the Fund.

On cessation, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus. Where there is a deficit, payment of this amount in full would normally be sought from the Admission Body; where there is a surplus it should be noted that current legislation does not permit a refund payment to the Admission Body.

For non-Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or where a cessation event has been triggered, the Administering Authority must look to protect the interests of other ongoing employers. The actuary will therefore adopt an approach which, to the extent reasonably practicable, protects the other employers from the likelihood of any material loss emerging in future:

- a) Where there is a guarantor for future deficits and contributions, the cessation valuation will normally be calculated using the ongoing basis as described in [Appendix E](#);
- b) Alternatively, it may be possible to simply transfer the former Admission Body's liabilities and assets to the guarantor, without needing to crystallise any deficit. This approach may be adopted where the employer cannot pay the contributions due, and this is within the terms of the guarantee;
- c) Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final deficit will normally be calculated using a "gilts cessation basis", which is more prudent than the ongoing basis. This has no allowance for potential future investment outperformance above gilt yields, and has added allowance for future improvements in life expectancy. This could give rise to significant cessation debts being required.

Under (a) and (c), any shortfall would usually be levied on the departing Admission Body as a single lump sum payment. If this is not possible then the Fund would look to any bond, indemnity or guarantee in place for the employer.

In the event that the Fund is not able to recover the required payment in full, then the unpaid amounts fall to be shared amongst all of the other employers in the Fund. This may require an immediate revision to the Rates and Adjustments Certificate affecting other employers in

the Fund, or instead be reflected in the contribution rates set at the next formal valuation following the cessation date.

As an alternative, where the ceasing Admission Body is continuing in business, the Fund at its absolute discretion reserves the right to enter into an agreement with the ceasing Admission Body. Under this agreement the Fund would accept an appropriate alternative security to be held against any deficit, and would carry out the cessation valuation on an ongoing basis: deficit recovery payments would be derived from this cessation debt. This approach would be monitored as part of each triennial valuation: the Fund reserves the right to revert to a “gilts cessation basis” and seek immediate payment of any funding shortfall identified. The Administering Authority may need to seek legal advice in such cases, as the Body would have no contributing members.

### **3.4 Pooled contributions**

From time to time the Administering Authority may set up pools for employers with similar characteristics. This will always be in line with its broader funding strategy.

With the advice of the Actuary the Administering Authority allows smaller employers of similar types to pool their contributions as a way of sharing experience and smoothing out the effects of costly but relatively rare events such as ill-health retirements or deaths in service.

Community Admission Bodies that are deemed by the Administering Authority to have closed to new entrants are not usually permitted to participate in a pool. Transferee Admission Bodies are usually also ineligible for pooling.

Smaller admitted bodies may be pooled with the letting employer, provided all parties (particularly the letting employer) agree.

Employers who are permitted to enter (or remain in) a pool at the 2013 valuation will not normally be advised of their individual contribution rate unless agreed by the Administering Authority.

Schools generally are also pooled with their funding council. However there may be exceptions for specialist or independent schools.

Those employers which have been pooled are identified in the Rates and Adjustments Certificate.

### **3.5 Additional flexibility in return for added security**

The Administering Authority may permit greater flexibility to the employer’s contributions if the employer provides added security to the satisfaction of the Administering Authority.

Such flexibility includes a reduced rate of contribution, an extended deficit recovery period, or permission to join a pool with another body (e.g. the Local Authority).

Such security may include, but is not limited to, a suitable bond, a legally-binding guarantee from an appropriate third party, or security over an employer asset of sufficient value.

The degree of flexibility given may take into account factors such as:

- the extent of the employer’s deficit;

- the amount and quality of the security offered;
- the employer's financial security and business plan;
- whether the admission agreement is likely to be open or closed to new entrants.

### **3.6 Non ill health early retirement costs**

It is assumed that members' benefits are payable from the earliest age that the employee could retire without incurring a reduction to their benefit (and without requiring their employer's consent to retire). (**NB** the relevant age may be different for different periods of service, following the benefit changes from April 2008 and April 2014). Employers are required to pay additional contributions ('strain') wherever an employee retires before attaining this age. The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health.

### **3.7 Ill health early retirement costs**

Admitted Bodies will usually have an 'ill health allowance'; Scheduled Bodies may have this also, depending on their agreement terms with the Administering Authority. The Fund monitors each employer's ill health experience on an ongoing basis. If the cumulative cost of ill health retirement in any financial year exceeds the allowance at the previous valuation, the employer will be charged additional contributions on the same basis as apply for non ill-health cases. Details will be included in each separate Admission Agreement.

### **3.8 Ill health insurance**

If an employer provides satisfactory evidence to the Administering Authority of a current insurance policy covering ill health early retirement strains, then:

- the employer's contribution to the Fund each year is reduced by the amount of that year's insurance premium, so that the total contribution is unchanged, and
- there is no need for monitoring of allowances.

The employer must keep the Administering Authority notified of any changes in the insurance policy's coverage or premium terms, or if the policy is ceased.

### **3.9 Employers with no remaining active members**

In general an employer ceasing in the Fund, due to the departure of the last active member, will pay a cessation debt on an appropriate basis (see [3.3, Note \(j\)](#)) and consequently have no further obligation to the Fund. Thereafter it is expected that one of two situations will eventually arise:

- a) The employer's asset share runs out before all its ex-employees' benefits have been paid. In this situation the other Fund employers will be required to contribute to pay all remaining benefits: this will be done by the Fund actuary apportioning the remaining liabilities on a pro-rata basis at successive formal valuations;
- b) The last ex-employee or dependant dies before the employer's asset share has been fully utilised. In this situation the remaining assets would be apportioned pro-rata by the Fund's actuary to the other Fund employers.
- c) In exceptional circumstances the Fund may permit an employer with no remaining active members to continue contributing to the Fund. This would require the provision

of a suitable security or guarantee, as well as a written ongoing commitment to fund the remainder of the employer's obligations over an appropriate period. The Fund would reserve the right to invoke the cessation requirements in the future, however. The Administering Authority may need to seek legal advice in such cases, as the employer would have no contributing members.

### **3.10 Policies on bulk transfers**

Each case will be treated on its own merits, but in general:

- The Fund will not pay bulk transfers greater than the lesser of (a) the asset share of the transferring employer in the Fund, and (b) the value of the past service liabilities of the transferring members;
- The Fund will not grant added benefits to members bringing in entitlements from another Fund unless the asset transfer is sufficient to meet the added liabilities;
- The Fund may permit shortfalls to arise on bulk transfers if the Fund employer has suitable strength of covenant and commits to meeting that shortfall in an appropriate period. This may require the employer's Fund contributions to increase between valuations.

## 4 Funding strategy and links to investment strategy

### 4.1 What is the Fund's investment strategy?

The Fund has built up assets over the years, and continues to receive contribution and other income. All of this must be invested in a suitable manner, which is the investment strategy.

Investment strategy is set by the administering authority, after consultation with the employers and after taking investment advice. The precise mix, manager make up and target returns are set out in the Statement of Investment Principles (SIP), which is available to members and employers.

The investment strategy is set for the long-term, but is reviewed from time to time. Normally a full review is carried out after each actuarial valuation, and is kept under review annually between actuarial valuations to ensure that it remains appropriate to the Fund's liability profile.

The same investment strategy is currently followed for all employers.

### 4.2 What is the link between funding strategy and investment strategy?

The Fund must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions (resulting from the funding strategy) or asset returns and income (resulting from the investment strategy). To the extent that investment returns or income fall short, then higher cash contributions are required from employers, and vice versa

Therefore, the funding and investment strategies are inextricably linked.

### 4.3 How does the funding strategy reflect the Fund's investment strategy?

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund. The asset outperformance assumption contained in the discount rate (see [E3](#)) is within a range that would be considered acceptable for funding purposes; it is also considered to be consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities as required by the UK Government (see [A1](#)).

However, in the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility and there is a material chance that in the short-term and even medium term, asset returns will fall short of this target. The stability measures described in [Section 3](#) will damp down, but not remove, the effect on employers' contributions.

The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

### 4.4 How does this differ for a large stable employer?

The Actuary has developed four key measures which capture the essence of the Fund's strategies, both funding and investment:

- Prudence - the Fund should have a reasonable expectation of being fully funded in the long term;
- Affordability – how much can employers afford;

- Stewardship – the assumptions used should be sustainable in the long term, without having to resort to overly optimistic assumptions about the future to maintain an apparently healthy funding position;
- Stability – employers should not see significant moves in their contribution rates from one year to the next, and this will help to provide a more stable budgeting environment.

The key problem is that the key objectives often conflict. For example, minimising the long term cost of the scheme (i.e. keeping employer rates affordable) is best achieved by investing in higher returning assets e.g. equities. However, equities are also very volatile (i.e. go up and down fairly frequently in fairly large moves), which conflicts with the objective to have stable contribution rates.

Therefore a balance needs to be maintained between risk and reward, which has been considered by the use of Asset Liability Modelling: this is a set of calculation techniques applied by the Fund's actuary, to model the range of potential future solvency levels and contribution rates.

The Actuary was able to model the impact of these four key areas, for the purpose of setting a stabilisation approach (see [3.3Note \(b\)](#)). The modelling demonstrated that retaining the present investment strategy, coupled with constraining employer contribution rate changes as described in [3.3Note \(b\)](#), struck an appropriate balance between the above objectives. In particular the stabilisation approach currently adopted meets the need for stability of contributions without jeopardising the Administering Authority's aims of prudent stewardship of the Fund.

Whilst the current stabilisation mechanism is to remain in place until 2017, it should be noted that this will need to be reviewed following the 2016 valuation.

#### **4.5 Does the Fund monitor its overall funding position?**

The Administering Authority monitors the relative funding position, i.e. changes in the relationship between asset values and the liabilities value, quarterly. It reports this to the regular Pension Fund Committee meetings, and also to employers through newsletters and Employers Forums.

## Appendix A – Regulatory framework

### **A1 Why does the Fund need an FSS?**

The Department for Communities and Local Government (DCLG) has stated that the purpose of the FSS is:

- *“to establish a **clear and transparent fund-specific strategy** which will identify how employers’ pension liabilities are best met going forward;*
- *to support the regulatory framework to maintain **as nearly constant employer contribution rates as possible**; and*
- *to take a **prudent longer-term view** of funding those liabilities.”*

These objectives are desirable individually, but may be mutually conflicting.

The requirement to maintain and publish a FSS is contained in LGPS Regulations which are updated from time to time. In publishing the FSS the Administering Authority has to have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2012) and to its Statement of Investment Principles.

This is the framework within which the Fund’s actuary carries out triennial valuations to set employers’ contributions and provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

### **A2 Does the Administering Authority consult anyone on the FSS?**

Yes. This is required by LGPS Regulations. It is covered in more detail by the most recent CIPFA guidance, which states that the FSS must first be subject to “consultation with such persons as the authority considers appropriate”, and should include “a meaningful dialogue at officer and elected member level with Council Tax raising authorities and with corresponding representatives of other participating employers”.

In practice, for the Fund, the consultation process for this FSS was as follows:

- a) A draft version of the FSS was issued to all participating employers in January 2014 for comment;
- b) Comments were requested within 14 days;
- c) There was an Employers Forum on 23 January at which questions regarding the FSS could be raised and answered;
- d) Following the end of the consultation period the FSS was updated where required and then published, in March 2014.

### **A3 How is the FSS published?**

The FSS is made available through the following routes:

- Published on the website, at [www.harrow.gov.uk](http://www.harrow.gov.uk)
- A copy sent by e-mail to each participating employer in the Fund;
- A copy sent to employee/pensioner representatives;
- A summary issued to all Fund members;



- A full copy included in the annual report and accounts of the Fund;
- Copies sent to investment managers and independent advisers;
- Copies made available on request.

#### **A4 How often is the FSS reviewed?**

The FSS is reviewed in detail at least every three years as part of the triennial valuation. This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation in 2016.

It is possible that (usually slight) amendments may be needed within the three year period. These would be needed to reflect any regulatory changes, or alterations to the way the Fund operates (e.g. to accommodate a new class of employer). Any such amendments would be consulted upon as appropriate:

- trivial amendments would be simply notified at the next round of employer communications,
- amendments affecting only one class of employer would be consulted with those employers,
- other more significant amendments would be subject to full consultation.

In any event, changes to the FSS would need agreement by the Pensions Fund Committee and would be included in the relevant Committee Meeting minutes.

#### **A5 How does the FSS fit into other Fund documents?**

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues, for example there are a number of separate statements published by the Fund including the Statement of Investment Principles, Governance Strategy and Communications Strategy. In addition, the Fund publishes an Annual Report and Accounts with up to date information on the Fund.

These documents can be found on the web at [www.harrow.gov.uk](http://www.harrow.gov.uk)

## Appendix B – Responsibilities of key parties

The efficient and effective operation of the Fund needs various parties to each play their part.

### **B1 The Administering Authority should:-**

- operate the Fund as per the LGPS Regulations;
- effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;
- collect employer and employee contributions, and investment income and other amounts due to the Fund;
- ensure that cash is available to meet benefit payments as and when they fall due;
- pay from the Fund the relevant benefits and entitlements that are due;
- invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's Statement of Investment Principles (SIP) and LGPS Regulations;
- communicate appropriately with employers so that they fully understand their obligations to the Fund;
- take appropriate measures to safeguard the Fund against the consequences of employer default;
- manage the valuation process in consultation with the Fund's actuary;
- prepare and maintain a FSS and a SIP, after consultation;
- notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and
- monitor all aspects of the fund's performance and funding and amend the FSS/SIP as necessary and appropriate.

### **B2 The Individual Employer should:-**

- deduct contributions from employees' pay correctly;
- pay all contributions, including their own as determined by the actuary, promptly by the due date;
- have a policy and exercise discretions within the regulatory framework;
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and
- notify the Administering Authority promptly of all changes to its circumstances, prospects or membership, which could affect future funding.

### **B3 The Fund Actuary should:-**

- prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;

- provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these);
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;
- assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;
- advise on the termination of Admission Bodies' participation in the Fund; and
- fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

**B4 Other parties:-**

- investment advisers (either internal or external) should ensure the Fund's SIP remains appropriate, and consistent with this FSS;
- investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the SIP;
- auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection, and sign off annual reports and financial statements as required;
- governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund;
- legal advisers (either internal or external) should ensure the Fund's operation and management remains fully compliant with all regulations and broader local government requirements, including the Administering Authority's own procedures.

## Appendix C – Key risks and controls

### C1 Types of risk

The Administering Authority has an active risk management programme in place. The measures that it has in place to control key risks are summarised below under the following headings:

- financial;
- demographic;
- regulatory; and
- governance.

### C2 Financial risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term.	<p>Only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing.</p> <p>Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc.</p> <p>Analyse progress at three yearly valuations for all employers.</p> <p>Inter-valuation roll-forward of liabilities between valuations at whole Fund level.</p>
Inappropriate long-term investment strategy.	<p>Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes.</p> <p>Chosen option considered to provide the best balance.</p>
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities.	<p>Stabilisation modelling at whole Fund level allows for the probability of this within a longer term context.</p> <p>Inter-valuation monitoring, as above.</p> <p>Some investment in bonds helps to mitigate this risk.</p>
Active investment manager under-performance relative to benchmark.	<p>Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.</p>
Pay and price inflation significantly more than anticipated.	<p>The focus of the actuarial valuation process is on real returns on assets, net of price and pay</p>

Risk	Summary of Control Mechanisms
	<p>increases.</p> <p>Inter-valuation monitoring, as above, gives early warning.</p> <p>Some investment in bonds also helps to mitigate this risk.</p> <p>Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.</p>
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions.
Orphaned employers give rise to added costs for the Fund	<p>The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future.</p> <p>If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see <a href="#">3.9</a>).</p>

### C3 Demographic risks

Risk	Summary of Control Mechanisms
Pensioners living longer, thus increasing cost to Fund.	<p>Set mortality assumptions with some allowance for future increases in life expectancy.</p> <p>The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation.</p>
Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees.	Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies.
Deteriorating patterns of early retirements	<p>Employers are charged the extra cost of non ill-health retirements following each individual decision.</p> <p>Employer ill health retirement experience is monitored, and insurance is an option.</p>
Reductions in payroll causing insufficient	In many cases this may not be sufficient cause for

Risk	Summary of Control Mechanisms
deficit recovery payments	<p>concern, and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows:</p> <p>Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see <u>Note (b) to 3.3</u>).</p> <p>For other employers, review of contributions is permitted in general between valuations (see <u>Note (f) to 3.3</u>) and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.</p>

#### C4 Regulatory risks

Risk	Summary of Control Mechanisms
Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform.	<p>The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.</p> <p>The results of the most recent reforms have been built into the 2013 valuation. Any changes to member contribution rates or benefit levels will be carefully communicated with members to minimise possible opt-outs or adverse actions.</p>

#### C5 Governance risks

Risk	Summary of Control Mechanisms
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants.	<p>The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data.</p> <p>The Actuary may revise the Rates and Adjustments Certificate to increase an employer's contributions (under Regulation 38) between triennial valuations</p> <p>Deficit contributions may be expressed as monetary amounts.</p>
Actuarial or investment advice is not sought, or is not heeded, or proves to be	The Administering Authority maintains close contact with its specialist advisers.

Risk	Summary of Control Mechanisms
insufficient in some way	<p>Advice is delivered via formal meetings involving Elected Members, and recorded appropriately.</p> <p>Actuarial advice is subject to professional requirements such as peer review.</p>
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.	<p>The Administering Authority requires employers with relevant contractors to inform it of forthcoming changes.</p> <p>Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken.</p>
An employer ceasing to exist with insufficient funding or adequacy of a bond.	<p>The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure.</p> <p>The risk is mitigated by:</p> <p>Seeking a funding guarantee from another scheme employer, or external body, wherever possible (see <u>Notes (h) and (j) to 3.3</u>).</p> <p>Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.</p> <p>Vetting prospective employers before admission.</p> <p>Where permitted under the regulations requiring a bond to protect the Fund from various risks.</p> <p>Requiring new Community Admission Bodies to have a guarantor.</p> <p>Reviewing bond or guarantor arrangements at regular intervals (see <u>Note (f) to 3.3</u>).</p> <p>Reviewing contributions well ahead of cessation if thought appropriate (see <u>Note (a) to 3.3</u>).</p>

## Appendix D – The calculation of employer contributions

In Section 2 there was a broad description of the way in which contribution rates are calculated. This Appendix considers these calculations in much more detail.

The calculations involve actuarial assumptions about future experience, and these are described in detail in Appendix E.

### **D1 What is the difference between calculations across the whole Fund and calculations for an individual employer?**

Employer contributions are normally made up of two elements:

- a) the estimated cost of future benefits being accrued, referred to as the “future service rate”; plus
- b) an adjustment for the funding position of accrued benefits relative to the Fund’s solvency target, “*past service adjustment*”. If there is a surplus there may be a reduction in the employer’s contribution rate. If there is a deficit there will be an increase in the employer’s contribution rate, with the surplus or deficit spread over an appropriate period. The aim is to return the employer to full funding over that period. See Section 3 for deficit recovery periods.

The Fund’s actuary is required by the regulations to report the *Common Contribution Rate*<sup>2</sup>, for all employers collectively at each triennial valuation. It combines items (a) and (b) and is expressed as a percentage of pay; it is in effect an average rate across all employers in the Fund.

The Fund’s actuary is also required to adjust the Common Contribution Rate for circumstances which are deemed “peculiar” to an individual employer<sup>3</sup>. It is the adjusted contribution rate which employers are actually required to pay. The sorts of “peculiar” factors which are considered are discussed below.

In effect, the *Common Contribution Rate* is a notional quantity. Separate future service rates are calculated for each employer together with individual past service adjustments according to employer-specific past service deficit spreading and increased employer contribution phasing periods.

### **D2 How is the Future Service Rate calculated?**

The future service element of the employer contribution rate is calculated with the aim that these contributions will meet benefit payments in respect of members’ **future** service in the Fund. This is based upon the cost (in excess of members’ contributions) of the benefits which employee members earn from their service each year.

The future service rate is calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole. The calculation is on the “ongoing” valuation basis (see Appendix E), but where it is considered appropriate to do so the Administering Authority reserves the right to set a future service rate by reference to liabilities valued on a more prudent basis (see Section 3).

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<sup>2</sup> See LGPS (Administration) Regulations 36(5).

<sup>3</sup> See LGPS (Administration) Regulations 36(7).



The approach used to calculate each employer's future service contribution rate depends on whether or not new entrants are being admitted. Employers should note that it is only Admission Bodies and Designating Employers that may have the power not to automatically admit all eligible new staff to the Fund, depending on the terms of their Admission Agreements and employment contracts.

**a) Employers which admit new entrants**

These rates will be derived using the “Projected Unit Method” of valuation with a one year period, i.e. only considering the cost of the next year’s benefit accrual and contribution income. If future experience is in line with assumptions, and the employer’s membership profile remains stable, this rate should be broadly stable over time. If the membership of employees matures (e.g. because of lower recruitment) the rate would rise over time.

**b) Employers which do not admit new entrants**

To give more long term stability to such employers’ contributions, the “Attained Age” funding method is normally adopted. This measures benefit accrual and contribution income over the whole future anticipated working lifetimes of current active employee members.

Both approaches include expenses of administration to the extent that they are borne by the Fund, and include allowances for benefits payable on death in service and ill health retirement.

**D3 How is the Solvency / Funding Level calculated?**

The Fund’s actuary is required to report on the “solvency” of the whole Fund in a valuation which should be carried out at least once every three years. As part of this valuation, the actuary will calculate the solvency position of each employer.

‘Solvency’ is defined to be the ratio of the market value of the employer’s asset share to the value placed on accrued benefits on the Fund actuary’s chosen assumptions. This quantity is known as a funding level.

For the value of the employer’s asset share, see D5 below.

For the value of benefits, the Fund actuary agrees the assumptions to be used with the Administering Authority – see Appendix E. These assumptions are used to calculate the present value of all benefit payments expected in the future, relating to that employer’s current and former employees, based on pensionable service to the valuation date only (i.e. ignoring further benefits to be built up in the future).

The Fund operates the same target funding level for all employers of 100% of its accrued liabilities valued on the ongoing basis, unless otherwise determined (see Section 3).

**D4 What affects a given employer’s valuation results?**

The results of these calculations for a given individual employer will be affected by:

- past contributions relative to the cost of accruals of benefits;
- different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);
- the effect of any differences in the valuation basis on the value placed on the employer’s liabilities;
- any different deficit/surplus spreading periods or phasing of contribution changes;
- the difference between actual and assumed rises in pensionable pay;
- the difference between actual and assumed increases to pensions in payment and deferred pensions;

- the difference between actual and assumed retirements on grounds of ill-health from active status;
- the difference between actual and assumed amounts of pension ceasing on death;
- the additional costs of any non ill-health retirements relative to any extra payments made;

over the period between each triennial valuation.

Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers, to the extent that employers in effect share the same investment strategy. Transfers of liabilities between employers within the Fund occur automatically within this process, with a sum broadly equivalent to the reserve required on the ongoing basis being exchanged between the two employers.

#### **D5 How is each employer's asset share calculated?**

The Administering Authority does not account for each employer's assets separately. Instead, the Fund's actuary is required to apportion the assets of the whole Fund between the employers, at each triennial valuation.

This apportionment uses the income and expenditure figures provided for certain cash flows for each employer. This process adjusts for transfers of liabilities between employers participating in the Fund, but does make a number of simplifying assumptions. The split is calculated using an actuarial technique known as "analysis of surplus".

The Fund actuary does not allow for certain relatively minor events, including but not limited to:

- the actual timing of employer contributions within any financial year;
- the effect of the premature payment of any deferred pensions on grounds of incapacity.

These effects are swept up within a miscellaneous item in the analysis of surplus, which is split between employers in proportion to their liabilities.

The methodology adopted means that there will inevitably be some difference between the asset shares calculated for individual employers and those that would have resulted had they participated in their own ring-fenced section of the Fund.

The asset apportionment is capable of verification but not to audit standard. The Administering Authority recognises the limitations in the process, but it considers that the Fund actuary's approach addresses the risks of employer cross-subsidisation to an acceptable degree.

## Appendix E – Actuarial assumptions

### **E1 What are the actuarial assumptions?**

These are expectations of future experience used to place a value on future benefit payments (“the liabilities”). Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). For example, financial assumptions include investment returns, salary growth and pension increases; demographic assumptions include life expectancy, probabilities of ill-health early retirement, and proportions of member deaths giving rise to dependants’ benefits.

Changes in assumptions will affect the measured value of future service accrual and past service liabilities, and hence the measured value of the past service deficit. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The combination of all assumptions is described as the “basis”. A more optimistic basis might involve higher assumed investment returns (discount rate), or lower assumed salary growth, pension increases or life expectancy; a more optimistic basis will give lower liability values and lower employer costs. A more prudent basis will give higher liability values and higher employer costs.

### **E2 What basis is used by the Fund?**

The Fund’s standard funding basis is described as the “ongoing basis”, which applies to most employers in most circumstances. This is described in more detail below. It anticipates employers remaining in the Fund in the long term.

However, in certain circumstances, typically where the employer is not expected to remain in the Fund long term, a more prudent basis applies: see [Note \(a\) to 3.3](#).

### **E3 What assumptions are made in the ongoing basis?**

#### **a) Investment return / discount rate**

The key financial assumption is the anticipated return on the Fund’s investments. This “discount rate” assumption makes allowance for an anticipated out-performance of Fund returns relative to long term yields on UK Government bonds (“gilts”). There is, however, no guarantee that Fund returns will out-perform gilts. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply.

Given the very long-term nature of the liabilities, a long term view of prospective asset returns is taken. The long term in this context would be 20 to 30 years or more.

For the purpose of the triennial funding valuation at 31 March 2013 and setting contribution rates effective from 1 April 2014, the Fund actuary has assumed that future investment returns earned by the Fund over the long term will be 1.6% per annum greater than gilt yields at the time of the valuation (this is the same as that used at the 2010 valuation). In the opinion of the Fund actuary, based on the current investment strategy of the Fund, this asset out-performance assumption is within a range that would be considered acceptable for the purposes of the funding valuation.

## **b) Salary growth**

Pay for public sector employees is currently subject to restriction by the UK Government until 2016. Although this “pay freeze” does not officially apply to local government and associated employers, it has been suggested that they are likely to show similar restraint in respect of pay awards. Based on long term historical analysis of the membership in LGPS funds, the salary increase assumption at the 2013 valuation has been set to 0.5% above the retail prices index (RPI) per annum. This is a change from the previous valuation, which assumed a three year restriction at 1% per annum followed by longer term growth at CPI plus 1.5% per annum.

## **c) Pension increases**

Since 2011 the consumer prices index (CPI), rather than RPI, has been the basis for increases to public sector pensions in deferment and in payment. This change was allowed for in the valuation calculations as at 31 March 2010. Note that the basis of such increases is set by the Government, and is not under the control of the Fund or any employers.

As at the previous valuation, we derive our assumption for RPI from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. This is then reduced to arrive at the CPI assumption, to allow for the “formula effect” of the difference between RPI and CPI. At this valuation, we propose a reduction of 0.8% per annum. This is a larger reduction than at 2010, which will serve to reduce the value placed on the Fund’s liabilities (all other things being equal).

## **d) Life expectancy**

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds which participate in Club Vita, the longevity analytics service used by the Fund, and endorsed by the actuary.

The longevity assumptions that have been adopted at this valuation are a bespoke set of “VitaCurves”, produced by the Club Vita’s detailed analysis, which are specifically tailored to fit the membership profile of the Fund. These curves are based on the data provided by the Fund for the purposes of this valuation.

It is acknowledged that future life expectancy and, in particular, the allowance for future improvements in life expectancy, is uncertain. There is a consensus amongst actuaries, demographers and medical experts that life expectancy is likely to improve in the future. Allowance has been made in the ongoing valuation basis for future improvements in line with “medium cohort” and a 1.25% per annum minimum underpin to future reductions in mortality rates. This is a higher allowance for future improvements than was made in 2010.

## **e) General**

The same financial assumptions are adopted for all employers, in deriving the past service deficit and the future service rate: as described in (3.3), these calculated figures are translated in different ways into employer contributions, depending on the employer’s circumstances.

The demographic assumptions, in particular the life expectancy assumption, in effect vary by type of member and so reflect the different membership profiles of employers.

## Appendix F – Glossary

<b>Actuarial assumptions/basis</b>	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of <b>liabilities</b> . The main assumptions will relate to the <b>discount rate</b> , salary growth, pension increases and longevity. More prudent assumptions will give a higher liability value, whereas more optimistic assumptions will give a lower value.
<b>Administering Authority</b>	The council with statutory responsibility for running the Fund, in effect the Fund's "trustees".
<b>Admission Bodies</b>	Employers which voluntarily participate in the Fund, so that their employees and ex-employees are <b>members</b> . There will be an Admission Agreement setting out the employer's obligations. For more details (see <a href="#">2.5</a> ).
<b>Common contribution rate</b>	The Fund-wide <b>future service rate</b> plus <b>past service adjustment</b> . It should be noted that this will differ from the actual contributions payable by individual <b>employers</b> .
<b>Covenant</b>	The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.
<b>Deficit</b>	The shortfall between the assets value and the <b>liabilities</b> value. This relates to assets and liabilities built up to date, and ignores the future build-up of pension (which in effect is assumed to be met by future contributions).
<b>Deficit repair/recovery period</b>	The target length of time over which the current <b>deficit</b> is intended to be paid off. A shorter period will give rise to a higher annual <b>past service adjustment</b> (deficit repair contribution), and vice versa.
<b>Designating Employer</b>	Employers such as town and parish councils that are able to participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund.
<b>Discount rate</b>	The annual rate at which future assumed cashflows (in and out of the Fund) are discounted to the present day. This is necessary to provide a <b>liabilities</b> value which is consistent with the present day value of the assets, to calculate the <b>deficit</b> . A lower discount rate gives a higher liabilities value, and vice versa. It is similarly used in the calculation of the <b>future service rate</b> and the <b>common contribution rate</b> .
<b>Employer</b>	An individual participating body in the Fund, which employs (or used to employ) <b>members</b> of the Fund. Normally the assets and <b>liabilities</b> values for each employer are individually tracked, together with its <b>future service rate</b> at each <b>valuation</b> .
<b>Funding level</b>	The ratio of assets value to <b>liabilities</b> value: for further details (see <a href="#">2.2</a> ).
<b>Future service</b>	The actuarially calculated cost of each year's build-up of pension by the

<b>rate</b>	current active <b>members</b> , excluding members' contributions but including Fund administrative expenses. This is calculated using a chosen set of <b>actuarial assumptions</b> .
<b>Gilt</b>	A UK Government bond, i.e. a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be "fixed interest", where the interest payments are level throughout the gilt's term, or "index-linked" where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but their main use in funding is as an objective measure of solvency.
<b>Guarantee guarantor</b>	/ A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's <b>covenant</b> to be as strong as its guarantor's.
<b>Letting employer</b>	An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority, but can sometimes be another type of employer such as an academy.
<b>Liabilities</b>	The actuarially calculated present value of all pension entitlements of all <b>members</b> of the Fund, built up to date. This is compared with the present market value of Fund assets to derive the <b>deficit</b> . It is calculated on a chosen set of <b>actuarial assumptions</b> .
<b>LGPS</b>	The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 101 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.
<b>Maturity</b>	A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.
<b>Members</b>	The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).
<b>Past service adjustment</b>	The part of the employer's annual contribution which relates to past service <b>deficit</b> repair.

<b>Pooling</b>	Employers may be grouped together for the purpose of calculating contribution rates, so that their combined membership and asset shares are used to calculate a single contribution rate applicable to all employers in the pool. A pool may still require each individual employer to ultimately pay for its own share of <b>deficit</b> , or (if formally agreed) it may allow <b>deficits</b> to be passed from one employer to another. For further details of the Fund's current pooling policy (see <a href="#">3.4</a> ).
<b>Profile</b>	The profile of an employer's membership or liability reflects various measurements of that employer's <b>members</b> , i.e. current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its <b>maturity</b> also.
<b>Rates and Adjustments Certificate</b>	A formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal <b>valuation</b> . This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three year period until the next valuation is completed.
<b>Scheduled Bodies</b>	Types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include councils, colleges, universities, academies, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).
<b>Solvency</b>	In a funding context, this usually refers to a 100% <b>funding level</b> , i.e. where the assets value equals the <b>liabilities</b> value.
<b>Stabilisation</b>	Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund. Different methods may involve: probability-based modelling of future market movements; longer deficit recovery periods; higher discount rates; or some combination of these.
<b>Theoretical contribution rate</b>	The employer's contribution rate, including both <b>future service rate</b> and <b>past service adjustment</b> , which would be calculated on the standard <b>actuarial basis</b> , before any allowance for <b>stabilisation</b> or other agreed adjustment.
<b>Valuation</b>	An actuarial investigation to calculate the liabilities, future service contribution rate and common contribution rate for a Fund, and usually individual employers too. This is normally carried out in full every three years (last done as at 31 March 2013), but can be approximately updated at other times. The assets value is based on market values at the valuation date, and the liabilities value and contribution rates are based on long term bond market yields at that date also.