

COMMITTEE: **PENSIONS COMMITTEE**

DATE: **12 December 2008**

TITLE: **'Peace in our Time' - Local Government Pension Scheme Trustees' Conference**

PURPOSE: **To advise members of the content and value of the LGE's Local Government Pension Scheme Trustees' Conference, 23-24 October, 2008 in the Cardiff Marriott Hotel**

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1. INTRODUCTION

The Local Government Employers' (LGE) Local Government Pension Scheme (LGPS) Trustees' Conference provided interesting information about several aspects regarding development of the LGPS and aspects of fund investment. The event was attended by five delegates from Gwynedd Council, namely Councillor John Gwilym Jones, Councillor Keith Greenly-Jones, Councillor Linda Ann Jones, Councillor Tudor Owen, and Dafydd L Edwards (Head of Finance).

2. "PEACE IN OUR TIME"

Shortly after Neville Chamberlain flew back from Munich in 1938 and made the now famous "Peace for our time" speech, waving the Anglo-German Declaration, Adolf Hitler's Germany invaded Poland and the Second World War began. Since this conference was titled "Peace in our time", there has been equivalent carnage in the financial world! In this context, it was acknowledged from several points of view that the affordability and sustainability of the LGPS (particularly as a funded, defined benefit scheme) would be critically examined.

3. LGPS – COMPLEX AND UNCERTAIN FUTURE

The opening session 'Winners and Losers' exemplified the complexity of the LGPS for fund administrators and scheme members (relevant employers and staff), with pension contributions and benefits varying with many factors such as age, service, salary, hours worked, etc.

Terry Edwards (the LGE's Head of Pensions) responding to a question regarding cost sharing (balancing staff and employers' contributions), and whether that new development would save the LGPS, suggested that the future would depend greatly on decisions regarding other public sector pensions, viz MP's, civil service, teachers, etc.

4. ILL HEALTH RETIREMENTS – AN ANOMOLOUS CAN OF WORMS?

Bob Holloway (a civil servant with the Department for Communities and Local Government at Westminster) explained how expensive ill health retirements are as an exit gateway, and that ill health retirements should be seen as a last resort. He went on to suggest that employers should attain consistency by understanding statutory guidance, encouraging rehabilitation, retraining and redeployment, and dealing with staff in a fair, firm and frank manner (perhaps easier said than done?). He also referred (taking up the conference's 'war' theme) to the imminent battle, as the LGPS would be "under attack".

Dr Damian Trafford (a Specialist Occupational Physician) went through some of the regulations and guidance, anomalies, problems for doctors, and doctors' (high) expectations of employers' HR function. He noted that employers' HR staff should be (but unfortunately rarely are) well versed in the content of LGE's "Management of Ill Health" handbook, and suggested that more appeals against employers' decisions are likely with new tiers of ill health retirement.

5. PARTNERS' PENSIONS

Lyn Thomas (Pension Manager, Swansea Fund) injected a Welsh flavour and humour into the awkward issue of partners' pensions ("dealing with sinners"), explaining widows' pension benefits, the impact of the Civil Partnership Act, etc. He also referred to successful collaboration by seven funds in Wales, and a copy of one of our bilingual forms was distributed.

6. 2007 VALUATIONS AND EXPECTATIONS

Alison Murray (Partner & Actuary, Hymans Robertson) presented an analysis of local government pension funds' funding levels and contribution rates, explaining how some variations are due to actuarial assumptions. Andrew Gaches (another Actuary from Hymans who is a specialist longevity consultant) went on to demonstrate issues such as 'longevity' (if local government pensioners live one year longer on average, it would cost £5 billion), and determinants such as gender, income and location of residence (post codes).

Alison encouraged funds to revisit their investment and contributions strategies in the context of an outlook of reducing funding levels (from 85% in March 2007 to 70% in August 2008) and the probability of increased employers' contributions, but Hymans saw no reason to panic, and had reason to hope that funds could "ride out market volatility".

7. LEGAL IMPLICATIONS OF NEW REGULATIONS

Gary Delderfield (a Partner with the solicitors' firm Eversheds) set out some legal problems for administering authorities with badly drafted pension regulations. He also referred to several governance issues and the way forward to dealing with admitted bodies (private contractors). He anticipated CLG would consult on specific draft regulations for admission bodies in 2009.

8. AN ELECTED MEMBER'S VIEW

Councillor Ian Greenwood (City of Bradford) was expected to present a paper on Councillors' Pensions, but (as expected from a former union officer) he gave forthright opinions on several diverse issues. One of his beliefs was that using bond yields to calculate funds' liabilities was misleading, as the market price is distorted when funds buy bonds for safety.

9. INVESTMENT GOVERNANCE

Sue Timbrell (Vice Chair, CIPFA Pensions Panel) explained the background of 'Myners' report (2001) which had concluded that fund trustees lacked investment expertise. She went on to present the 10 Myners principles, set out recommendations made in the NAPF review (2007), and outline HM Treasury's response. An LGPS sub group of the Investment Governance Group (Treasury / CIPFA) will be set up to apply the principles to the local government pensions context. She concluded by discussing funds' compliance, reviewing of funds' Statements of Investment Principles, and discussing stakeholder communications.

10. ECOLOGICAL INVESTING

Niall Dunne (an Investment Strategist at Pioneer Investments) gave an eye-opening talk about ecological investing (environmental and sustainable investment – not dependent upon a depleting resource). He believed that markets find the best model (e.g. electricity / battery powered vehicles currently being developed). He argued that funds should diversify in many such investments (e.g. in those producing technology to enhance agricultural output, not just in solar power) in order to maximise returns, but not to put all their eggs in one basket.

11. CONCLUSIONS

This event included coverage of many aspects of pensions, delivered in an understandable format, and provided useful networking opportunities.

Further to all delegates' committed attendance at all sessions of the conference, Gwynedd's delegates are wiser further to attendance at the conference, and unanimously recommend that Gwynedd Pensions Committee should continue to support this event.