

GREATER MANCHESTER PENSION FUND - ADMINISTRATION, EMPLOYER FUNDING AND VIABILITY WORKING GROUP

31 July 2020

Commenced: 10:00

Terminated: 11:30

Present: Councillors M Smith (Chair), Ricci, Patrick, Drennan, Wills, Cooney, Andrews, O'Neill and Mitchell,

Mr Drury and Mr Llewellyn

Fund Observer Councillor Pantall

In Attendance:

Sandra Stewart	Director of Pensions
Euan Miller	Assistant Director of Pensions (Funding and Business Development)
Paddy Dowdall	Assistant Director of Pensions (Local Investments and Property)
Tom Harrington	Assistant Director (Investments)
Emma Mayall	Assistant Director (Pensions Administration)
Victoria Plackett	Head of Pensions Administration
Matthew Simensky	Section Manager Pensions Administration
Rachael Foster	Investment Officer

Apologies for Absence: Councillors Sharif, Parkinson, Jabbar, Grimshaw and Cunliffe,

McDonagh and Mr Flatley

Fund Observer Councillor Ryan

41 DECLARATIONS OF INTEREST

There were no declarations of interest.

42 MINUTES

The minutes of the meeting of the Administration, Employment Funding and Viability Working Group held on the 20 December 2019 were approved as a correct record.

43 ADMINISTRATION STRATEGIC SERVICE UPDATE

Consideration was given to a report of the Director of Pensions / Assistant Director for Funding and Business Development / Assistant Director for Administration, which provided the Working Group with a summary of the strategic improvement administration projects or areas that were being worked on by the Administration, Funding and Accountancy teams.

It was reported that business continuity plans and the approach being taken to manage the impact of the Coronavirus outbreak on the service remained the same as outlined at the last Management Panel meeting. There continued to be a higher than average number of death notifications being received but the numbers remained manageable.

The statutory deadlines for accounts had been changed to 30 August for publishing of draft accounts and 30 November for audit of accounts. This had required changes to be made to normal plans and timescales in order to deliver the accounts and IAS19 reports on time.

It was reported that work on the annual report and accounts had taken place this quarter, the accounts would be audited and scheduled for approval as part of Tameside's MBC's accounts in November 2020.

Work on several objectives being undertaken to meet or strengthen compliance with the Pension Regulator's Codes had continued. The transition to monthly data collection from employees had continued.

To carry out the 2020 scheme level valuation, the Government Actuary's Department would request data as at 31 March 2020 from administering authorities in September 2020.

Following the appointment of a new contractor to carry out the waste management services, GMCA requested that GMPF accept a bulk transfer of members' benefits from the Citrus Pension Plan in order to help simplify arrangements for members. GMCA were undertaking a communications exercise for members alongside the new contractor to ensure members understood the process and the options available.

Members heard how GMPF had engaged with data specialists ITM Ltd to review GMPF's data in respect to the McCloud/Sargeant judgement. MHCLG had confirmed that they expected a consultation on the proposed remedy to be issued in July 2020 or shortly thereafter. The SAB had set up an implementation group that had three subgroups looking at communications software issues and data collection. A set of FAQs for scheme members and draft wording that administering authorities could use when communicating with Members about this issue and the Fund was reviewing its documentation.

RESOLVED

That the report be noted.

44 ADMINISTRATION MEMBER SERVICES UPDATE

Consideration was given to a report of the Director of Pensions / Head of Pensions Administration, which provided a summary of the work and projects being carried out by the Member Services area of Pension Administration.

With regards to Key work items across the Member services section, it was stated that in addition to the usual work items undertaken across the section, work relating to changes in legislation or following judgements continued to be progressed. Of the 44 cases identified for review following the Brewster judgement, the Bereavements team had reviewed 43 cases with one still to be reviewed, of these 39 potential beneficiaries had been written to and nine of these cases had now been processed for payment.

Further, it was reported that the review of the area of work relating to pensions overpayment continued and an analysis of the current outstanding member related debt was appended to the report. The transition of the Payment of AVC's to the respective benefit teams was complete and work was underway to adopt the approach that many other LGPS funds take by paying AVC's directly to members at the point of retirement. Also all correspondence for the benefits on hold and new starter notification processes was now able to be uploaded to members My Pension online account.

It was stated that following the Pensions Saving Statement exercise for 2018/19, 54 scheme pays requests had been received and processed. Members had until 31 July 2020 to make mandatory scheme pay requests. 2020 Annual Benefit Statements for Members with benefits on hold had all been issued. Statements for contributing Members were in the process of being issued.

A review of the Key Performance Indicators was underway. A significant amount of work had already been undertaken to determine the tasks to be measured and the associated statutory deadlines. Work was carried out to ensure the Altair workflow functionality associated with the tasks

could provide necessary reporting. Performance levels remained relatively consistent across all areas except for deferred benefits being issued to members. There had been a decrease in the number of deferred benefits being processed within the target timescales. Resource requirements and procedures were being reviewed to ensure the work was being processed as efficiently as possible.

It was reported that GMPF issued surveys to members to obtain a view of member experience for many of our key processes. Members received information on the survey responses received for bereavements first stage process, retirement offers, deferred benefit officers and deferred refund processes for the period. Overall feedback was positive, surveying activities were suspended due to the transition to home working but recommenced from July 2020.

On planned changes to the early leaver process, it was explained that the monthly data collection and implementation of the new website had enabled the leaver notification process to be changed. This would improve the process for employers. Employers would be able to notify GMPF that a member had left on their monthly return and would be able to supply any additional information needed for those members who had pre 2014 benefits by completing and uploading a spreadsheet through the website. This would replace the current process where employers completed an individual leaver form for each member who had left their employment.

A data extract which contained a list of members for whom there were no home address on record had been supplied to Target Professional Services, the company provide tracing and mortality screening services to GMPF. Target were writing to around two-thirds of these following an automated search. The next phase would involve the manual tracing of the remaining members where an address was not found through the automated trace process.

RESOLVED

That the Working Group note the intention to change the leaver notification process and note the content of the report.

45 ADMINISTRATION EMPLOYER SERVICES UPDATE

Consideration was given to a report of the Director of Pensions / Head of Pensions Administration, which provided the Working Group with a summary of the work and projects being carried out by the Employer Services area of Pension Administration.

It was stated that here continued to be a significant number of employers applying to join GMPF with 45 applications being progressed. A further 25 enquiries had also been made by employers considering applying for admission.

GMPF continued to work with those employers who had not yet transitioned to monthly data collection. A total of 574 employers had now on-boarded onto iConnect, leaving 38 employers still to on-board; 12 of these related to a single GM Local Authority and their associated employers and a further 10 related to new employers only recently admitted to the Fund. All remaining employers yet to on-board had been given a deadline of 31 July 2020, this had been extended due to the coronavirus pandemic to the 31 December 2020.

With regards to Year-end Returns, the only remaining queries for the 2018/19 year-end project related to employers not yet on-boarded and would be cleared as part of on-boarding process. Employers not on-boarded by 31 March 2020 had sent in year-end returns for 2019/20. Fifty year-end returns were received in total and all were submitted by the 7 May deadline. Due to on-boarding most employers by 31 March 2020, year-end queries had reduced significantly.

It was explained that an indication of performance of GMPF's larger employers had been gained in the past by recording data about the timeliness of new starter and early leaver information and the age of queries with those employers. However due to the change in monthly data collection, the Employer Support team were working on a new set of performance measures for GMPF employers.

The LGA-run '*Understanding the Employer Role*' would normally be held regularly throughout the year at offices in Droylsden. Due to Covid-19, this would be held remotely for the foreseeable future.

The new GMPF website had recently been launched and contained a new secure area for employers with several new features. Every user now required their own personal user account to access information within this section of the website. The Employer Support team were involved in the creation of 600 new user accounts for all authorised signatories held for each employer and third-party payroll providers. The team also provided communications to employers to assist in explaining the changes.

RESOLVED

That the report be noted.

46 ADMINISTRATION DEVELOPMENTS & TECHNOLOGIES UPDATE

Consideration was given to a report of the Director of Pensions / Assistant Director for Pension Administration, which provided a summary of the work and projects being carried out by the Developments & Technologies area of Pension Administration.

It was reported that work had continued to progress since the last meeting to renew the IT hardware and software infrastructure of GMPF. All GMPF colleagues were issued with replacement laptops in January and February 2020 installed with Windows 10 and Microsoft Office 365. The team were working with colleagues in the IT department at Tameside MBC to plan the transition for some colleagues that use Tameside MBC email accounts to GMPF email accounts. Work had begun on transferring all GMPF data files to the cloud again using services hosted by Microsoft. This project would take several months to complete and would be run alongside the implementation of a new document retention plan.

Work was underway on producing a cyber-security policy specifically for the Fund following guidance from the Pensions Regulator and a recognition that it may not be appropriate for LGPS pension funds to adopt the cyber security policies of the administering authority. GMPF had been working in collaboration with an IT consultant to assess current practices and determine what aspects the policy should cover and steps required to be taken to ensure that robust measures were in place to reduce the risk of cyber security incident occurring. A draft policy was almost complete, Systems Developments team were considering actions that could be taken to strengthen GMPF's position in this area and a progress report on these actions would be brought to a future meeting together with the policy.

The Complaints and Disputes Board continued to meet monthly and all learning points were passed back to the relevant team. The number of cases had continued to decrease, which implied the work being done to ensure learning points were captured and subsequent changes implemented was proving successful.

A Developments & Technologies strategy had been developed, the strategy outlined GMPF's approach to technology and confirmed the objectives set for the next twelve to eighteen months linked to digital transformation. The strategy would be in place from July 2020 to December 2021 and progress against the objectives set would be reported at future working group meetings.

RESOLVED

That the working group note the updates provided within the report and approve the new Developments & Technologies internal strategy and objectives.

47 ADMINISTRATION COMMUNICATIONS & ENGAGEMENT UPDATE

Consideration was given to a report of the Director or Governance and Pensions / Assistant Director for Pensions Administration, which provided a summary of the work and projects being carried out by the Communications & Engagement area of Pensions Administration.

It was stated that in line with current Business plan objectives, work had been undertaken in recent months to review the contact centre functionality that was available in the market that would support the move to providing a greater digital offering to members. Market research would be carried out to assess products available. A procurement exercise would then be undertaken to purchase suitable software with greater functionality. Indicative costs for this had already been included within the budget.

Work on the website redevelopment project had been put on hold whilst business continuity plans were put in place due to the coronavirus outbreak. Work recommenced in May 2020 and the new website was launched shortly afterwards. Further work had been carried out to add additional content and features to the website. A key focus over the next six months would be to gather feedback through surveys and focus groups.

It was reported that Over 128,500 members had now registered for the online service, My Pension. There had been several new developments providing more online functionality in My Pension. This had become a higher priority area of work in order to reduce the risks for both members and officers linked to the Covid-19 situation. Members were now able to upload copies of certificates to their account. New starters and those leavers entitled to deferred benefits now received all correspondence through their online account and could download and upload forms. Procedures would shortly be amended to enable those entitled to refunds and the payment of retirement benefits to also be able to complete transactions through their online account. In addition, all pensioners were issued with an eP60 in April, which was uploaded to their account for the first time.

Registration figures had sharply increased over the past 18 months following several disclosure notifications being posted to members. To further increase registration, campaigns would be run in collaboration with scheme employers whilst utilising the new GMPF website. The Customer Service helpline team would continue to promote My Pension on each interaction.

Members of the Working Group were given an update on the customer services activities for the last quarter. Call volumes had dropped when compared to the same period in 2019, however, queries by email and the GMPF website had started to increase. Since the end of March 2020, the customer service phone lines had been opened for slightly shorter times, to help focus on incoming emails. This would revert to the standard hours following monitoring over the next six to eight weeks.

With regards to complaints suggestions and compliments received, since the last meeting 87 service complaints had been received. A total of 82 compliments were submitted through the feedback zone.

Feedback from the 2019/20 surgery events that came to an end in January 2020 was positive with many comments suggesting that they should be run regularly. Surgeries could not be held currently due to social distancing measures being in place. Several online presentation events had been advertised in conjunction with the issuing of the 2020 annual benefit statements. These were available for member to register for on the events page on the GMPF website.

RESOLVED

That the report be noted and that the Director for Pensions be authorised to procure new contact centre software within the available budget.

48 RETAIL PRICES INDEX UPDATE

Consideration was given to a report of the Director of Pensions / Assistant Director of Pensions for Funding and Business Development, which highlighted recent developments on the continuity of the Retail Prices Index. The UK Statistical Authority had signalled a desire to move away from using RPI to using the Consumer Prices Index including owner occupiers' Housing costs ('CPIH') measure.

Members heard that many pension schemes would be impacted by changes to RPI. In particular, the CPIH formulae could be expected to produce an inflation measure that was around 1% per annum lower than the RPI formulae.

The benefits provided by many private sector defined benefits schemes were increased in line with RPI. Consequently, pensioners in these schemes could expect to receive lower pension increases beyond 2030 than they otherwise would have had. Many individual annuities would also be linked to RPI. The difference in value for individuals impacted would likely be relatively material, with some estimates as high as 20%.

Pension schemes that have predominantly RPI-linked pension increases should experience a financial gain from the change (to the detriment of members). However, where pension schemes had predominantly CPI-linked pension increases, schemes were likely to suffer a net financial loss from the change. The loss will be more severe for those schemes that have a significant proportion of their assets invested in RPI-linked instruments (such as index-linked gilts).

Index-linked gilts would likely appear less attractive to investors leading up to and following any change to RPI. However, there was only a relatively small reduction in index-linked gilt prices immediately following the announcements. It is possible that investors may be compensated for any losses they incur as a result of the changes, which could explain why the market impact was not more pronounced.

Overall, Hymans Robertson estimate that the proposed changes could result in an arbitrary transfer of value to the state of up to £100bn.

Implementation of the proposed changes would reduce the expected returns from the index-linked gilts that GMPF holds. Index-linked gilts had a benchmark allocation in the GMPF Main Fund of around 2%, equivalent to around £500m. However, there could be some form of compensation provided to ensure that investors were not adversely affected by the changes. There was however considerable uncertainty over how any compensation scheme would operate.

Pensions in the LGPS increased in line with the Consumer Price Index ('CPI') meaning members' annual pension increases would not be affected by any changes to RPI and there would not be any direct impact on the value of GMPF's liabilities. Given there could be some reduction in asset values but without any corresponding fall in the value placed on the liabilities, this change was expected to be negative for GMPF overall, although the impact should not be material at the whole-fund level.

For employers that had a lower-risk investment strategy via the Designated Fund, the allocation to index-linked gilts tended to be higher, with one employer having an allocation to pooled inflation-protection funds which were linked to RPI.

GMPF is planning to submit a response supporting the points made by Hymans Robertson and provide an estimate of the impact for the GMPF employers with bespoke investment strategies involving index-linked gilts and RPI based inflation swaps.

RESOLVED

That the Working Group note the report and the proposed approach to preparing a consultation response set out in Section 3.5.

49 ASSET LIABILITY MODELLING FOR INDIVIDUAL EMPLOYERS/POOLS

Consideration was given to a report of the Director of Pensions / Assistant Director of Pensions for Funding and Business Development. GMPF had for some time worked with some of the larger employers with mature liability profiles to assess whether an investment strategy different to the Main Fund was appropriate and explore the practical ways of achieving this. Consideration had also been given to whether alternative investments strategies for other employers should be introduced and if so, how this could be done whilst ensuring the governance of any approach remains manageable. This report summarised the method used in this process, the employers and employer groups chosen for consideration and the investment strategies considered.

It was reported that following the completion of the actuarial valuation process, Hymans Robertson had undertaken an Asset-Liability Modelling exercise for 5 employers or groups of employers with similar liability profiles.

It was stated that various alternative strategies were modelled for each employer/employer group as agreed. Many of these strategies were also modelled for the Main Fund as a whole.

For most of the employers/employer groups considered, the output of the modelling suggested the current strategies remained appropriate, particularly when the agreed changes to GMPF Main Fund strategy were fully implement.

RESOLVED

That the report be noted and the proposed next steps set out in section 5 of the report.

50 BUDGET/COSTS UPDATE REPORT

Consideration was given to a report of the Director of Pensions / Assistant Director of Pensions for Local Investments and Property, which compared the administration expenses budget against the actual results for the 2 months to May 2020.

Comparison was made against the budget for the same period of £6,764,000 which is derived from the Original Estimate for 2020/2021 approved by the members at the Management Panel Meeting of 17 January 2020.

In the two months to 31 May 2020 there is an under-spend of £857,000 against the budget of £6,764,000 for that period.

RESOLVED

That the report be noted.

51 TEMPORARY FUNDING OF PORTFOLIOS WITHIN THE DESIGNATED FUND

Consideration was given to a report of the Director of Pensions / Assistant Director of Pensions for Investments, which addresses the approach to take in instances where GMPF may be asked to temporarily fund a Designated Fund portfolio.

It was stated that GMPF managed a small number of bespoke investment strategies for a select few employers. At present, each bespoke investment strategy was implemented via a separate distinct investment portfolio and these portfolios form the "Designated Fund". Some of the Designated Fund portfolios employ hedging strategies that aimed to reduce certain risks usually via the use of derivatives. The use of derivatives may require some cash to be held in the portfolio to be used as collateral.

It reported that in some circumstances, the Main Fund could in theory temporarily fund a Designated Fund portfolio. This could be considered as assets (or cash) being 'borrowed' from the Main Fund.

This could be viewed as providing an unfair advantage to those employers with a bespoke strategy and a form of subsidy to the related employer, increasing liquidity and covenant risks to the Main Fund, increasing operational complexity and therefore operational risk and increasing costs.

For the above reasons and on balance, it had been considered that, wherever possible and practicable, negative asset or cash balances in the Main Fund that may arise from the implicit or explicit funding of bespoke investment strategies in the Designated Fund would be avoided. That is, ordinarily, the assets of the Main Fund should not be used to temporarily supplement the assets or meet the cashflow needs of any portfolio within the Designated Fund.

RESOLVED

That the Working Group agree that the following position be adopted.

Ordinarily, the assets of the Main Fund should not be used to temporarily supplement the assets, or meet the cashflow needs, of any portfolio within the Designated Fund.

52 URGENT ITEMS

There were no urgent items.

CHAIR