



Local Government
Pension Scheme



Norfolk Pension Fund

**Welcome to the
Norfolk Pension Fund
Employer Forum**

**Glenn Cossey
Director of the Norfolk Pension Fund**

29 November 2023

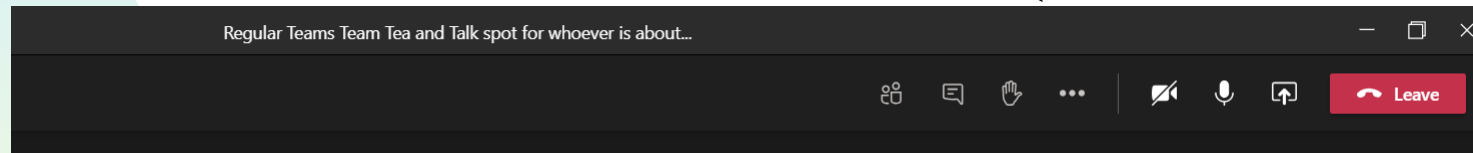
Housekeeping



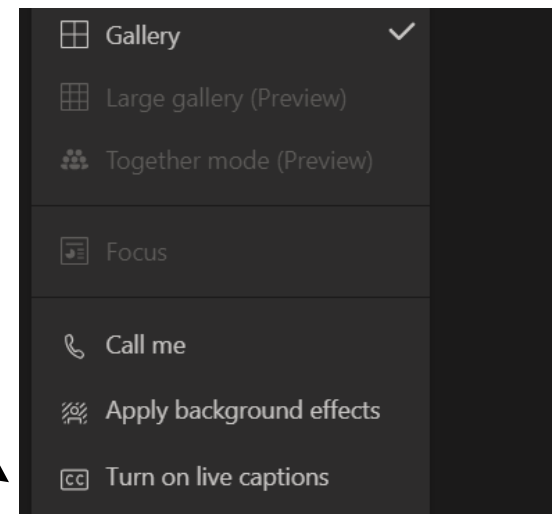
- The webinar is being recorded on MS Teams – a link to the recording will be emailed next week
- You should have already received today's presentation slides. They will also be published on the Employers section of our website.
- For those joining virtually, please turn off your microphone and camera
- We will be having a 20 minute coffee break at about 11.10am.
We aim to finish at about 12.30pm with a buffet lunch for guests here at The Space

Accessibility

- To use Live Captions:
- Select the 3 dots on your control bar



- Then select 'Turn on live captions'



Fire alarm procedure

In the event of fire, please exit

- by the door from which you entered at the back of the room or;
- via the door on the right at the front of the room and then through the Fire Exit located behind the black curtain in the adjoining room (The Blue Space)
- the Fire Assembly point is the tree line apposite the building



Norfolk Pension Fund



Questions



- Virtual - please submit your questions using the 'Meeting chat' facility
- We'll do our best to answer your question during the Forum
- However, if we're unable to address your question today, we'll provide an answer in the email to be circulated with the webinar recording link



Agenda

- **Update from the Fund Actuary**
Julie Baillie, Hymans Robertson

BREAK

- **Investment matters**
Alex Younger, Head of Funding & Investment
- **McCloud remedy and Administration update**
Matthew Crane, Technical Services Manager
- **Ask the Panel Q&A session**

The team is available for 1:1s after the session

*To arrange a call or virtual meeting please email
pensions@norfolk.gov.uk*



Pensions Oversight Board (POB) vacancy



Chairman

Brian Wigg

Employer Representatives

Liz Marsham - Levying/precepting employers

Sally Albrow - Norfolk County Council

**Vacancy - Non levying/precepting employers
(academies and colleges)**

Scheme Member Representatives

Frances Crum - Active/Deferred members

Peter Baker - Retired Members

Vacancy - Trade Union



Norfolk Pension Fund

2023 Fund Actuary update

Julie Baillie FFA

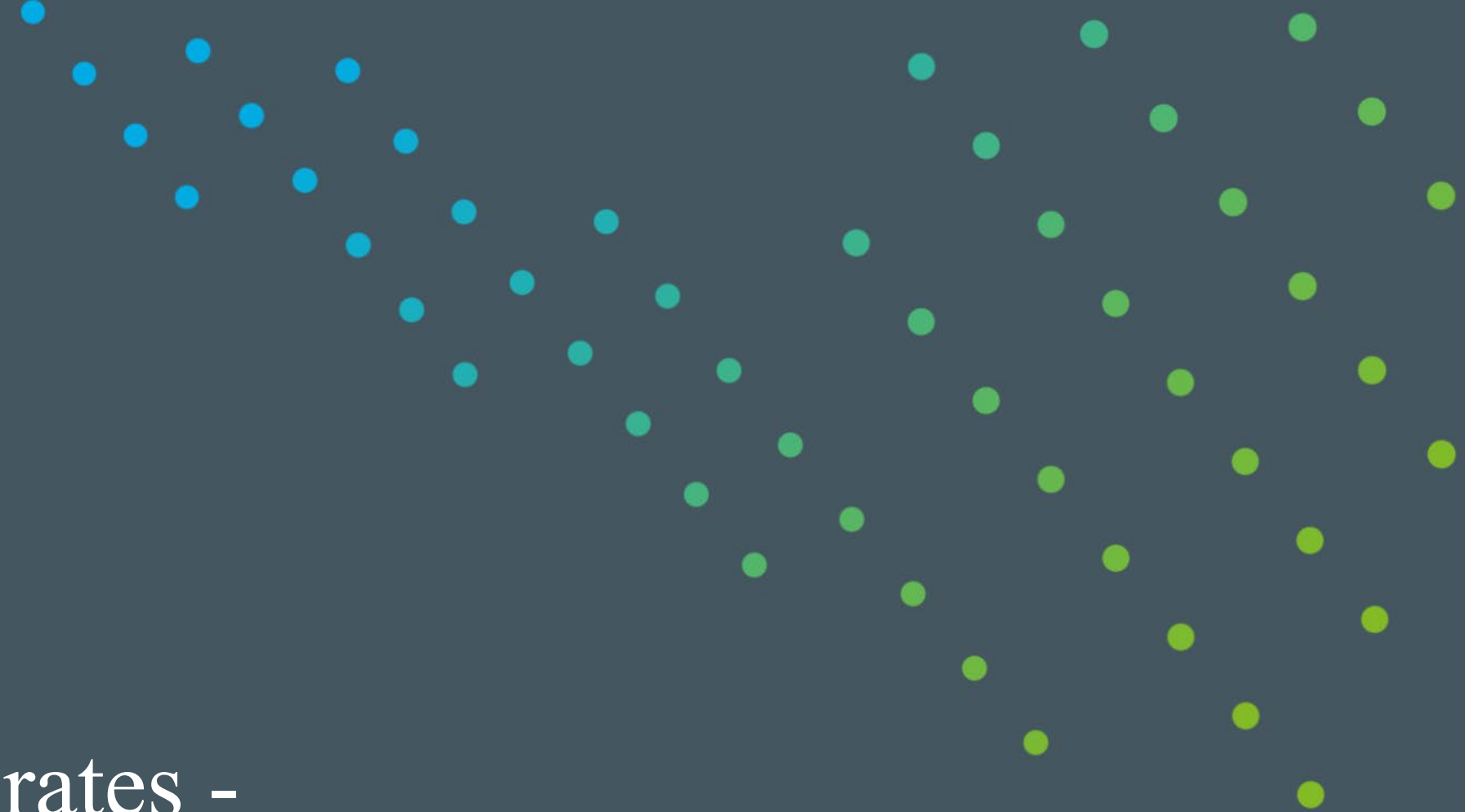
What we will cover today

- 1 What has happened since the 2022 valuation?
- 2 Funding in a surplus environment

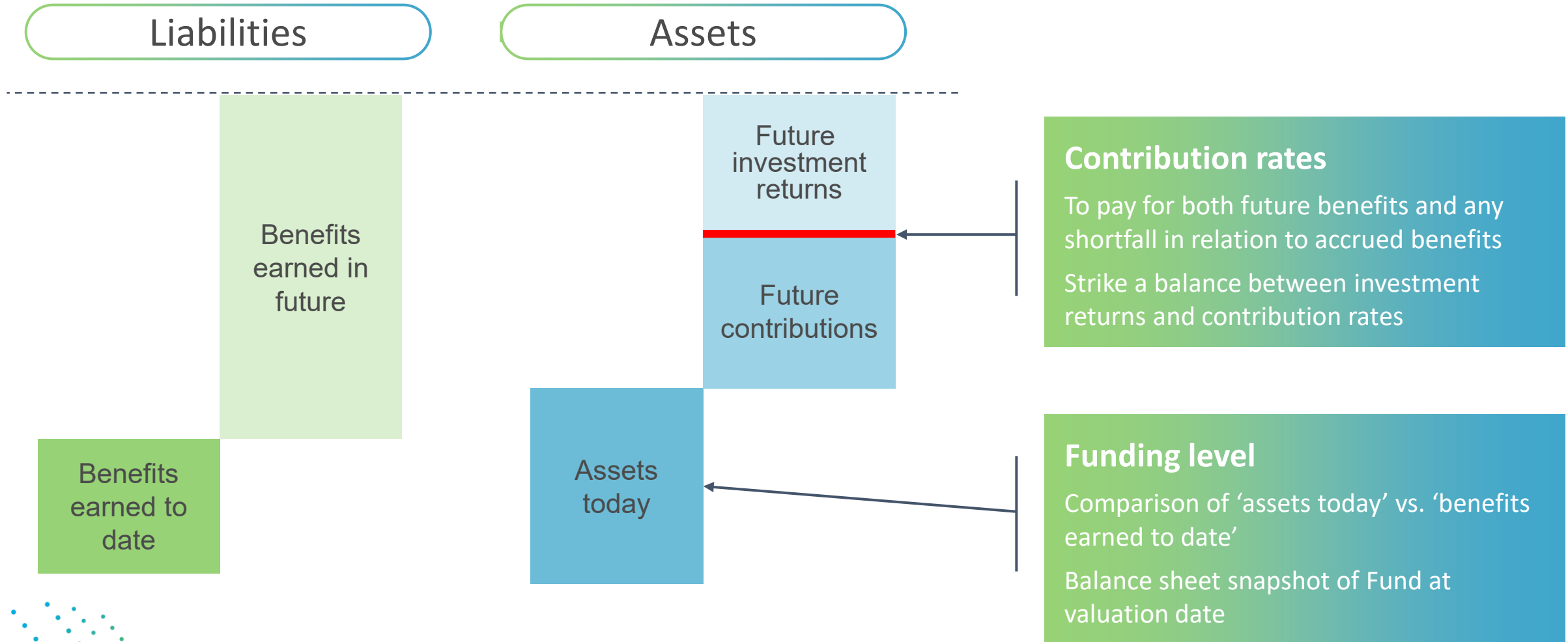


Julie Baillie FFA

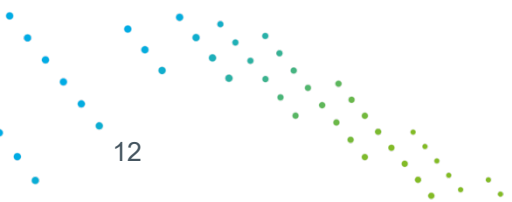
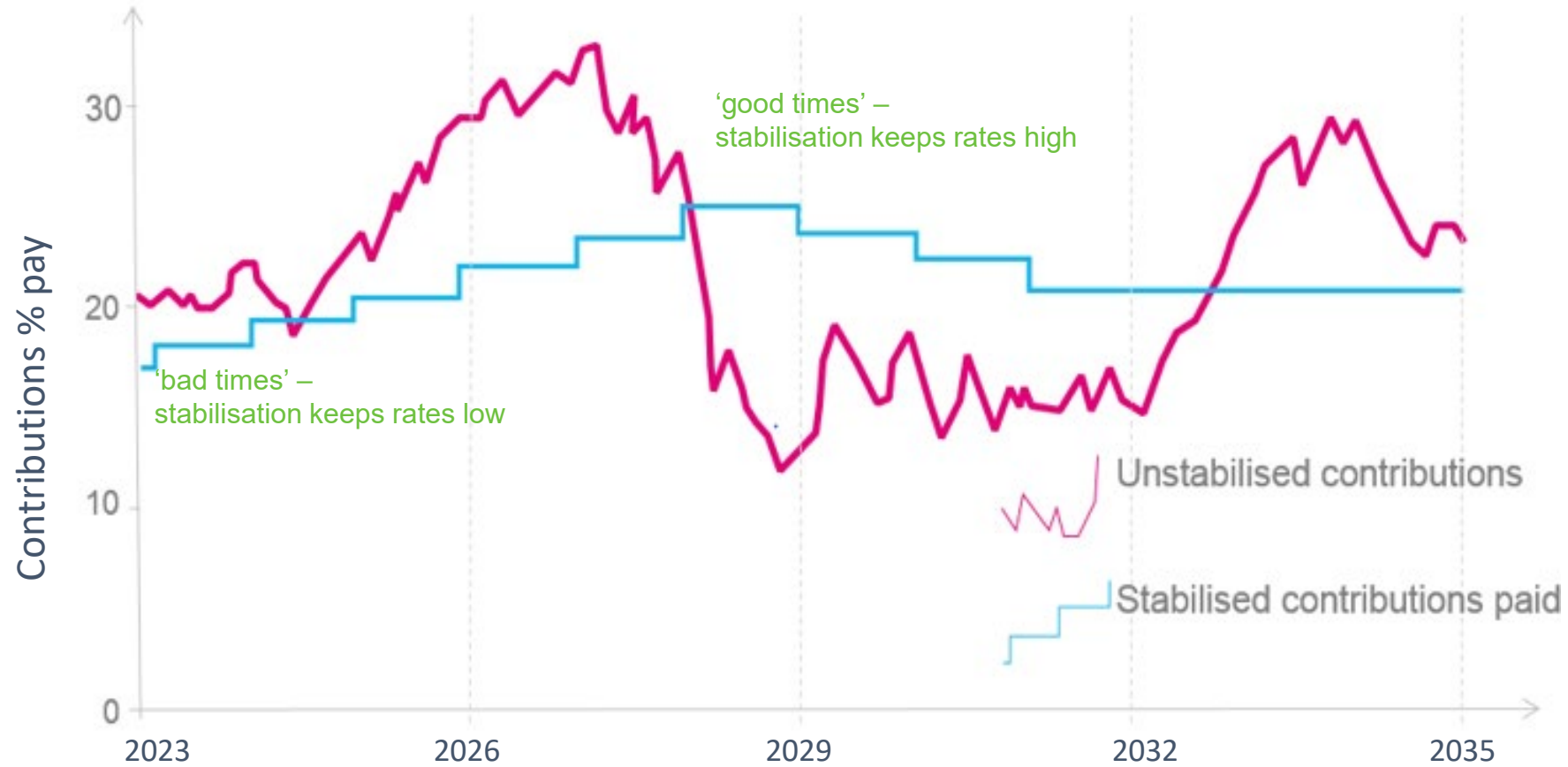
Contribution rates -
refresher



Importance of contribution rates



Contribution Rate Stability Mechanism (CSM)

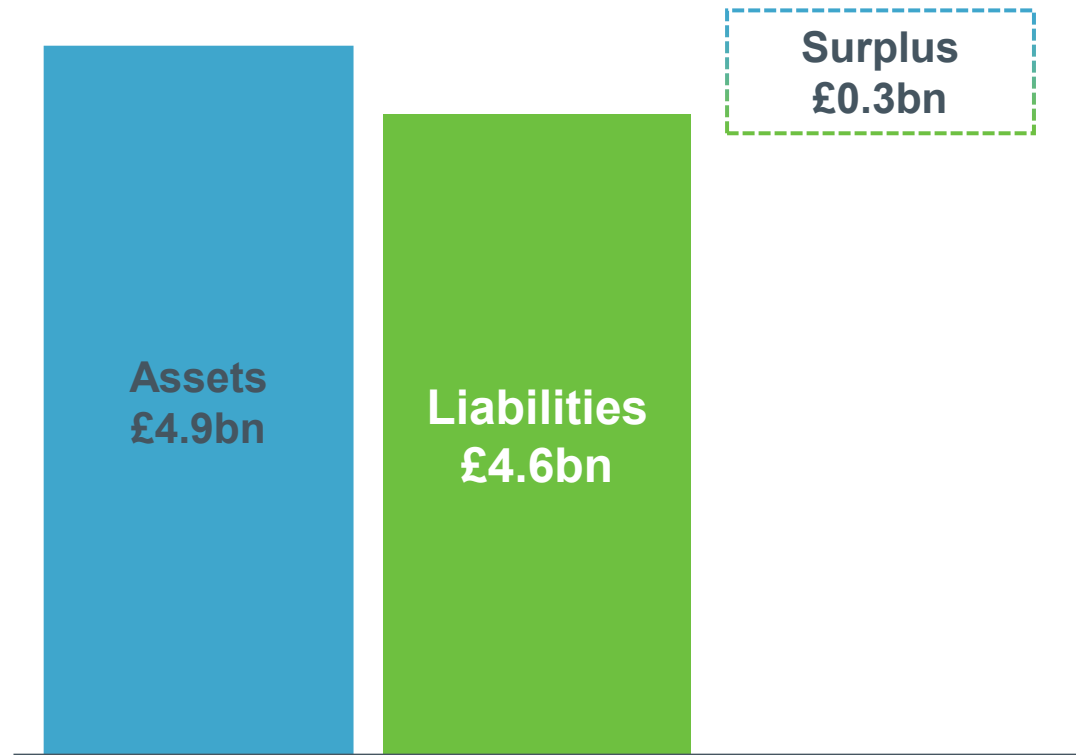




What has happened since
the 2022 valuation?

The 2022 valuation

Solvency



Funding level: **106%**

Average employer rates

22.4% Primary rate

2.1% Secondary rate

24.5% Total rate

What's happened since 2022

Change in funding level



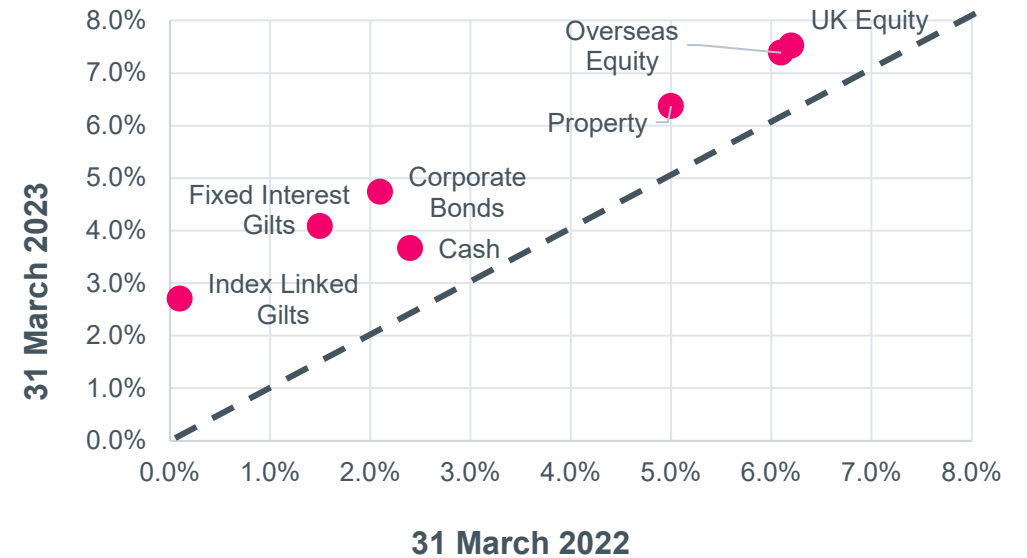
Funding levels are up, but it's important to understand why

What's caused the improvement?

Change in assets and liabilities



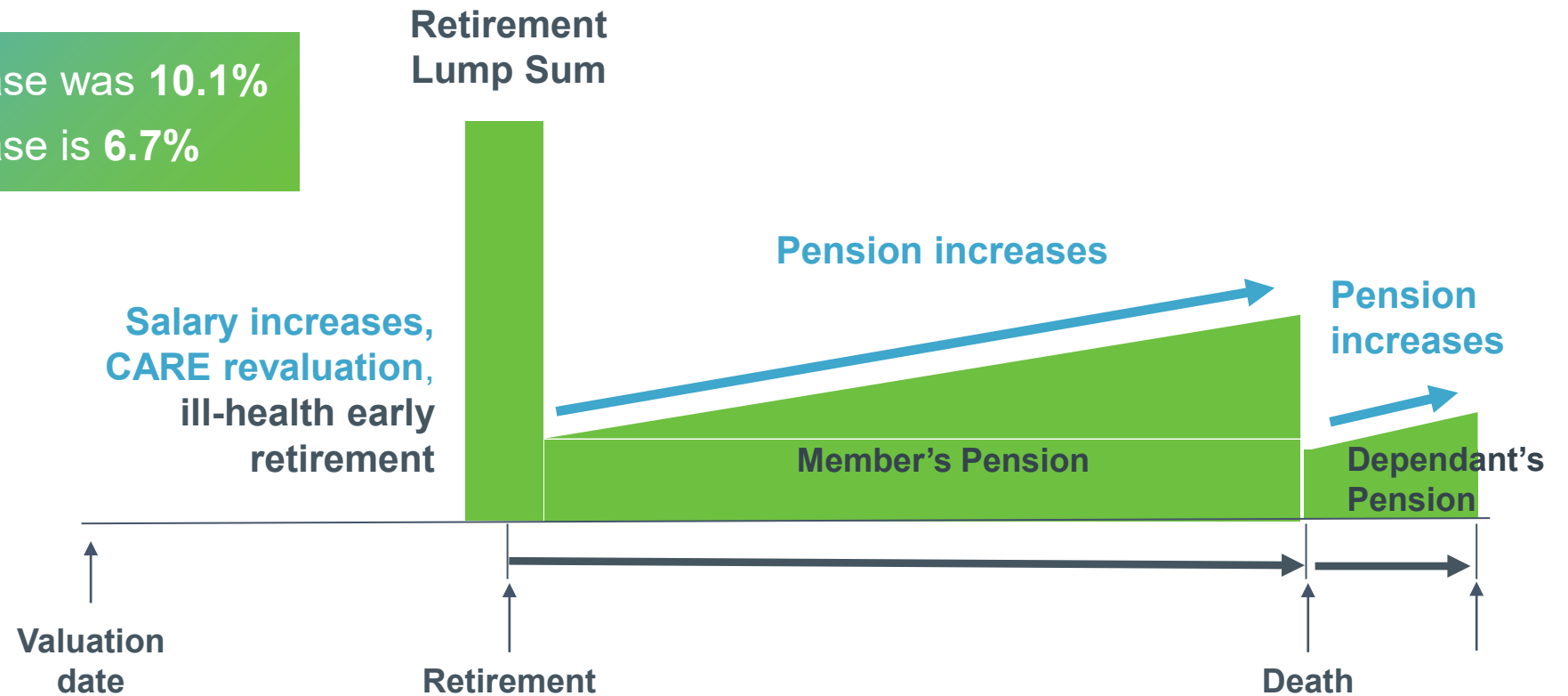
20 year expected annual returns – 2023 vs 2022



Investment returns since the valuation have been flat
 Improvements are due to higher expected *future* returns
 The Fund does not currently hold significantly more money now to pay benefits than they did at 31 March 2022

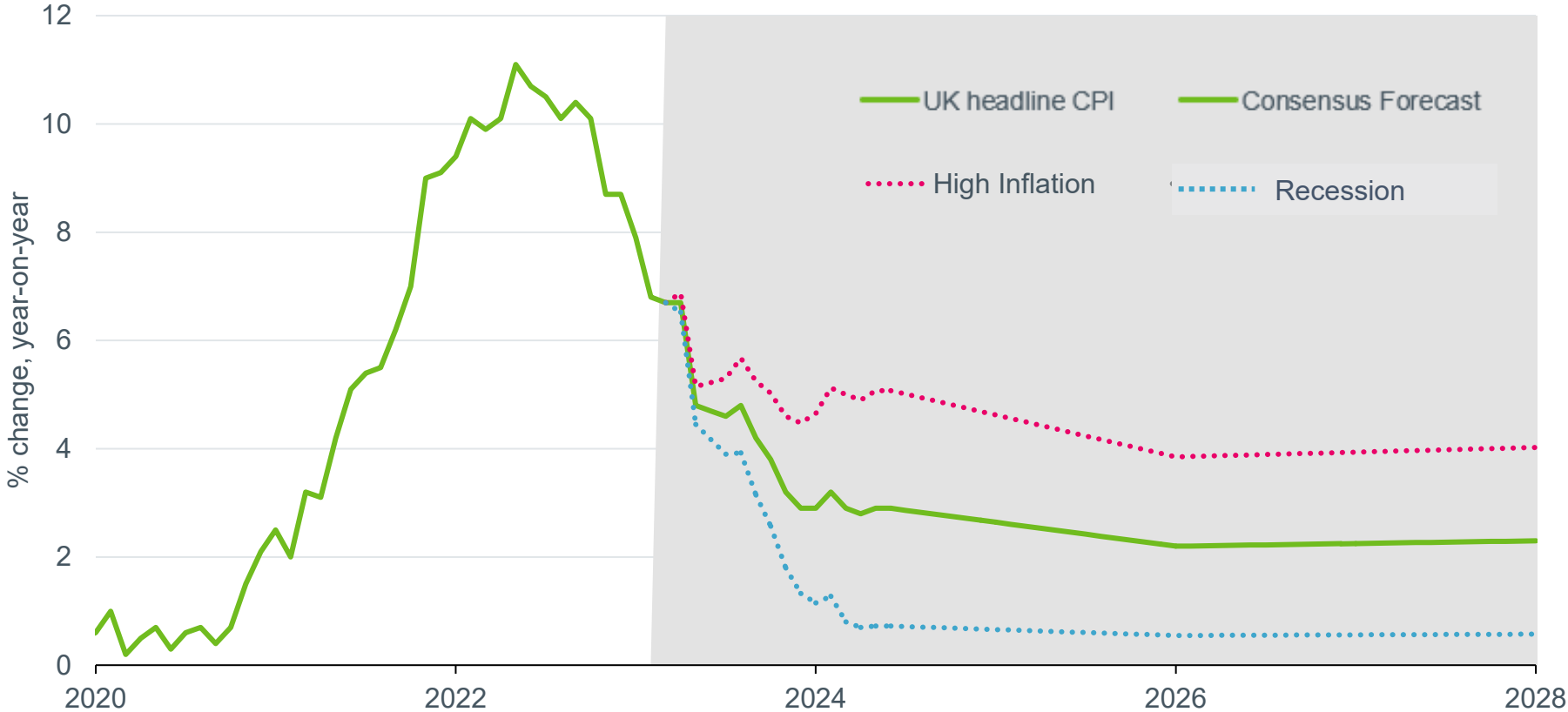
Beware of inflation

- 2023 benefit increase was 10.1%
- 2024 benefit increase is 6.7%



High inflation leads to higher benefits, liabilities and contributions

Inflationary outlook



Continued uncertainty and range of views

Summary

INVESTMENTS

- Markets have struggled
- Actual returns have been less than anticipated at the valuation at 31 March 2022

INFLATION

- Benefit increases have been greater than anticipated
- 2023 benefit increase was 10.1%
- 2024 benefit increase is 6.7%
- 2022 (average) assumption was 2.7%

INTEREST RATES

- Interest rates have increased significantly
- This puts upwards pressure on expected future returns across asset classes

MORTALITY

- Life expectancy improvement rates lower than previously levels

What does it mean?



Funding positions

- Typically higher than at 2022 valuation
- Increased volatility and uncertainty, especially around inflation
- Funding position is a snapshot only



Contribution rates

- Not reviewed again until the 2025 valuation
- Past service funding position is a small element of the total rate
- Stability of contributions is key
- Pension funding needs prudence

Situation will be monitored in lead up to 2025 valuation

A decorative background consisting of a series of small, semi-transparent dots arranged in a diagonal pattern from the top-left to the bottom-right. The dots transition in color from light blue on the left to light green on the right.

Funding in a surplus
environment

How important is it to be 100% funded?

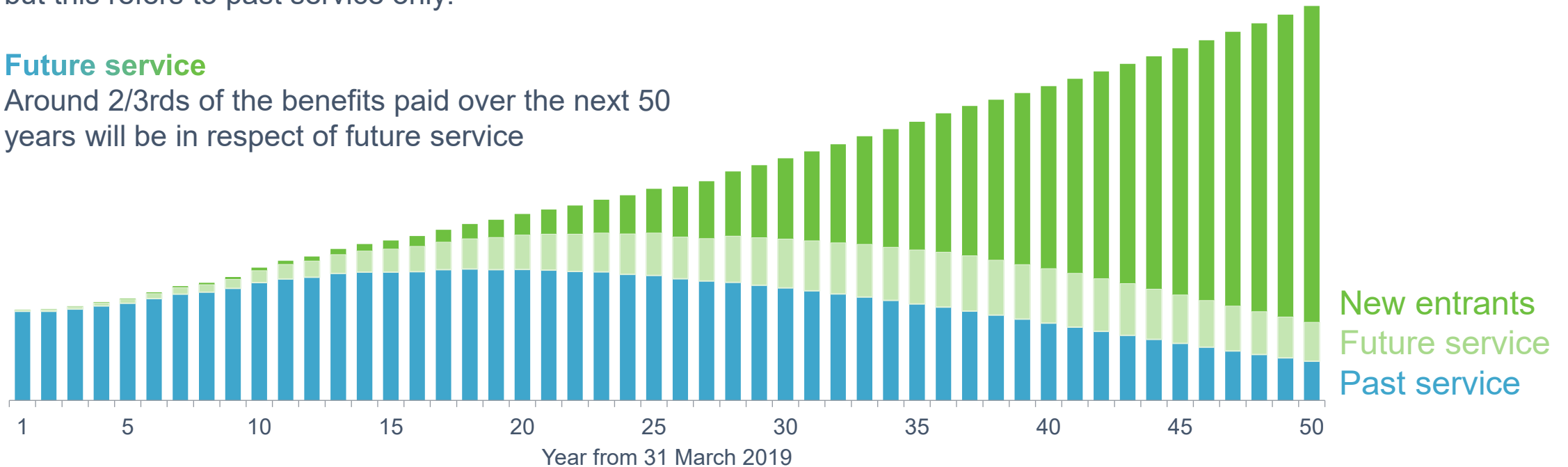
Past service funding position:

Most employers likely to be “fully-funded” at 2025 - but this refers to past service only!

Future service

Around 2/3rds of the benefits paid over the next 50 years will be in respect of future service

Projected benefit payments from 2022 valuation



New entrants
Future service
Past service

Cost of future benefits is more important to contributions than past service funding position

Surplus management



Contribution reduction

Current funding strategy has 'rules' about contribution reductions



Increase prudence

To allow for increased market volatility and uncertainty around key risks such as climate and inflation



Protecting the surplus as a shock absorber

Current funding strategy targets 100% funding at the time horizon



Investment risk

Consider whether it is appropriate to reduce risk in the investment strategy

Fund considering surplus management policies ahead of 2025 valuation

A decorative graphic in the top right corner of the slide, consisting of a grid of small, semi-transparent dots. The dots are arranged in a pattern that tapers from left to right. The color of the dots transitions from a light blue on the left to a light green on the right.

Net asset restriction in
accounting disclosures

What has changed this year?

- Employers could see a **net asset position** in their IAS19/FRS102 figures
- No single approach around the accounting treatment of a surplus (net asset position)
- However, the accounting standards place a limit on the net asset that can be disclosed
- Dependent on approach taken and employer specific factors (eg size of accounting surplus, accounting service cost, cash contribution rate)

	31 March 2023	31 March 2022
	£(000)	£(000)
Assets	4,528	4,352
Obligations	3,811	6,705
Net asset / (liability)	717	(2,353)

Source: Sample Norfolk Pension Fund employer 31 March 2023 IAS19

Key changes in net asset/liability

- Relatively small **increase** in assets
- Significant **reduction** in value of liabilities

Employers may have a surplus in their IAS19/FRS102 results for the first time in many years

What approach could be taken?

Common asset ceiling calculation

1. present value of *future service costs* over an agreed future period

less

2. present value of *future contributions* over an agreed future period

Challenges

- What period to use?
- What future service cost rate to use?
- Important question to consider “Does a *minimum funding requirement* exist in the LGPS for future service (and for past service)?”
- And if requirement does exist, what future contributions to take account of in the asset ceiling?

There is no definitive “correct” answer or approach for an employer to adopt in their accounts
The chosen accounting treatment is ultimately a decision for the Employer



Thank you

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

Break



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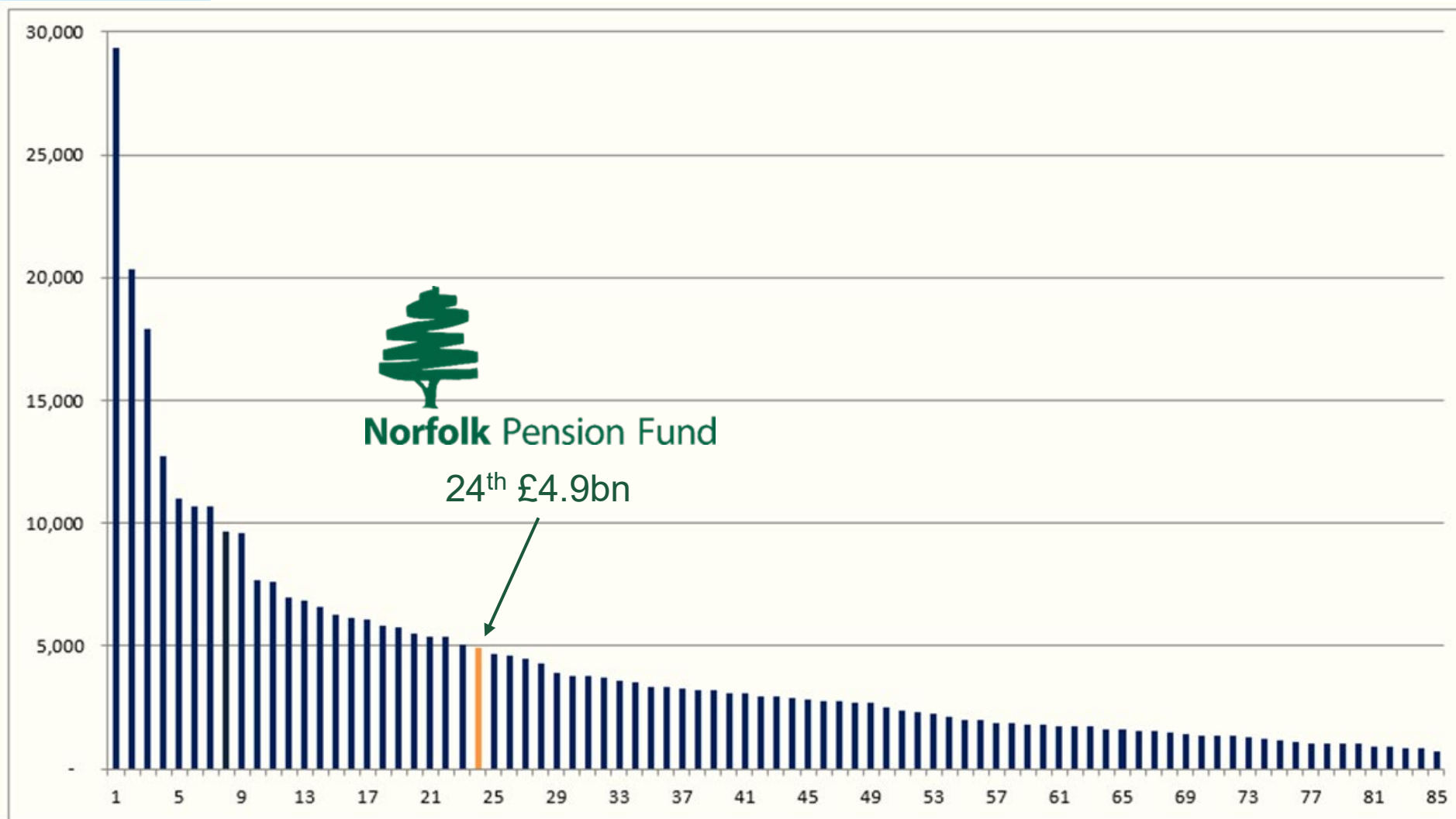


Norfolk Pension Fund

Investment matters

Alex Younger
Head of Funding & Investment

England & Wales – 31 March 2022



**Assets
£364m**

2015 Summer Budget



“Local Government Pension Scheme pooled investments –

The government will work with Local Government Pension Scheme administering authorities to ensure that they pool investments to significantly reduce costs, while maintaining overall investment performance.

The government will invite local authorities to come forward with their own proposals to meet common criteria for delivering savings.

A consultation to be published later this year will set out those detailed criteria as well as backstop legislation which will ensure that those administering authorities that do not come forward with sufficiently ambitious proposals are required to pool investments.”



2015 Autumn Statement

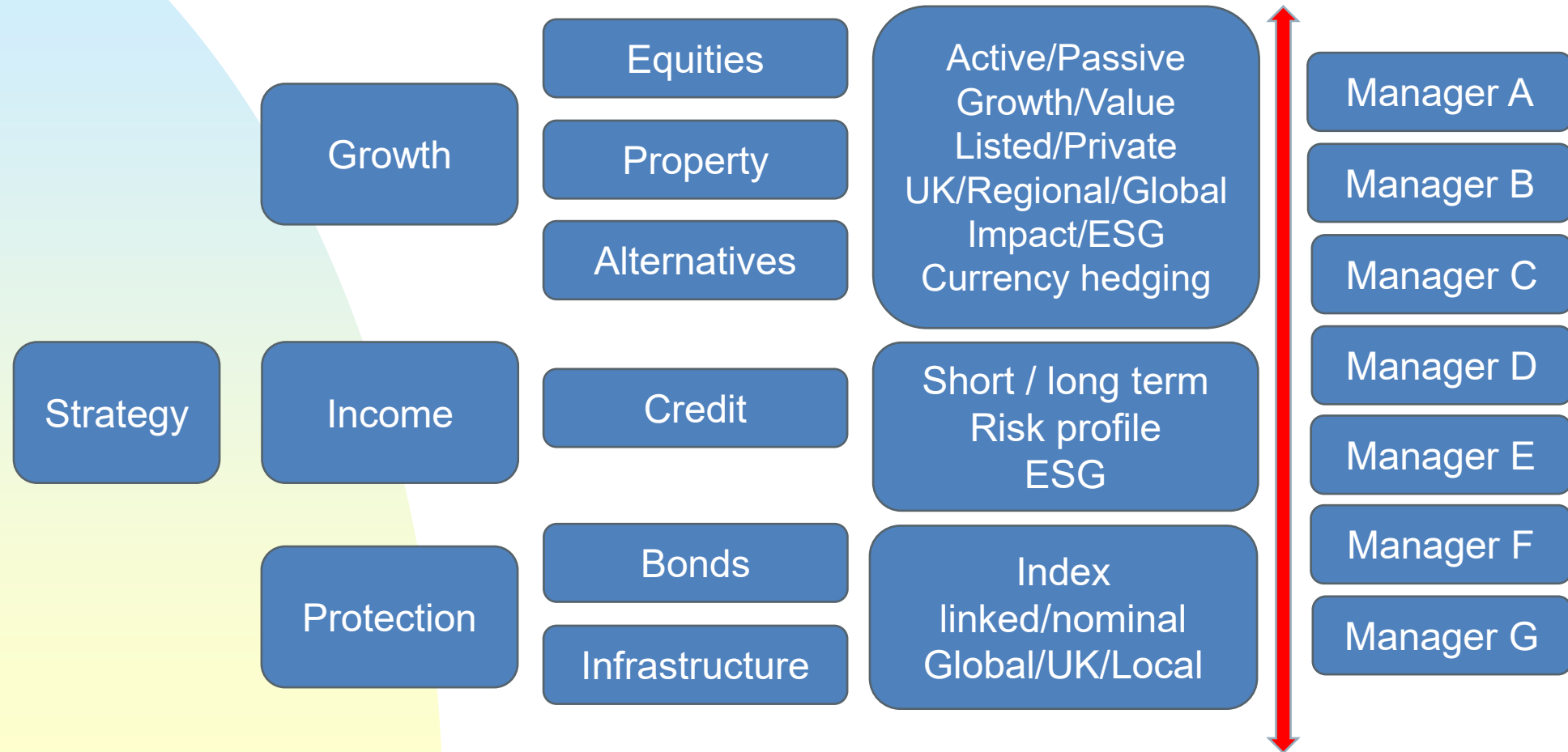


- Up to 6 British Wealth Funds ... at least £25billion of Scheme assets each
- Reduce costs while maintaining overall investment performance
- Governance to include Investment Manager selection at Pool level
- Wider ambition of matching the infrastructure investment levels of the top global pension funds

Initial Proposals
Feb 2016

Final Proposals
July 2016

Where does local decision-making end?



Project Pool

- 24 LGPS Authorities...
- ...including Norfolk + & 7 other (eventual) ACCESS Authorities
- Key conclusions:
 - ✓ Multi asset pools (regional and / or like-minded) for active listed assets
 - ✓ Joint procurement by Authorities for passive listed
 - ✓ Explore LGPS wide collaboration on assets such as infrastructure



How



Which Pool...?

Commonalities & characteristics



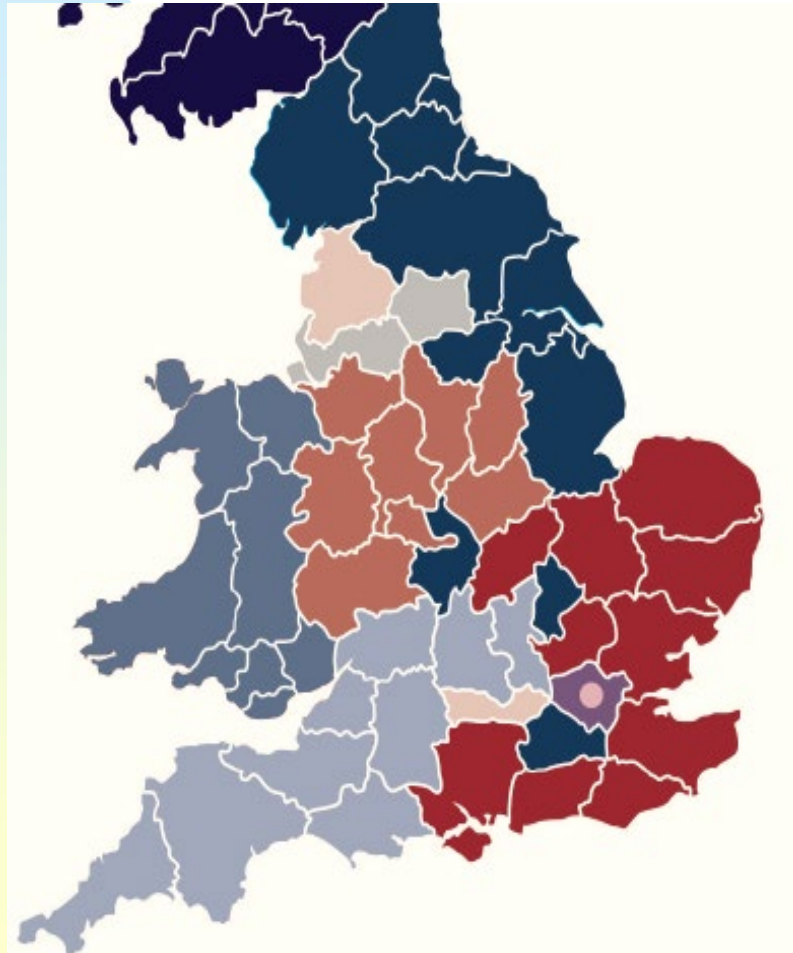
Characteristics

1. £34bn of assets
2. c. 3,000 employers
3. c. 900,000 members

Commonalities

1. All asset externally managed
2. 75% of assets invested with 12 managers
3. Strong performing funds with like minded investment approach

LGPS Pooling Profile



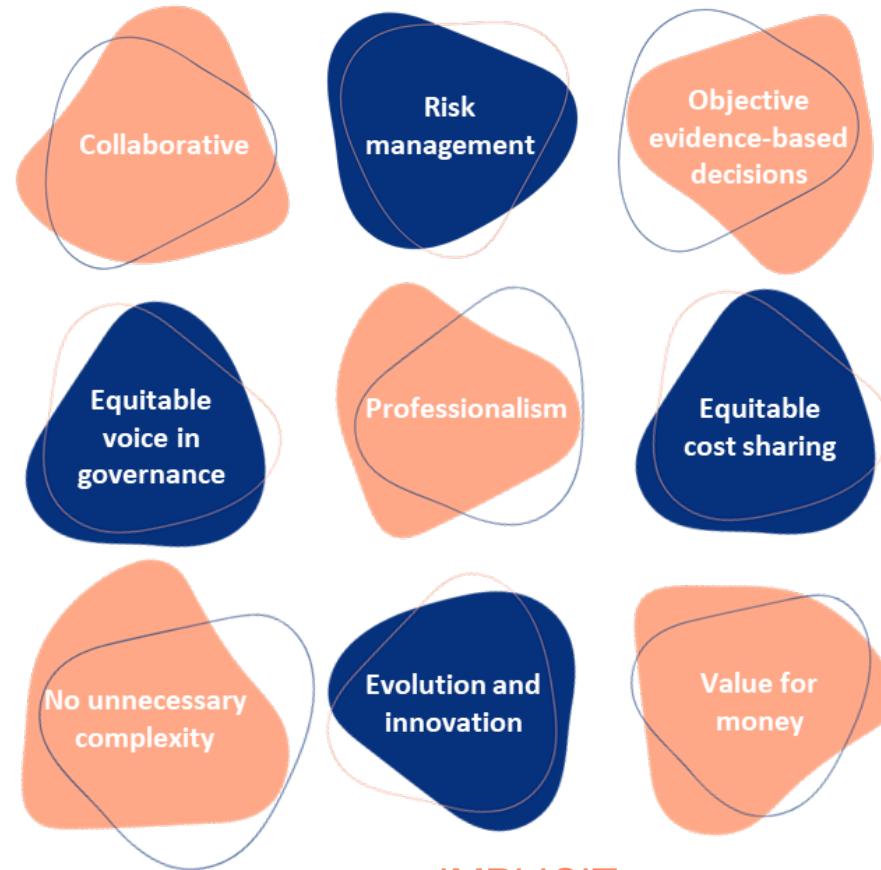
- Access
- Central
- Border to Coast
- Welsh CIV
- Brunel
- London CIV
- Northern Pool
- Local Pensions Partnership



Objectives & Principles



- Enable Funds to execute their fiduciary responsibilities to LGPS stakeholders.
- Provide a range of asset types necessary to enable Funds to execute their locally decided investment strategies as far as possible.
- Enable Funds to achieve the benefits of pooling and create the desired level of local decision-making and control.



IMPLICIT:

- Fiduciary responsibility
- Democratic accountability

Administering Authorities



- Each individual Pension Committee retains its decision making / monitoring powers for asset allocation and investment strategy on behalf of the Authority
- Responsible for nominating an elected member to represent it on the Joint Committee (JC)
- Must follow own internal processes, delegations of authority etc
- Decides whether or not to pool assets to execute its investment strategy based on various factors including its own approach to Value for Money issues
- **May follow the JC's recommendations on a particular issue but not required to agree with them**

Administering Authorities



- The Administering Authority continues to owe a duty of care to act in the best interest of its Scheme Members
- Its relationship with the other ACCESS Authorities is not fiduciary but contractual under the Inter-Authority Agreement
- As with other parties, Norfolk may (but need not) take into account other Authorities' views
- The Administering Authorities responsibility is to administer its fund - it does not have a wider responsibility to other ACCESS Authorities, or the LGPS as a whole

However, the decisions of each Administering Authority may have implications for the other Authorities in the ACCESS Pool

Operator



- The listed pooled assets are held in an Authorised Contractual Scheme (ACS), a UK authorised, tax-transparent fund structure.
- Grouping pension funds into an ACS allows for significant cost efficiencies in various areas such as investment management, administration, custody, audit and service fees and tax neutrality across international boundaries.
- FCA regulated.
- Operator Agreement signed by each of the eleven Authorities.
- Operator sub-contracts with providers on behalf of the ACCESS Pool in relation to sub-fund set up and investment instructions.
- Required to provide reports to the Joint Committee in relation to sub-fund adherence to objectives/guidelines, performance and costs.

Pooling Consultation



- Mansion House Speech
- Autumn Statement
- **Local Government Pension Scheme (England and Wales): Next steps on investments - government response - GOV.UK (www.gov.uk)**



Governance



Pooling consultation

- Suggested one form of pooling model...
- ...in which pool both advises Authorities on Investment Strategy...
- ...and has high degree of delegated authority.
- Proposes transfer of passive mandates into “pool management”
- Required Authorities to plan 5% Levelling UP investments
- Ambition of 10% in private equity

Response

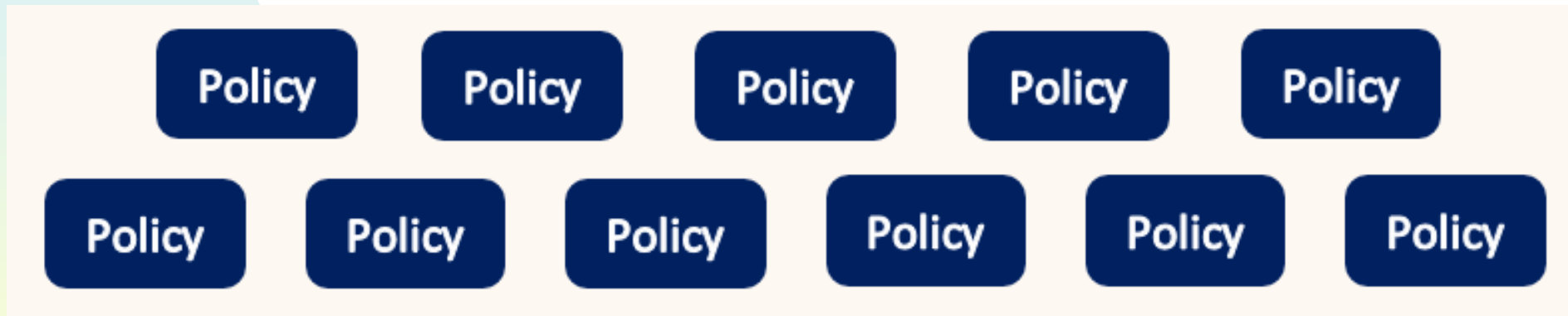
- 2023’s consultation usurps 2015’s criteria
- Imposing one pooling model requires amended regulations or Secretary of State’s reserve powers
- Judicial Review risk on above & Levelling Up & Private Equity
- Transferring passive mandates costly & unnecessary



ACCESS Responsible Investment (RI)



Sovereign Funds: ESG (Environmental, Social & Governance) / RI Policies



Pool ESG/RI Guidelines

Norfolk Pension Fund Responsible Investment (RI)



Statement on Disinvestment/Exclusion & ESG (Environmental, Social & Governance) Aspects of Investment Strategy

Purpose and Governance of the Fund

Norfolk County Council (NCC) has a statutory responsibility as Administering Authority of the Norfolk Pension Fund (NPF). The Norfolk Pension Fund provides the Local Government Pension Scheme (LGPS) for 400+ eligible employers in the county of Norfolk. It currently provides pension benefits to around 100,000 scheme members. The Fund is ring fenced and its sole purpose is to secure and pay the pension benefits of those members and their beneficiaries.

NCC ensures that management of the Fund and its investments is kept separate from the political and administrative business of the Council by delegating responsibility for NPF to the NCC Pensions Committee and a dedicated pension fund function.

In carrying out this responsibility, members of the Committee are obliged to put aside their personal interests and views and make investments with the intention of achieving the best financial returns for the Fund, whilst balancing risk and return considerations. Further details of the governance arrangements of the Fund can be found on our website www.norfolkpensionfund.org

The Committee appoints external investment managers to deliver the investment strategy, which is intentionally diversified across different assets types, public and private markets.

Disinvestment & Exclusion

NPF does not operate a disinvestment or exclusion policy with regards to any company, asset class, geography, or sector. LGPS funds receive regular calls from lobby groups to divest from a range of sectors – fossil fuel, tobacco, mining, and defence companies have all been the subject of past campaigns.

Disinvestment may not be consistent with the overriding objective of investing to ensure that pensions can be paid. Disinvestment may be ineffectual to its stated aims and, if carried out other than on financial grounds, may present legal issues and be contrary to the Committee's fiduciary duties.

Climate risk reporting

Introduction

Climate risk is a systemic risk that can have a material financial impact on a pension fund's assets and liabilities. As such the Pensions Committee of the Norfolk Pension Fund is committed to understanding and monitoring its exposure to climate related risks. The Committee will monitor and report on the climate related exposures within the Fund on a regular basis across a number of key metrics and review how the exposure to these risk factors evolves and develops over time.

Climate risk metrics

The key climate risk metrics the Fund will monitor are as follows:

Weighted average carbon intensity

This is a measure of a portfolio's exposure to carbon-intensive companies. This is expressed in terms of tons of CO2 equivalent emitted per million dollars of revenue, weighted by the size of the allocation to each company. It is measured using scope 1 and scope 2 emissions. Scope 1 emissions are those from sources owned or controlled by the company, typically direct combustion of fuel. Scope 2 emissions are those caused by the generation of electricity purchased by the company.

Total carbon emissions per Em invested

This represents a portfolio's estimated scope 1 and scope 2 greenhouse gas emissions per Em of invested capital. This is expressed in terms of tons of CO2 equivalent emitted by the companies invested in by a portfolio, weighted by the size of each company.

% of portfolio with ties to fossil fuels

The percentage of a portfolio invested in companies with an industry tie to fossil fuels (thermal coal, oil and gas), in particular reserve ownership, related revenues and power generation. It does not include companies providing evidence of owning metallurgical coal reserves.

Pension Fund portfolio analysis – June 2022

The Committee have carried out analysis of the Fund's listed equity portfolios against the metrics outlined above. For comparison purposes the Committee have also included the corresponding metrics for the MSCI ACWI global equity benchmark and the analysis indicates that the Fund has lower exposures to carbon intensive companies, carbon emissions per Em invested, and companies with ties to fossil fuels than the global index. The climate related exposures of the Fund as at 30 June 2022 are set out in the table below.

	Weighted Average Carbon Intensity (tCO2/\$m Sales)	Carbon Emissions (tCO2)/Em Invested	% Of Portfolio With Ties to Fossil Fuels
Norfolk Pension Fund	89.8	74.3	7.8
World Equity	169.6	107.7	12.7
Relative	-79.8	-33.5	-4.9

Source: Hymans Robertson using data provided and owned by MSCI ESG Research LLC and its affiliates. Reproduced with permission

The Committee will update the analysis on a regular basis and review the potential to expand the analysis beyond the Fund's listed equity holdings.

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Thank you!

Any questions?

www.norfolkpensionfund.org

www.accesspool.org

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Norfolk Pension Fund

McCloud remedy

Matthew Crane
Technical Services Manager

Background

- 2014 LGPS change from FS to CARE
- Protection for members over 55 on 1 April 2012
- Discrimination Claim upheld through Courts
- Protection extended to all members in scheme on 1 April 2012
- Across all Public Sector Pension Schemes



Norfolk Pension Fund



Eligibility



- Active LGPS membership at 31 March 2012
- Active within the remedy period from 1 April 2014
- Applicable to Active, Leavers not processed, Members who have exited LGPS, Deferred, Pensioner and Deceased members
- No disqualifying break of >5 years
- Under Age 65 in the remedy period



How the Calculation Works

- Work out the ‘best’ CARE benefit (“assumed benefits”) for 1 April 2014 to the earliest of; leaving date from LGPS, age 65 or 31 March 2022
- Compare to a Final Salary calculation (“underpin amount”) for the same period
- For members who have already ceased membership in LGPS – comparison is at leaving date
- For active members – comparison will be finalised at the date they leave LGPS



What has Norfolk Pension Fund done?



- Recorded all hours change/breaks in service since 2014 – good decision!
- Some Funds have not...
- Run the calculations in our TEST systems
- Identified and corrected any issues
- Records prepared for actual calculations
- Estimated Numbers affected:
 - Pension Benefits in payment = 150
 - Future Pension Benefits = 270
- Range of adjustments: £0.01 to £2,400.00



Example



- Joyce joined the LGPS in 2009 as a MSA
- She changed jobs to a HLTA in 2021
- Retires at age 55 in 2023 and takes her pension straight away reduced, because it's being paid early.
- Joyce's pension fund checks the pension she built up in the underpin period when she leaves, taking into account the early payment reduction period to SPA and the final salary reduction period to age 65 under the previous legislation.
- Career average pension (based on 49ths accrual rate)= £5,700.00
- Final Salary pension (based on 60ths accrual rate) = £5,300.00. The career average pension is higher.
- Early payment reduction to career average pension = 12 years – 41.80% = £2,382.60 a year
- Early payment reduction to final salary pension = 10 years – 35.6% = £1,886.80 a year
- Total CARE pension = £5,700.00 - £2,382.60 = £3,317.40 a year
- Total Final Salary pension = £5,300.00 - £1,886.80 = £3,413.20 a year
- Underpin of £95.80 to pay to Joyce.

Resources for Members and Employers



- LGPS Scheme Advisor Board (SAB) factsheet:
- [The McCloud judgment and your LGPS pension \(publishing.service.gov.uk\)](https://publishing.service.gov.uk)
- [McCloud Factsheet for Members \(LGA\)](#)
- Home :: LGPS (lgpsmember.org)
- Video
- FAQ's
- Interactive Tool
- Examples
- Also, in recent Employers Newsletter

Department for Levelling Up, Housing & Communities

The McCloud judgment and your LGPS pension

This factsheet summarises the McCloud judgment and changes the Government is making to the Local Government Pension Scheme (LGPS) in England and Wales.

At a glance

- you were paying into the LGPS or another public service pension scheme before 1 April 2012
- you were also paying into the LGPS between 1 April 2014 and 31 March 2022
- you have been a member of a public service pension scheme without a continuous break of more than 5 years

What is the McCloud judgment?	2
How is the LGPS changing?	3
Am I affected?	4
What do I need to do?	6
Will my pension increase?	6
Do the changes affect me if I qualified for original underpin protection?	7
How can I find out more?	7
Key dates	8

The McCloud judgment and your LGPS pension

1

Next Steps



- Regulations effective 1 October 2023
- Run Calculations in LIVE system
- DLUHC prioritisation policy
- Apply remedy to existing pensioner members: Recalculation and Notification
- Contact affected leavers with Final Underpin Amount
- Include McCloud calculation in future leaver cases: BAU process
- Include McCloud remedy information in ABS from 2025

What we need from you



- Pay at age 65 for leavers who are over age 65
- All leaver notifications (L45)
- Assistance with queries on service history/pay figures, if required



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Administration update

Matthew Crane
Technical Services Manager

Pension Dashboards and Data Quality



- The Department for Work and Pensions (DWP), via the Money and Pension Service (MaPS), is currently developing a Pensions Dashboard to give everyone in the UK access to their all their pension information (occupational pension, private personal pension and State Pension) in one secure website location.
- All pension schemes in the UK, including the LGPS, are required to connect to the dashboard ecosystem to provide members with up-to-date information about their pensions.
- The new single connection deadline of 31 October 2026. However, there are provisions allowing the DWP to issue guidance setting out a staged connection timeline for individual schemes such as the LGPS. This could mean that we have to connect before the 31 October 2026 deadline.
- So, as we work towards the launch, one of the key issues that we are addressing is data accuracy.
- The information we hold about a member's pension is based on the data that you provide us, so it's essential the data you submit via i-Connect is as up-to-date and accurate as possible.
- This includes data items such as National Insurance numbers and home addresses.
- All data is received from our employers via the Pensions Portal i-Connect. Your assistance in helping us achieve the highest possible data quality will be greatly appreciated.

Leaver Forms and Opting Out Forms



- As mentioned earlier, please complete the **Member Leaving Scheme (L45)** form with details of any of your employees who are leaving the LGPS.
- This is a requirement for all scheme employers, as stated in the **Pension Administration Strategy**.
- It's also your responsibility to ensure that you, or your payroll provider, complete and return the form to us as soon as possible. Any delay can hold up the processing of a member's retirement benefits or informing the member of their pension options.
- We also need the **Employer Notification of Employee Opting Out (SR88)** and **Notice to Opt Out of Pension Saving (SR97)** forms for any member opting out of the LGPS.

Thank you!

Contact Details



- **Updating your contact details**
- We really like to keep up to date with contact details for all our employers, so we can send you important information affecting you or your employees.
- If you're leaving your organisation, or moving to a new role, and will be passing on your engagement responsibilities with the Norfolk Pension Fund to a colleague, please let us know as soon as possible or ask your replacement to contact us as soon as they can.
- Please confirm the changes to us at **pensions.technical@norfolk.gov.uk** we'll ask you to complete and return the **Employer Contact Details (MISC91)** form to us.
- Please can you review your current contact details with us and let us know any out-of-date contacts or where new contacts are required.
- Likewise, if you are changing your payroll provider at any time, please let us know.

Ask the Panel





- Thank you to all today's presenters
- Apologies if we haven't addressed your question, but we will provide an answer when we email you the recording link
- To arrange a 1:1 call or virtual meeting with us today, please email **pensions@norfolk.gov.uk**
- For those joining virtually, please complete the online survey – a link to the survey will be in your Inbox soon!
For those in the room, please complete the paper survey.

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**Thank you for
joining us today!**

*Merry Christmas and
very best wishes for
2024!*

