

# Your Pension

Report to pensioners and contributors 2015

## Hampshire Pension Fund

### Report from Councillor Mark Kemp-Gee Chairman of the Pension Fund Panel



This year the Pension Fund's investments have delivered excellent returns, and at 31 March 2015 the value of the Pension Fund had exceeded the £5 billion milestone, at a total value of £5,137 million. The Pension Fund has achieved an impressive total investment return of 14.9% during 2014/15.

I am pleased to report that Aon Hewitt have been reappointed as the Pension Fund's actuaries, following a competitive tender process. I look forward to working with Aon Hewitt on the 31 March 2016 actuarial valuation, for which preparatory work will begin imminently.

New regulations for Pension Fund Governance were published on 28 January 2015, and the Pension Fund submitted an application to create a combined Pension Fund Panel and Local Pension Board to comply with these new regulations. The application for a Joint Panel and Board was based on the view of the County Council and Pension Fund Panel that a joint committee would:

- Have greater weight in the management and governance of the Fund;
- Offer a more attractive and engaging role to potential members;
- Ensure a deeper understanding of the combined body by exposing members to the complete operation of the Pension Fund; and
- Avoid duplication and confusion in roles between a separate Board and Panel.

In June 2015 the Pension Fund received approval from the Department of Communities and Local Government to form a Joint Panel and Board. This pioneering approach will ensure the

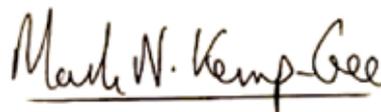
continued strong governance of the Pension Fund for the future. The first meeting of the new Joint Panel and Board will be held in September 2015.

There have been developments in pensions administration, and during 2014/15 Pension Services migrated onto a new administration system. I am delighted to report that the new system is now well established and is set to deliver efficiencies by way of cost savings and improved timeliness of processing. I would like to thank Pensions Services staff for their hard work in implementing this challenging project.

2014/15 has been another commendable year for training, and Pension Fund Panel members have continued to benefit from and report back on a number of events, both internal and external. Training will continue to be given high priority by all members of the Panel. Further information on the training received and plans for training over the next year can be found in the training report on page 7 of the annual report.

I would like to thank the members of the Pension Fund Panel for their hard work and dedication during 2014/15, and I look forward to working with the members of the Joint Panel and Board in the future.

I hope you find the following report helpful.



**Councillor Mark Kemp-Gee**  
Chairman, Pension Fund Panel  
September 2015

## Management arrangements

The Pension Fund Panel oversees the administration and management of the Pension Fund, including investments. The Panel reports to Hampshire County Council and consists of:

- nine county councillors
- two representatives of the unitary city councils of Portsmouth and Southampton
- two representatives of the 11 district / borough councils in Hampshire
- two representatives of the Fund's pensioners and employees.

In addition, there is an independent adviser without voting rights.

This leaflet includes reports from the pensioner and employee representatives.

Investments are managed by external fund managers responsible for specialist portfolios. During 2014/15, the Pension Fund had fund managers in place to manage portfolios of global and UK equities, global bonds and UK index-linked bonds, UK and European property, and alternative investments.

All the equity managers are required to encourage the companies they invest in to adopt positive social, environmental and ethical policies. The Panel believes this is in the best long-term interests of these companies and their shareholders. The Hampshire Pension Fund has an overriding fiduciary duty in law to invest Fund monies to achieve the best possible financial return for the Fund consistent with an acceptable level of risk.

The diagram below shows the percentage breakdown of the Fund's investments held by each of the fund managers at 31 March 2015.

You can find more about how the Fund is invested and managed in the Pension Fund's annual report, and in the Fund's Statement of Investment Principles (SIP). Both the annual report and SIP are available from the County Council's website:

<http://www3.hants.gov.uk/pensions/lgps/pensions-reportsandaccounts.htm>

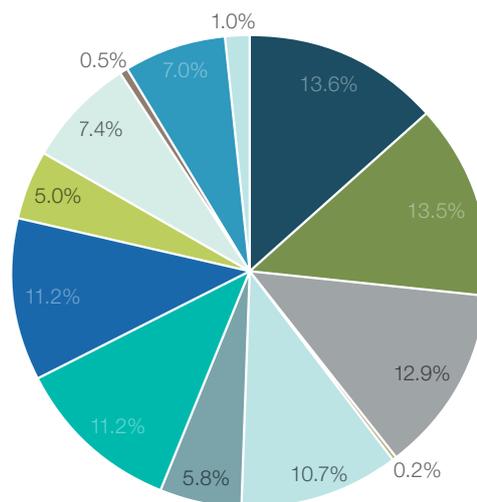
## How the Fund has performed

During 2014/15, stock markets delivered positive returns, as the UK stock market grew by 6.6% and world stock markets returned 19.0% overall. UK index-linked bonds have benefitted from the continued low interest rate environment, and have delivered a high return of 21.1% in 2014/15.

The UK commercial property market has continued the strong performance seen in 2013/14 with a return of 17.3% for 2014/15.

All the Pension Fund's investment managers have shown positive performance returns during 2014/15. The Pension Fund Panel will

Manager	Value of investments on 31 March 2015 £million
Schroders (UK equity portfolio)	695
Aberdeen (global equity portfolio)	687
Newton (global equity portfolio)	659
Aberdeen (frontier markets fund)	12
State Street (passive global equities portfolio)	547
State Street (passive UK equities portfolio)	294
Legal & General (index-linked bond portfolio)	570
State Street (index-linked bond portfolio)	578
Western (global bond portfolio)	253
CBRE (UK property)	377
Aberdeen (European property)	25
Alternative investments	362
Held centrally (for pension payments, investment, etc.)	78
<b>Total</b>	<b>5,137</b>



continue to monitor the investment managers' performance against their targets on a rolling three and five-year basis.

The total investment return for the Hampshire Pension Fund in 2014/15 was 14.9%. This compares with a weighted benchmark return of 13.5%. The Fund's investment return was 11.3% per annum over the three years to March 2015, and 6.6% per annum over the period since January 2007, which was when new investment management arrangements were put in place.

## Statement of the Actuary for the year ended 31 March 2015

The Scheme Regulations require a full actuarial valuation every third year. This is to establish that the Hampshire Pension Fund can meet its liabilities to past and present contributors, and to review employer contribution rates.

The last full actuarial investigation into the financial position of the Fund (the actuarial valuation) was completed at 31 March 2013. The valuation at 31 March 2013 showed that the Fund's financial position had improved since the previous valuation at 31 March 2010 in relation to benefits promised for membership before the valuation date.

The value of the Fund's assets was sufficient to cover 80% of the value of the benefits earned to date (the 'funding target') by the Fund's members (that is, an 80% 'funding ratio'). The funding ratio has increased since the previous valuation (from 72%) as a result of higher than anticipated returns on Fund assets, increases in pay being lower than expected, contributions being paid by Employers towards the shortfall identified at the 2010 valuation, and changes to the assumptions being used (such as the assumed retirement age). These were partially offset by allowing for interest on the shortfall identified in the 2010 valuation and the change in the financial assumptions used (mainly a reduction in the assumed level of future investment returns).

The cost of future benefit promises increased compared with the costs identified in the previous valuation from 13.2% of Pay to

14.1% of Pay. This was as a result of the reduction in the assumed level of future investment returns and an increase in the assumed life expectancy after retirement. These were partially offset by the introduction of the 2014 Scheme and changes to the assumed rate of pension increases.

Employers will pay revised levels of contributions as part of the funding plan agreed with the administering authority for addressing the shortfall identified in the 2013 valuation. Average Employer contribution rates will increase from 20.2% of Pay over the year commencing 1 April 2014 to 20.9% of Pay over the year ending 31 March 2017, assuming Pensionable Pay increases in line with our assumptions.

The next actuarial valuation of the Fund is due to take place as at 31 March 2016, which will determine employer contributions for the 3 years commencing 1 April 2017. The aim is to continue to meet the cost of future benefit promises and also restore the funding level to 100% over an appropriate recovery period. At the 2013 valuation the recovery period was set at 22 years from 1 April 2014 for most employers.

Aon Hewitt Limited  
July 2015

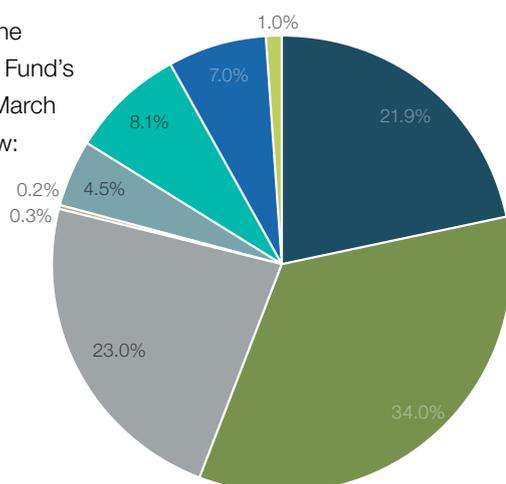
## Auditor's opinion

The Hampshire Pension Fund accounts form part of the County Council's statutory accounts. The auditor gave an unqualified opinion on the Council's accounts, including the Hampshire

Pension Fund's accounts on 25 September 2015. This leaflet contains a summary of the audited figures.

## Investments

The breakdown of the Hampshire Pension Fund's investments on 31 March 2015 is shown below:



UK equities	21.9
Overseas equities	34.0
UK index-linked gilts	23.0
UK fixed interest bonds	0.3
Overseas index-linked gilts	0.2
Overseas fixed interest bonds	4.5
UK and European property	8.1
Alternative investments	7.0
Cash held pending investment	1.0
<b>Total</b>	<b>100.0</b>

## Summary of accounts 2014/15

A full version of the accounts is published as part of the County Council's Statement of Accounts for the year ended 31 March 2015. The Pension Fund Annual Report gives more details of the investments and management arrangements including the Pension Fund's accounts.

### Fund Account

	2013/14 £'million	2014/15 £'million
<b>Dealings with members, employers and others directly involved in the Fund</b>		
Employees' contributions	55	58
Employers' contributions	168	179
Transfers in from other pension funds	10	7
Benefits	-203	-217
Payments to and on account of leavers	-10	-85
<b>Net additions from dealings with members</b>	<b>20</b>	<b>-57</b>
<b>Returns on investments</b>		
Investment income	91	96
Taxes on income	-1	-1
Profits and losses on disposal of investments and changes in the market value of investments	99	585
Investment management expenses	-14	-20
<b>Net increase in net assets</b>	<b>195</b>	<b>601</b>

### Net assets statement at 31 March

	2014 £'million	2015 £'million
Market value of investments	4,369	4,995
Cash we hold and amounts owed to us	156	133
Long term debtors	11	9
<b>Total</b>	<b>4,536</b>	<b>5,137</b>

## Report from Phillip Reynolds, employee representative

The Pension Fund Panel met six times during 2014/15. Two half-day training sessions were held for all members of the Panel including a session on procurement and a presentation on investment performance and risk management.

The valuation of the Pension Fund at 31 March 2015 was £5,137m which was an increase of 14.9% over the previous 12 months.

A huge amount of work was undertaken by the Pension Services team to introduce a new software system for the administration of pension information including the production of Annual Benefit Statements and estimates.

At the time of writing, the County Council are likely to approve the setting up of a new Joint Pension Fund Panel and Board. Although the current Panel is well run and gets good returns on its investments, it is hoped that the new Joint Panel and Board will have a positive impact on the management and governance of the fund.

If you have any questions about the Fund or the LGPS you can contact me via email at [phillip.reynolds@gosport.gov.uk](mailto:phillip.reynolds@gosport.gov.uk) or call me on **02392 545331**.

## Report from Clifford Allen, pensioner representative

This year the work of the Pension Panel has been divided between managing the portfolio of pension fund investments and managing the changes to the governance of Local Government Pension Funds. In managing the investment portfolio attention is given to key market indicators. Four main indices are used and they include those in the FTSE, world global equities and global bonds. These indices are used to manage the performance of our various pension investment portfolios and the fund management groups we use to handle the day to day investment actions. Performance targets are set above the market indices in particular sectors. Portfolio management groups are performance managed to reach financial targets set for their particular investment area. During the year all four key market indices have risen. It is pleasing to report that through good performance management, investment performance has out-performed market indices. The result is that the pension fund valuation for the year is over £500 million higher than it was a year ago. While it is really good news that this year our asset valuation has reached an all-time high, there is still much to be done in balancing our assets with liabilities.

New regulations for Pension Fund Governance were published on 28th January 2015. The regulations provided for a separate board to be established to support the work of Pension Panels. Hampshire County Council applied for approval to establish a joint Pension Panel and Board as a more effective and efficient way to administer and manage the pension fund. Approval has been granted by central government and now requires the approval of full Council. Provided Council approval is given the work of the new Pension Panel and Board will commence in September 2015. I am pleased to report that under the new terms of reference a pensioner representative is included in the section on scheme member representatives. We can therefore look forward to the continuation of a pensioner representative on the new Pension Fund Panel and Board.

## Automatic enrolment

Under the Pensions Act 2011, all employers are obliged to automatically enrol eligible employees into a qualifying pension scheme, and re-enrol anyone who opts out of the scheme every three years. The implementation of this requirement is being rolled out over five years from October 2012, starting with the largest employers (according to PAYE references).

The LGPS is a qualifying scheme under the automatic enrolment regulations, and can be used as such by Fund employers.

Further information on automatic enrolment can be found on the Pensions Regulator website [www.thepensionsregulator.gov.uk](http://www.thepensionsregulator.gov.uk)

## Pension Fund Administration

Responsibility for the administration of the Hampshire Pension Fund is delegated to Pensions Services, part of the Corporate Resources department of the County Council. Pensions Services migrated to a new system during 2014/15, and now use UPM, a Civica system, to provide all aspects of pensions administration including pensioner payroll and employer web access.

There are 40 fte involved in the administration of the scheme, split into a two main teams, supported by finance, projects and systems staff:

- a single Operational team responsible for administering all casework, handling all member queries and paying pensioners
- a Service Development team, responsible for communications, training and employer support.

Assurance over the effective and efficient operation of the administration is provided by internal audit, who carry out assurance and consultancy in accordance with an annual, risk based, programme. An annual opinion concludes on the overall adequacy and effectiveness of the Pensions Services framework of governance, risk management and control.

## Administration performance

Pensions Services' administration performance against service standards for key casework is measured each month, and is used internally to improve processes.

There has been a dip in performance in 2014/15 as a consequence of the migration to new administration system during the year. In order to manage the work loads through the migration, Pensions Services switched focus to ensuring that work was completed in priority order (to get people paid on time) rather than in the order that the work is received (to make sure that all work is completed within eight weeks).

Now that the new system is fully operational, workloads are reducing and some of the efficiencies of the new system are being felt. As the system is fully embedded, it is anticipated that significant improvements, in timeliness and cost of processing casework, will be seen.

The annual internal audit opinion concluded that Pensions Services have a sound framework of internal control in place, which is operating effectively. No risks to the achievement of system objectives were identified.

Pensions Services have held the Customer Service Excellence (CSE) standard since 2009, and retained the award following a three year full assessment in April 2015.

## Complaints

If you have a complaint about the service, Pensions Services staff will do their best to put things right. If you are still dissatisfied, you can write to the Complaints Officer at:

The Complaints Officer  
Corporate Services  
Hampshire County Council  
The Castle  
Winchester  
SO23 8UB

There were six formal complaints made in 2014/15, four from pensioners and two from people about to retire.

## Appeals

The LGPS regulations provide a two stage formal appeal process for members. For stage one it will either be heard by the employer, if the appeal is against a decision made by the employer, or by the Hampshire County Council Director of Corporate Resources if it is against Pensions Services.

In either case, if the member is still dissatisfied, they can make a second stage appeal, which will be considered by the Hampshire County Council Monitoring Officer. After this second stage, if the member wishes, the matter can be investigated by the Pensions Ombudsman.

The Fund considered eight Internal Dispute Resolution Procedure (IDRP) appeals during 2014/15. Six of these were stage two appeals following an employer turning down an ill health retirement appeal at stage one. The other two appeals were regarding Pensions' handling of their retirements, and went through both IDRP stages in the year. Both of these appeals were turned down at stage two and are now with the Pensions Ombudsman for consideration.

## Other publications

### Your pension – an employee's guide

Available from HR or the pensions website:

[http://www.hants.gov.uk/brief\\_lgps\\_scheme\\_guide\\_2015.pdf](http://www.hants.gov.uk/brief_lgps_scheme_guide_2015.pdf)

### Annual benefit statement – September 2015

Personal illustration of benefits sent annually to all contributors and deferred pensioners.

### Pensioners' newsletter – Spring 2015

Information about pension increases and pension payment dates.

### Annual report and accounts 2014/15

The Pension Fund's annual report and accounts. The annual report is available from the website:

<http://www.hants.gov.uk/pensions/lgps/pensions-reportsandaccounts.htm>

## How to contact Pensions Services

By telephone 01962 845588

By e-mail [pensions@hants.gov.uk](mailto:pensions@hants.gov.uk)

By fax 01962 834537

By letter  
Pensions Services  
Hampshire County Council  
The Castle  
Winchester  
SO23 8UB

Website  
The website gives information about the pension scheme, contact details, up-to-date news on current issues and useful links to other sites.

Visit our website at:

[www.hants.gov.uk/finance/pensions](http://www.hants.gov.uk/finance/pensions)



Published by Carolyn Williamson  
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