



Annual Employer Seminar  
2 December 2019

# First... an exciting development

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# Employer Seminar

Introduction from Doug Heron

2 December 2019

# An introduction to Lothian Pension Fund



## Our product:

A funded defined benefit pension scheme operated under statute (public service pensions act)  
Second-largest of 11 LGPS (local government pension scheme) funds in Scotland



## Our members:

84,317 employees, former employees (or their beneficiaries) of local government organisations or sponsored admitted bodies  
Employees contribute to pension benefits on an increasing scale with income, employers contribute balance



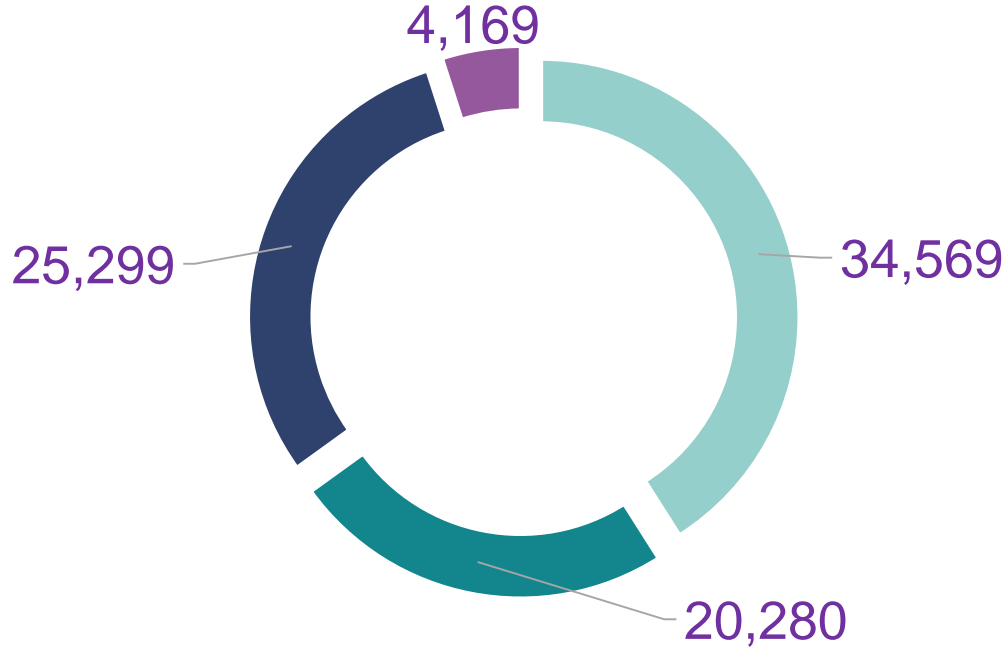
## Our assets:

£8.5bn+ invested in diverse assets with responsible investment policy wraparound to fiduciary duty  
Funding levels > 98%  
Through regulated subsidiary, act as strategic investment advisor to partner SLGPS funds



## Our legal and governance structure:

LPF operates under a statutory appointed administering authority (City of Edinburgh Council); accountable to a...  
Pensions Committee comprising elected members and appointed representatives for oversight, and both of which..  
delegates management responsibility to Officers of LPF and CEC to operate the scheme



■ Active ■ Deferred ■ Pensioners ■ Dependants



84,317 members  
31 March 2019

Authorises TPR as non-departmental government body to regulate all pension schemes (with scope restrictions)



HM Government

Provides devolved powers for public sector pensions to



Scottish Government  
Riaghaltas na h-Alba  
gov.scot

Uses statutory instrument to create and authorise LGPS in Scotland



Regulates LPF for administration and governance including through codes 13 and 14



Established SAB for advice on selected SLGPS matters

Chief investment officer is adviser to SAB



Appoints SPPA as executive agency to guide policy and regulation



Acts as Administering Authority for Lothian Pension Fund serving local government and other sponsored employers in Scotland



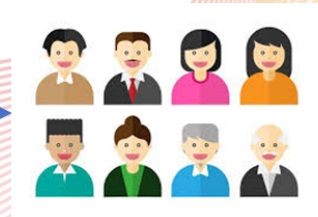
Operates a governance structure that seeks to exceed all requirements and demonstrate best practice

Sets direction, approves plans, acts as oversight body for LPF officers

Provides reports to and seeks direction and approval from

Statutory instrument appoints 11 LGPS funds in Scotland (SLGPS) to act as Administering Authority

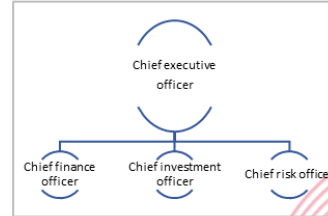
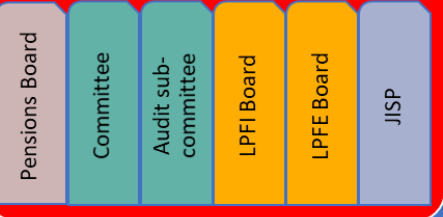
LPF officers manage the fund's assets, deliver service plan and administer benefits within scheme rules. Ultimately serving members



## Delegation and governance

Proper officers (scheme of delegation)

### Oversight bodies



# Reflections on first nine months (personal views)

1. The LGPS is a great product, valued by all constituents
2. We (LPF) have a unique model and it serves members and employers well
3. We ask a lot of employers and think you do a great job
4. We have work to do across the board to be fit for the future
5. Your employees are in safe hands and the future looks bright



# Investment Update

Albert Chen  
2 December 2019



# Agenda

- Investment strategy overview
- Performance to 31 March 2019
- Cost benchmarking
- Property team update

# Investment strategies

30/09/2019

<b>Employer Strategies</b>					
<b>Policy Group</b>	<b>Main</b>	<b>MEG</b>	<b>50/50</b>	<b>Buses</b>	<b>Total</b>
Equities	65%	0%	33%	35%	62.0%
Real Assets	18%	0%	9%	18%	17.7%
Non-Gilt Debt	10%	0%	5%	20%	10.6%
Gilts	7%	88%	48%	28%	9.6%
Cash	0%	12%	6%	0%	0.2%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

At end September 2019

Note numbers may not sum due to rounding

# Current asset allocation

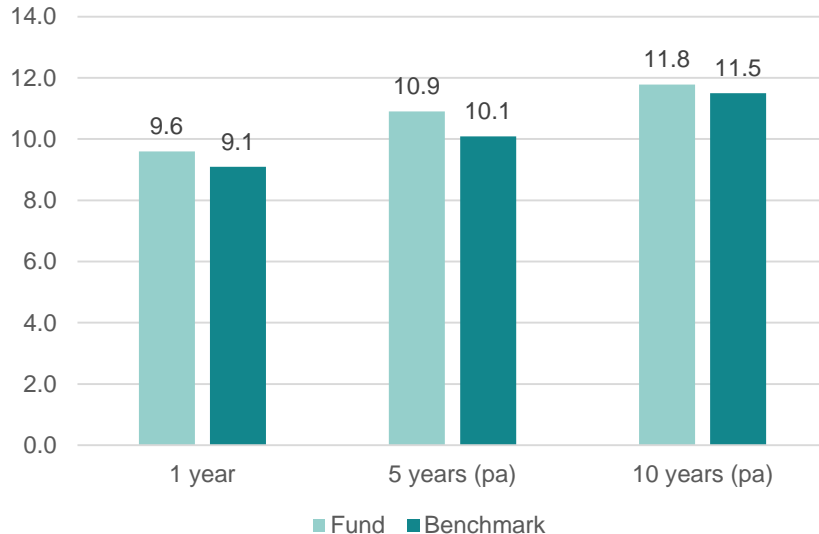
LOTHIAN PENSION FUND 22 November 2019 Fund size £8,243m	Permitted Range - LPF Main	Total Fund Actual Allocation %	Total Fund Implied Target Allocation %
		<b>EQUITIES</b>	<b>50-75</b>
<b>REAL ASSETS</b>	<b>10-25</b>	<b>20</b>	<b>18</b>
<b>NON-GILT DEBT</b>	<b>0-20</b>	<b>7</b>	<b>11</b>
<b>GILTS</b>	<b>0-20</b>	<b>5</b>	<b>8</b>
<b>CASH</b>	<b>0-10</b>	<b>6</b>	<b>0</b>
<b>Mature Employers Gilts</b>		<b>1</b>	<b>2</b>
<b>TOTAL</b>		<b>100</b>	<b>100</b>

Note: Numbers may not sum due to rounding

Source: Northern Trust valuations (22 November 2019), LPF analysis

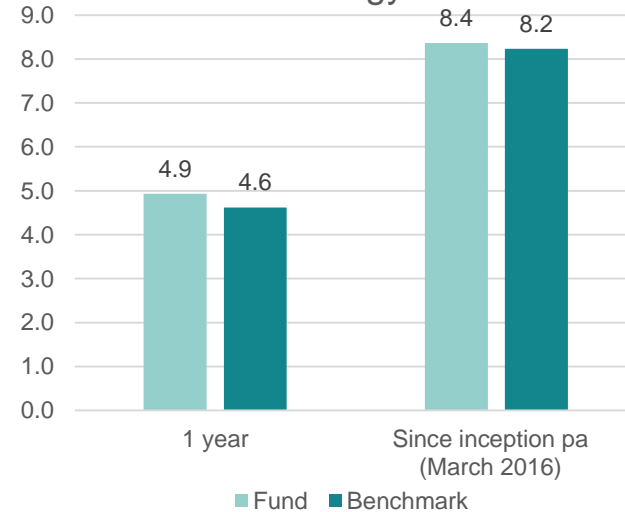
# Investment performance to 31 March 2019

## Lothian Pension Fund (Main Strategy)



Source: Portfolio Evaluation (31 March 2019)

## Mature Employers (MEG) Strategy



Source: Portfolio Evaluation (31 March 2019)

**Positive long term returns delivered with lower risk  
than the benchmark**

# Lothian lower risk equity provides downside protection

Max Drawdown*	2014	2015	2016	2017	2018
MSCI ACWI	-8.5%	-17.6%	-9.7%	-5.1%	-15.1%
Total Equities	-7.2%	-14.3%	-5.6%	-4.1%	-11.4%
Downside Beta	0.86	0.81	0.58	0.79	0.76

Note: Downside Beta = Total Equities Return / MSCI ACWI Return

Source: Portfolio Evaluation, LPF analysis

- Deliberate decision to target lower-risk equity strategies
- Outperformance demonstrated when equity markets fall
  - Lothian equity has historically incurred c60%-85% of the market decline

**Lothian has performed strongly against global peers**

**2<sup>nd</sup> highest return out of global  
universe of 250 funds  
over 5 years to 31 March 2019**

Source: CEM Investment Cost Effectiveness Analysis Report for LPF (2019), LPF analysis

# Lothian is low cost relative to peers

- Annual cost benchmarking exercise
- 2019 cost comparison against peer group of 18 funds, 37 LGPS funds
  - 2<sup>nd</sup> lowest cost out of 18 funds
  - 10<sup>th</sup> lowest cost of 37 LGPS funds
- Saving at least £10m pa from implementation style (high proportion of internal management rather than outsourcing)

Source: CEM Investment Cost Effectiveness Analysis Report for LPF (2019), LPF analysis

# Property team update

- 3 new appointments
  - Robert Boag (Indirect property)
  - Nicola Barrett (Direct property)
  - Lisa Pollock (Direct property)
- Building internal capability
  - Greater alignment for the long-term
  - Leveraging capability with partner funds
  - Cost savings



# Summary

- Investment strategy broadly in line
- Strong on investment performance, low on cost
- Internal property team: building long-term alignment and savings



# SLGPS Structure Review

Scheme Advisory Board Update

Bruce Miller

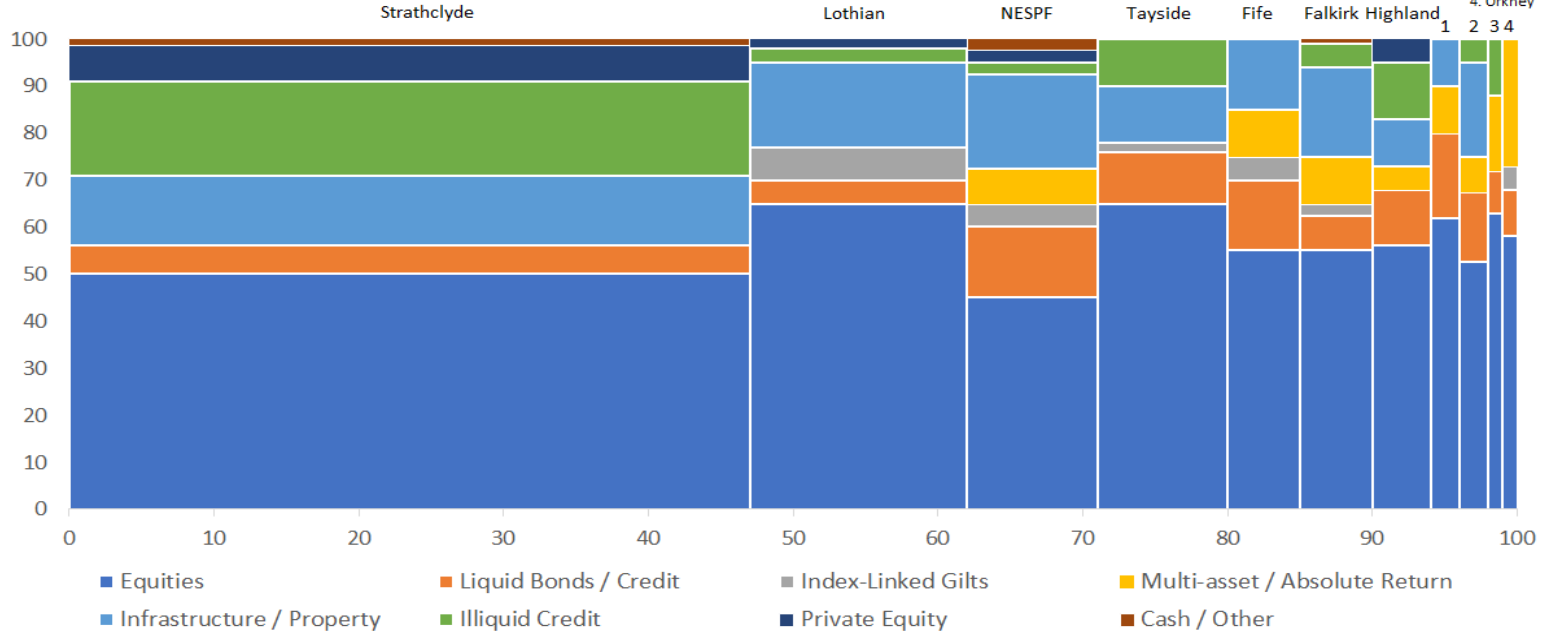
2 December 2019

# Reminder

- Consultation on structure of SLGPS, launched June 2018
- Open to employers, employees and funds
- Four criteria:
  - Cost management
  - Governance
  - Operational risks
  - Infrastructure investment
- Four options:
  - Retain the current structure
  - Promote co-operation in investment and administration
  - Pool investments
  - Merge into one or more new funds

# Reminder: Current asset structure

Scottish LGPS Strategic Asset Allocations  
By Fund and Asset Class, 31 March 2018 (£44.2bn)



Source: Fund accounts and reports 31 March 2018, LPF analysis

- Significant differences in scale, resource and governance across 11 funds

# Reminder: Cost under-reporting

- Cost transparency within SLGPS remains an issue, partly due to CIPFA accounting guidance
- Post 2014/2015, CIPFA accounting guidance was changed to allow Funds to exclude some underlying fund investment expenses
- Disclosures within select funds' annual reports showed that the guidance change reduced reported 2014/2015 expenses for those funds by 35%-40%

Source: Fund Accounts 2014/2015, 2015/2016, LPF analysis

- Significant investment expense is being incurred but not being reported
- CIPFA accounting guidance has reduced cost transparency within SLGPS

# Pensions Institute identified four priorities

- Review of consultation responses - 56 in total - conducted by Pensions Institute (Cass Business School, London)
- Of the Funds, 9 supported status quo (current structure or collaboration); 2 supported merger (Lothian and Falkirk)
- Pensions Institute highlighted four priorities for action:
  - Evaluate the case for merger
  - Infrastructure
  - Investment Costs
  - Multi-fund employers

# Evaluate the Case for Merger

- Pensions Institute concluded:

*“The consultation raises sufficient likelihood of benefits that the case for merger of SLGPS funds should be evaluated. This is additionally required because two funds have expressed a desire to merge, while many respondents to the consultation can say with some justification that they did not have a sufficient level of detail to properly evaluate the case for merger.”*

# Infrastructure

- Pensions Institute concluded:

*“The consultation suggests there is a role for the Scottish Government to play in boosting the supply of Scottish infrastructure investments that are a suitable proposition for funds and further investigation should be undertaken to how this could be done. But it remains an open question whether changing the structure of the SLGPS would increase the scheme’s overall investment in infrastructure assets. An investigation into this question should compare the investment requirements dictated by the scheme’s liabilities and the scheme’s fiduciary responsibilities to members against the degree to which the cost savings from internal management of infrastructure assets could improve the attractiveness of these investments.”*



# Investment Costs

- Pensions Institute concluded:

*“The SLGPS should take immediate steps to improve reporting on investment management costs. The FCA’s Institutional Disclosure Working Group templates should be implemented as a mandatory reporting requirement. Costs reported under the guidelines should be publicly reported and the SAB should play a role in assessing these costs against UK and international benchmarks.”*

# Multi-fund Employers

- Pensions Institute concluded:

*“The position of multi-fund employers appears unsustainable in the current system. Large multi-fund employers could address some operational issues by shifting to an individual fund - and legislation seems to allow for this process – but this would not resolve the other structural issues these employers have identified relating to investment costs, governance or operating risks.”*

# Summary

- Scottish Government has encouraged SAB to continue work on scheme structure, including evaluation of case for merger...
- ...involving detailed cost, benefit and risk analysis
- In the interim, cost reporting and cost management are under increased scrutiny



## **AVC Wise**

A new way for staff and employers to save money  
on AVCs into the Local Government Pension Scheme

Steven Black



# Why do shared cost AVCs exist?

New Regulations - Local Government

Pensions Committee Bulletin 147 – July 2016



## **Salary Sacrifice and Shared cost AVCs - Scotland**

1. Where an employee opts to pay Additional Voluntary Contributions (AVCs) under regulation 17 of the Local Government Pension Scheme (LGPS) (Scotland) Regulations 2014 (the 2014 Regulations), an employer can decide to also contribute to that employee's AVC arrangement. This is known as a shared cost AVC (SCAVC).
2. This could be done under a salary sacrifice arrangement.

# Who are we?

## PSTAX and AVC Wise

- AVC Wise has been set up by PSTAX, **specialist tax advisors** to the Public Sector
- Background working with **HMRC / Local Authorities / big 4**
- Over **190 Local Authority customers**
- **Experts** in Salary Sacrifice and Tax
- Created and developed a **fully compliant** SCAVC Scheme
- **Approved supplier** on the ESPO Supplier Framework

# How does it work?

## Going from AVC to SCAVC

- SCAVCs attract **tax relief AND National Insurance relief** where standard AVCs only attract tax relief
- The SCAVC arrangement is effective when both the **employee and employer** make a contribution
- **Employer** makes their contribution through a **salary sacrifice arrangement** with the employee
- **Employee** makes their contribution through a **monthly £1 payment**
- LGPS regulations permit SCAVCs and there is **no impact** on the main pension benefits of the employee



## Joe

Salary: £30,000

Regular AVC: £250 per month (£3,000 each year)

	Without AVC	With Standard AVC	With AVC Wise
Gross monthly pay (before main scheme contributions)	<b>£2,500</b>	£2,500	£2,251
Joe's LGPS contribution	<b>£152.75</b>	£152.75	£152.75
Joe's AVC contribution	<b>£0</b>	£250	£1
Employer AVC contribution	<b>£0</b>	n/a	£249
Total AVC contribution	<b>n/a</b>	£250	£250
Joe's Income Tax	<b>£262.09</b>	£209.59	£209.59
Joe's National Insurance	<b>£213.68</b>	£213.68	£183.80
Joe's monthly pay after tax	<b>£1,871.48</b>	£1,673.98	£1703.86

All figures provided are for illustrative purposes only and are not guaranteed.





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# The Fully Managed Solution

Leave it to the experts

End to End Project Management and support



Full Marketing and Advertising service to employees



Employee 'Self Service'



Management platform for the Employer



Co-ordination with AVC fund providers



Complete Compliance



Payroll administration



Auto transfer of existing AVC members



Employee Customer Service Centre



'Anytime' Reporting



GDPR accountability and audit trails



**EMPLOYER CONSIDERATIONS:** Provide input and support the communications plan, approve AVC Wise applications, run payroll reports and pay the AVC Fund provider.

# Maximising take up

## Using our marketing expertise

- Dedicated **Marketing Manager** to manage the Communications Plan and drive employee engagement
- Using a tried and trusted **full suite of marketing tools** and collateral to launch and promote AVC Wise
- Provide a **single platform** across all devices for employees to obtain information, make an application and manage their own AVC Wise plan
- Utilise our **expert team** to provide onsite presentations, roadshows and employee webinars

# What does it cost?

- Charges are based on the **total value of salary sacrifice** through AVC Wise
- **Fair and transparent** way of rewarding scheme success
- Standard charge of **4.5% of total salary sacrificed** under AVC Wise
- Based on our experience, successful implementation of our tried and tested AVC Wise model will result in **10% of LGPS staff taking part** after 3 years

# AVC Wise

## Real Results – Aberdeen City Council

### Aberdeen City Council

9100 LGPS Members

175 AVC payers

158 moved over to AVC Wise

40 new AVC Wise members

Average of £203.90 salary sacrifice each month

**This employer is saving £5775.50 every month, and counting...**

**This means they are saving approx. £69,306 per year!**

# AVC Wise

## Presentations – Aberdeen City Council

### Number of presentations

12

### Number of attendees

293

### Presentation feedback:

“Clear explanations, presenter was very knowledgeable and answered questions confidently”

“Concise, informative, well delivered”

“Presenter was pleasant and engaging and information was easy to digest”

“Very factual and informative with good case examples

“Speaker was clear, presented the content so that it was easy to follow, with a good speed of delivery and regularly checked in with audience to ensure everyone was understanding and onboard”

# AVC Wise

## Real Results – Aberdeenshire Council

### **Aberdeenshire Council**

11,000 LGPS Members

280 AVC payers

253 moved over to AVC Wise

48 new AVC Wise members

Average of £232.20 salary sacrifice each month

**This employer is saving £9905 every month, and counting...**

**This means they are saving approx. £119,940 per year!**



# AVC Wise

## Presentations – Aberdeenshire Council

### Number of presentations

9 (inc. 2 webinars)

### Number of attendees

322

### Presentation feedback:

“Informative with good examples and delivered well”

“Pitched at an appropriate level; excellent delivery; covered all aspects of interest to the audience”

“Information was clear”

“Scheme seemed very good and came away thinking that it would be a good thing to do”

# AVC Wise

*Following the successful completion of a comprehensive EU-wide tendering exercise, Aberdeenshire Council and Aberdeen City Council engaged AVC Wise in July 2019 to assist with the delivery of a Shared Cost AVC scheme.*

*From the onset of the project AVC Wise have provided the Councils with access to an experienced and effective implementation team which, coupled with a structured and detailed implementation plan, has allowed the scheme to be launched on schedule. The launch itself was enhanced by a series of face-to-face presentations which were universally well received and have contributed to an immediate increase in take up and sustained positive feedback from the workforce.*

*Niall Silvestro  
Project Co-Ordinator  
Aberdeenshire Council*

*Neil Yacamini  
Team Lead – Employee Transition  
Aberdeen City Council*

# Next Steps

- I will contact you to offer a meeting
- **Full proposal** detailing the service being provided
- **Board paper template** to present AVC Wise to the appropriate forum
- Standard **public sector contract** to address purchasing requirements

**QUESTIONS?**



# Thank You

[steven.black@avcwise.co.uk](mailto:steven.black@avcwise.co.uk)

07718 177233

[www.avcwise.co.uk](http://www.avcwise.co.uk)

AVC WISE





# Independent Professional Observer

Andy McKinnell

# IPO background

- Pensions professional with long experience
- Scheme Actuary role for c20 years
- Investment adviser for c10 years
- Mostly private sector advice, across multiple industries
- Now self employed as professional pension trustee and independent adviser



Contact: [andy@aml-trusteeinvestment.com](mailto:andy@aml-trusteeinvestment.com)

# LPF GOVERNANCE

## Employer and member representation

1 Employer Rep  
1 Member Rep

5 Member Reps  
5 Employer Reps

Pension Board (PB)

## Strategic decision making and operations

Scheme Manager (CEC)

Reporting & Engagement  
5 Councillors  
Reporting & Engagement

PENSIONS COMMITTEE

Reporting

Officers

LPFE Limited  
(Group Staff Resource)

LPFI Limited  
(FCA authorised)

Director of Resources  
(CEC) (DoR)

Chief Executive Officer (CEO)

Chief Investment Officer (CIO)  
Chief Finance Officer (CFO)  
Chief Risk Officer (CRO)

## External scrutiny

THE UK PENSIONS REGULATOR

National Scheme Advisory Board

Independent Professional Observer

2 Councillors + 1 Member rep  
1 Employer and 1 Member Rep from PB (Observers)

Audit Sub-Committee

External Investment Consultants  
(KPMG and 2 independents)

Scott Moncrieff (Auditors)  
Audit Scotland (Group Audit)  
CEC/PwC (Internal Audit)  
Hymans Robertson (Actuaries)  
Compliance consultants/legal (CMS)  
Tax advisers (Scott Moncrieff/CMS)  
Solicitors / QC  
Other consultants (Mercer etc.)



# Current Issues for LPF

- Funding
  - Actuarial Valuation
  - Contribution Stability Mechanism
- Governance
  - Collaboration/fund merger
  - Oversight/relationship with administering authority

**Questions?**

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# Data Quality

Diane Sinclair

2 December 2019

# The Pensions Regulator

- “We protect the UK’s workplace pensions. We make sure employers, trustees, pension specialists and business advisers can fulfil their duties to scheme members”



# TPR – “clearer, quicker, tougher”

- Broader range of powers
  - Civil penalty up to £1m
  - Maximum 7 years imprisonment
- TPR priorities for next 3 years
  - Extend regulatory reach, proactive and targeted interventions
  - Providing clarity, promoting and enforcing high standards of trusteeship, governance and administration

# Engagement with the Pensions Regulator – an update

- Lothian Pension Fund one of 10 LGPS Funds selected
- 5 meetings November 2018 – March 2019
- Code of Practice 14: Governance and Administration of Public Service Pension Scheme
- Report published September 2019:  
‘Governance and administration risks in public service pension schemes: an engagement report’
- No Funds were named in the report – case studies only

# The Pensions Regulator concluded...

- Not all funds are the same: recognition that one size does not fit all
- Robust internal controls and risk management are required to ensure the scheme is administered and managed in accordance with scheme rules and the wider requirements of the law
- ‘Good quality data and record-keeping standards underpin all aspects of successfully running a fund and these areas should be treated as a priority in order to drive good outcomes’

# TPR – Administration Obligations

- Review and measure scheme data at least once a year
- 2 types of member data required
  - to accurately identify scheme members (Common)
  - to value their benefits (Scheme Specific)
- Data Improvement Plan

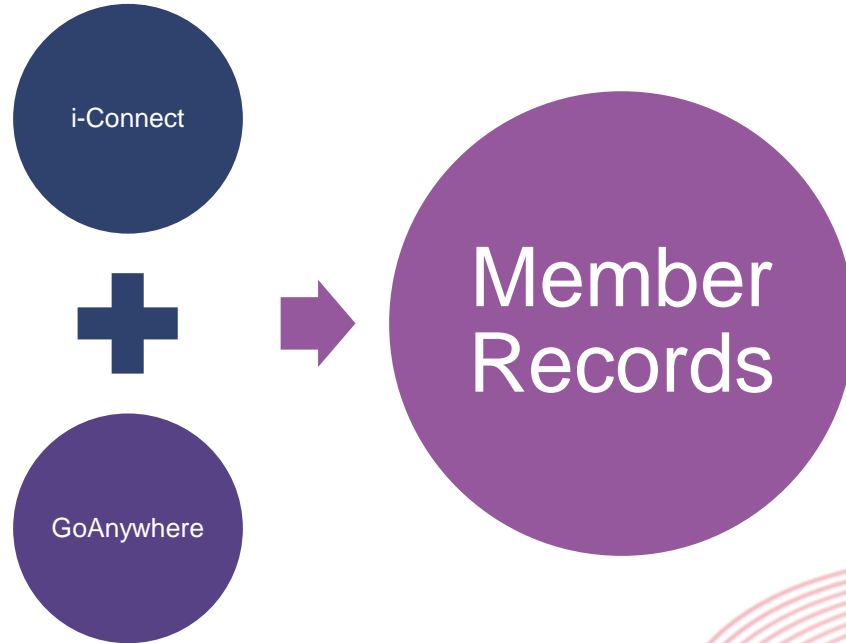


# TPR - Data Results

Percentage of member records without a single data failure



# TPR – Employer Engagement



# i-Connect

- Full i-Connect payroll extract by 2020
  - no need for additional address files
  - minimise file and data corruption
- Training on errors/warnings
- Monthly data quality checks

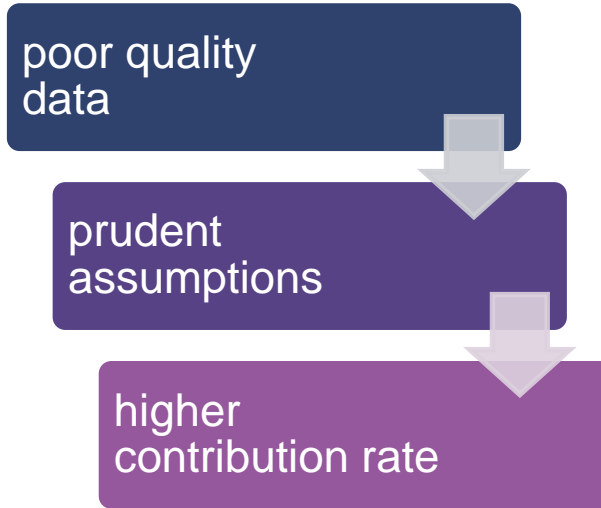
# TPR – Providing information to members

- ✓ First year all employers provided data by deadline
- ✓ Second year achieved issue of ABS by 31/08/2019

**100%**

# Actuarial Valuation

- Next Actuarial Valuation is due 2020
- Data used to set next 3 years employer contributions



# Pensions Administration Strategy Statistics

## Councils Only

		2018/19			2019/20 (End of Q2)		
Case Type	Target (working days)	Number received	Number within target	% within target	Number received	Number within target	% within target
New members	20	3,164	N/A	N/A	2,506	1,643	66%
Leavers	20	2,688	1,282	48%	1,233	538	44%
Retirements	20	906	330	39%	506	153	30%
Death in Service	10	8	4	50%	3	2	67%

# Pensions Administration Strategy Statistics

## All Other Employers

		2018/19			2019/20 (End of Q2)		
Case Type	Target (working days)	Number received	Number within target	% within target	Number received	Number within target	% within target
New members	20	1,215	N/A	N/A	644	528	82%
Leavers	20	940	433	46%	525	264	50%
Retirements	20	343	158	46%	199	112	56%
Death in Service	10	3	3	100%	3	3	100%

# Employer survey results 2019



**100% of respondents** are satisfied with **our service**. This is a **14% increase** from 2018.



**68% agree or strongly agree** that submitting monthly contributions via i-Connect is straightforward.



Once again, our year end process came in for praise, with **97% answering favourably**.

**100% of respondents** are very satisfied or satisfied with the monthly Employers' Bulletin, the main way that 85% of respondents find out changes and information about us.





# Employer survey results 2019

**100% agree or strongly agree** that submitting forms and documents via GoAnywhere is straightforward and **94% felt receiving forms and documents** from LPF is straightforward.



“I always receive a **top quality service** from LPF staff, thank you.”

“Staff are always **helpful and supportive**, whether in person, on the phone or by email.”

“Staff are always prompt replying to any queries raised and **provide informative good advice** or detailed instructions as and when required.”

**Questions?**

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# Website update

Pamela Bruce

# Current website since 2010



- Home
- Current members
- Retired members
- Employers
- How we invest
- Former members
- About us

## Categories

- A-Z
- About us
- Contact us
- Current Members
- Employers
- Firefighters
- Former Members
- Forms
- How we invest
- IFA
- Join the fund
- Lothian Buses
- My pension online
- Pension Calculator
- Publications
- Related links
- Retired Members
- Scottish Homes

## Other areas

- News
- FOI and Data Protection
- Cookies
- Privacy Policy



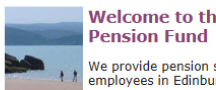
Register by email

REGISTER with activation code



If you experience any issues, email [mss.pensions@lpf.org.uk](mailto:mss.pensions@lpf.org.uk) and remember to include your national insurance number.

[View the guide on using the pension estimator calculator here.](#)



## Welcome to the website of Lothian Pension Fund

We provide pension services for local government employees in Edinburgh and the Lothians area of Scotland. Find out more about the Fund in the [About us](#) section.

Follow us on [Twitter @lothianpension](#) or on [Facebook at www.facebook.com/lothianpensionfund](#)

## Responsible investment

Lothian Pension Fund is a multi-employer pension scheme, which has a fiduciary duty to its members and employers. Accordingly, the Fund does not disinvest from companies for purely non-financial reasons, not least because this could lead to legal challenge. [Read more](#)

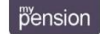
## Don't let a scammer enjoy your retirement

Pension scammers will do whatever it takes to get their hands on your savings and enjoy your retirement. The introduction of a ban on pensions cold-calling is now in effect as a further step to protect retirement savers

# Website 1 2015



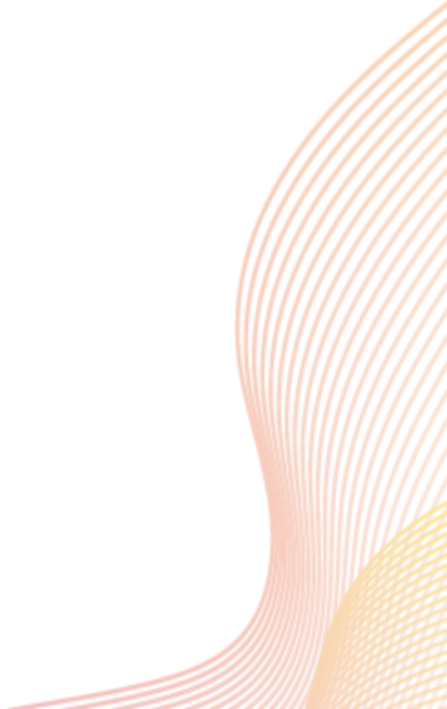
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<h3>Members Information</h3> <p>Information for <a href="#">Current</a>, <a href="#">Deferred</a> and <a href="#">Pensioner</a> members.</p>	<h3>Employers Toolkit</h3> <p>Information for employers including <a href="#">guides</a> and <a href="#">documents</a>, <a href="#">briefings</a>, <a href="#">regulations</a> and <a href="#">events</a>.</p>	<h3>Fund Information</h3>
<h3>Tools</h3> <p><a href="#">Decision Tree</a> <a href="#">Calculators</a> <a href="#">Forms</a> <a href="#">Videos</a> <a href="#">More tools</a></p>	<h3>News</h3> <p><a href="#">News article 1</a> <a href="#">News article 2</a> <a href="#">News article 3</a> <a href="#">News article 4</a> <a href="#">More news articles</a></p>	<h3>Leaflets and Publications</h3> <p><a href="#">Leaflet 1</a> <a href="#">Leaflet 2</a> <a href="#">Publication 1</a> <a href="#">Publication 2</a> <a href="#">More leaflets &amp; publications</a></p>



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## Members



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# Lothian Pension Fund

Members

Investments

Employers

About us

Lothian Pension Fund administers the Local Government Pension Scheme (LGPS) in Edinburgh and the Lothians. We're a multi-employer scheme with over £8billion assets and 98% funded. We manage 84,000 members and 90 employers and are the second largest LGPS fund in Scotland.

As well as Lothian Pension Fund, we also manage the Scottish Homes Pension Fund. You'll find information on how both these funds



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Welcome to the Lothian Pension Fund members' site

## Find out more about your pension options

Choose an option that is right for you...

### Active member

Currently working and paying into the Pension Scheme

[Tell me more...](#)

### Deferred member

No longer paying into the Pension Scheme but not yet retired

[Tell me more...](#)

### Pensioner

Currently getting a pension from the Pension Scheme

[Tell me more...](#)

### Auto-enrolled

More about automatic enrolment and what it means for you

[Tell me more...](#)





# Round up of current issues and future developments

John Burns

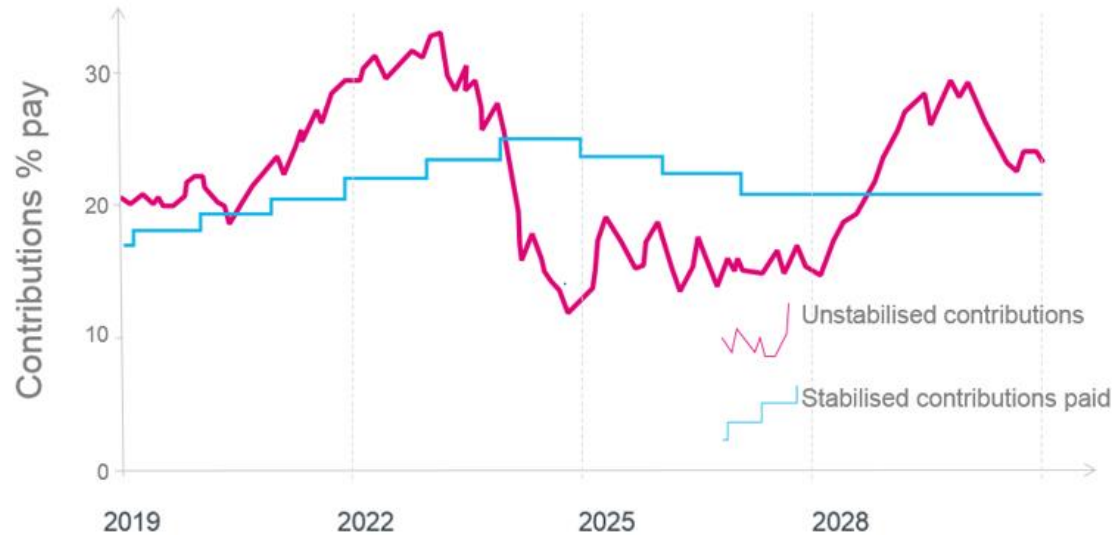


# Contribution Stability Mechanism

# Contribution Stability Mechanism (CSM)

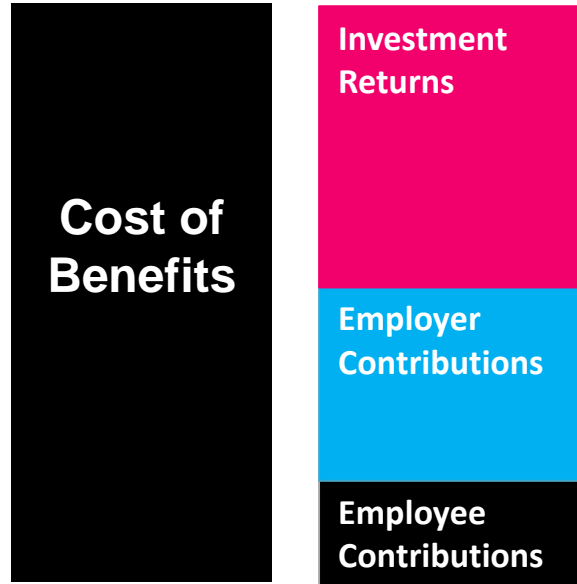
- Introduced in 2010
- Comprehensive review in 2013
- Health check in 2016
- Comprehensive review currently being undertaken ahead of 2020 actuarial valuation.

# Stabilised contributions for long term, secure employers



Stabilisation limits contribution rate increases and decreases to a maximum amount each year, helping employers budget

# Putting a funding plan in place

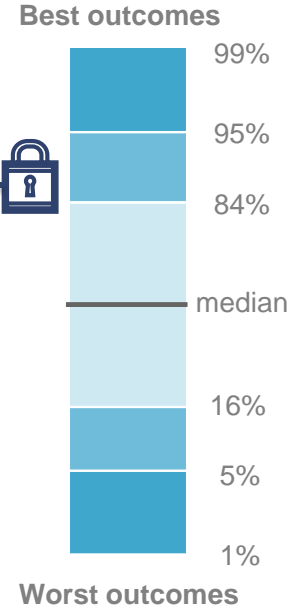
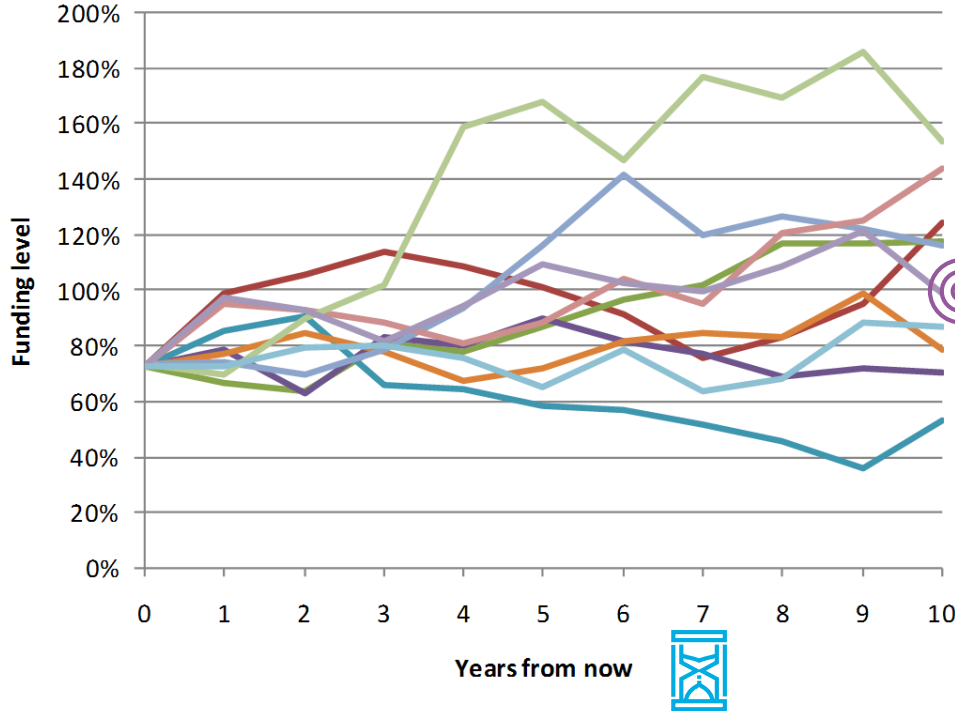


Set contribution rates that will, together with investment returns,  
meet the cost of benefits

# Criteria for CSM membership

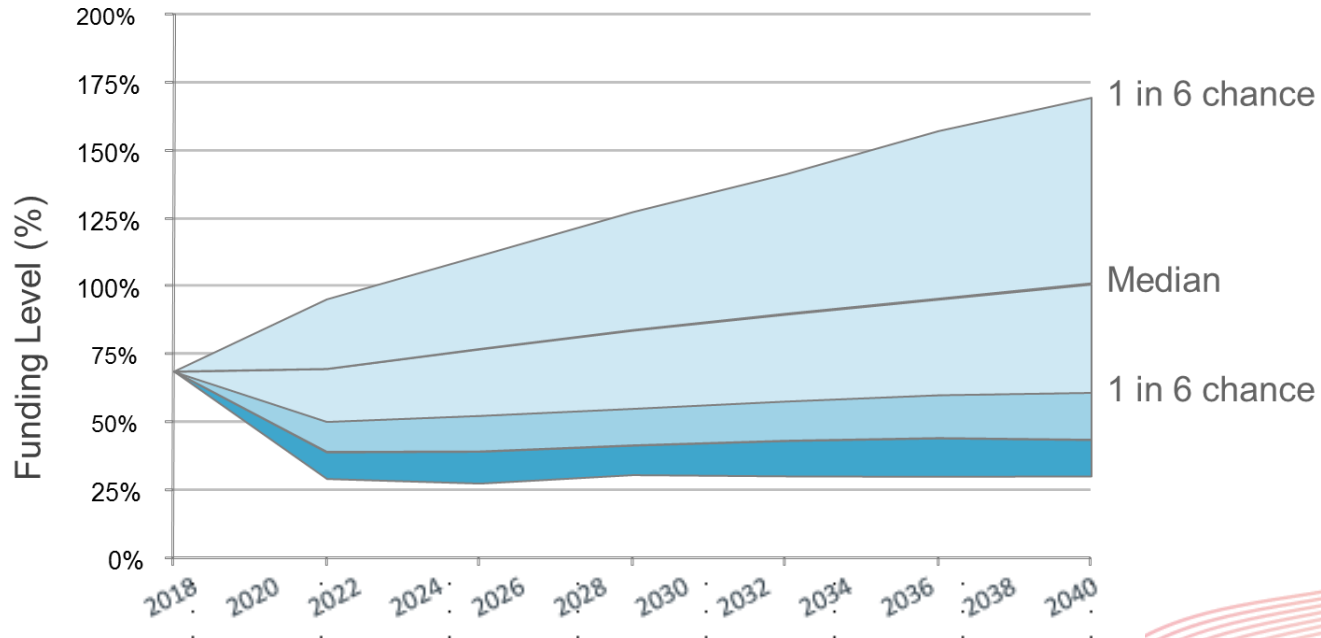
- Long term body, open to new entrants
- Strong covenant
- Guarantor agreement (where applicable)
- Administering Authority Approval
- Employers can elect to opt out (but not automatically re-join)

# Methodology



Each scenario has different inflation, investment returns, interest rates etc

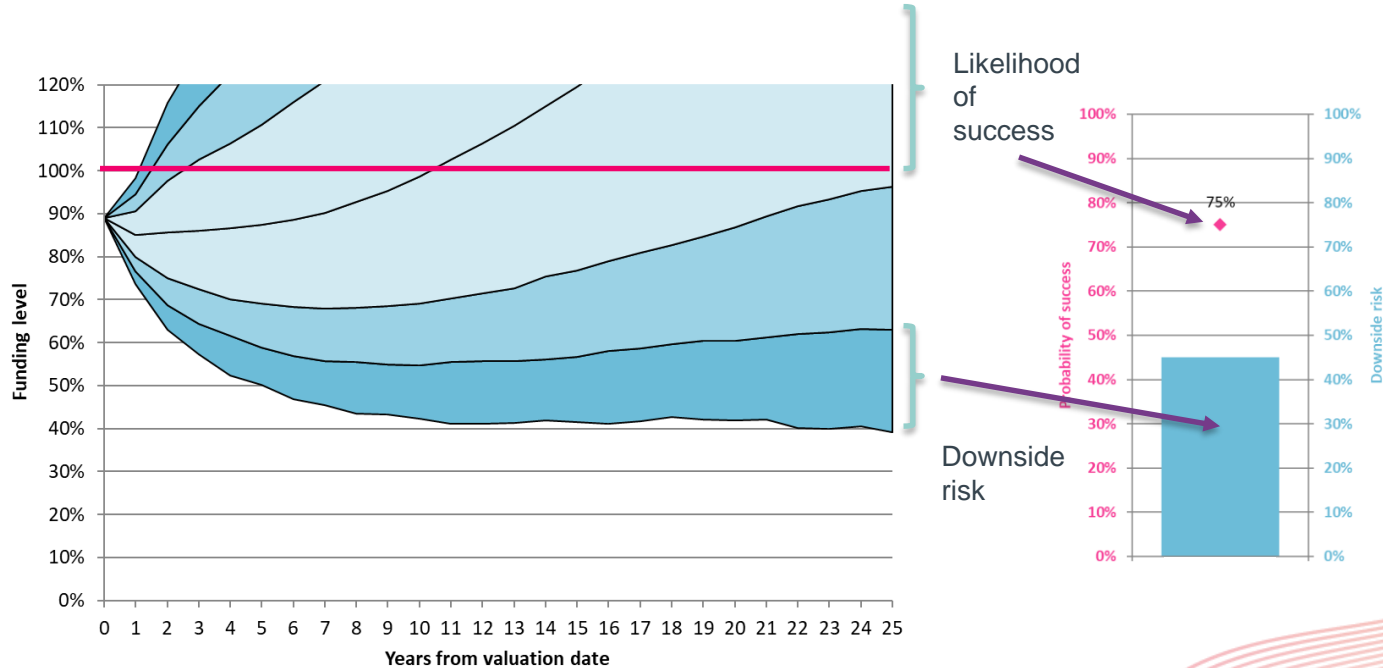
# 5,000 scenarios gives a distribution of outcomes



Measure likelihood of meeting funding objective



# 5,000 scenarios gives a distribution of outcomes



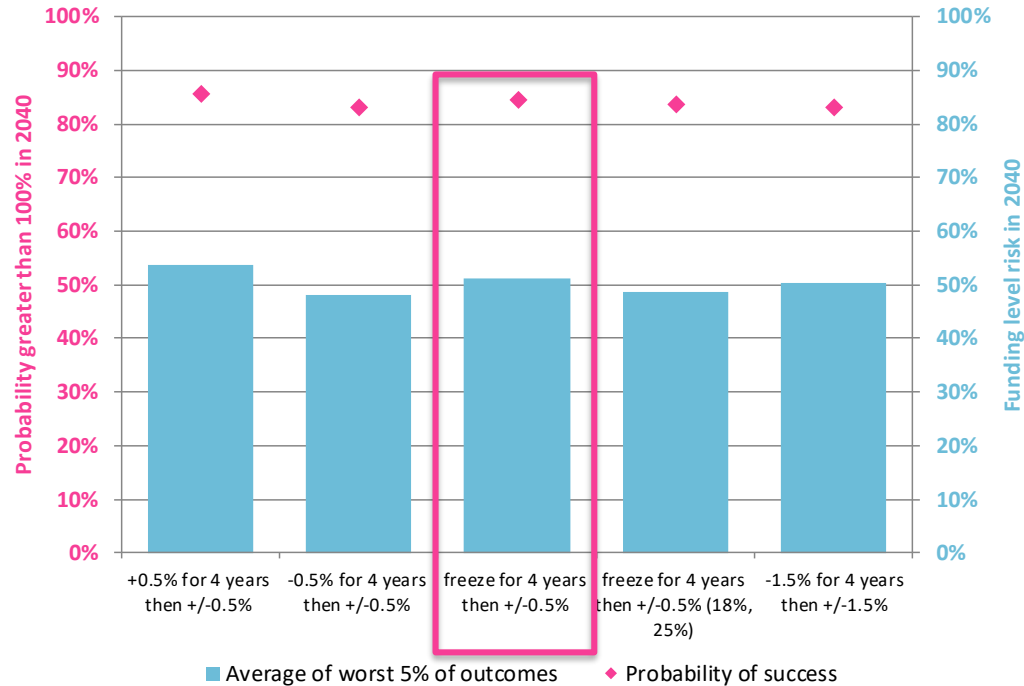
Assess the likelihood of 'success' and the risk when things go wrong

# What's happened since the last CSM review?

- Funding positions have improved
  - Due to strong investment performance
  - Is this sustainable in the longer term?
- Economic outlook is slightly more pessimistic
  - This is driving Primary Rates up
- More risk and uncertainty (e.g. McCloud, climate change)
  - Reflect in CSM by using a higher likelihood of success
- Changes in employer circumstances
  - Number of stabilised employers is reducing e.g. SESTRAN, Barony Housing

Strike balance between keeping the Fund safe and affordability of contributions

# Success vs risk in 2040



Increasing contributions now has best funding outcomes, but freezing or short term reductions has acceptable downside risk

# Summary

- Positive results driven by strong investment performance in last few years
- Freezing the contribution rate for 4 years has a small impact on the results



# Local Government Pension Scheme (Scotland) Regulations 2018

# Local Government Pension Scheme (Scotland) Regulations 2018

- All deferred members can access benefits from age 55.
- Automatic deduction of contributions for continuous authorised unpaid leave of less than 31 days.
- APP – disregard the reduction in contractual hours due to ill-health and death in service cases.
- Employer Discretions Policy Statements – 14 received to date.



# McCloud Judgement

# TIMELINE

- ▶ **2010** – Government commissioned a review of all public service pension schemes
- ▶ **March 2011** – final ‘Hutton’ report published - 27 recommendations
- ▶ **November 2011** – Chief Secretary to the Treasury announced that ‘anyone 10 years or less from retirement age on 1 April 2012 will see no detriment to their retirement income’
- ▶ **2014/15** – New CARE schemes introduced with protections provided for older members





# LEGAL CHALLENGES

## McCloud and Sargeant

Age discrimination – was providing protections for older members a proportionate means of achieving a legitimate aim?



# LEGAL CHALLENGES

- ▶ **Dec 2018** – Court of Appeal – ruled that protections in both schemes gave rise to **unlawful direct age discrimination**
- ▶ Referred back to Employment Tribunals for remedy
- ▶ **Jan 2019** - Government pauses cost cap process and seeks leave to appeal judgment
- ▶ **Feb 2019** – SAB pauses LGPS (E&W) cost cap process
- ▶ **June 2019** – Supreme Court denies Govt's request to appeal
- ▶ **July 2019** – Government confirms McCloud judgment applies across all public service pension schemes



# WHAT DOES THIS MEAN FOR THE LGPS?

- ▶ Provision of the underpin to older members is unlawful
- ▶ Remedy will be upwards
- ▶ HM Treasury will set the parameters
- ▶ LGPS will be treated separately to other schemes
- ▶ Remedy likely to involve the extension of **some form** of the underpin (hours and service break information needed)
- ▶ Not likely to see remedy implemented before the end of the financial year 2020/21
- ▶ McCloud costs will be fed into the 2016 cost cap calculations

 @LGAWorkforce

# WHAT WE DON'T KNOW

- ▶ Which members are in scope
- ▶ When protections will stop
- ▶ If or how ancillary benefits (survivor benefits, transfers etc) will be included
- ▶ How resulting pensions tax issues will be dealt with
- ▶ The cost



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# ASAP



# HOW DID WE GET HERE?



# Hindsight - What did Lord Hutton say ?

“Special protections for members over a certain age should not be necessary. Age discrimination legislation also means that it is not possible in practice to provide protection from change for members who are already above a certain age”

Thank you for listening!

Questions?