

December 2011 AGM – Questions and Answers

Question 1

What effect has the government's unilateral action in changing the inflation linkage of LGPS pensions from RPI to CPI had on the scheme?
In particular has this change enabled the Authority to reduce its contributions to the scheme?

Best wishes,
DW

Answer 1

Every three years the fund goes through a formal valuation from our Scheme Actuary. This sets the employer contribution rates for the following three years. The last valuation was completed using CPI assumptions.

The move from RPI to CPI is estimated nationally to have reduced employer contribution rates by 3% (assuming CPI continues to average 0.8% below RPI as it has done in the past). Other factors also influence employer rates, so it is difficult to isolate the impact on the Derbyshire Fund.

The move from RPI to CPI was subject to judicial review but was declared lawful by the High Court in December 2011.

Question 2

I would like to know the time scale of an exit strategy to withdraw investment by the Derbyshire Pension Fund in British American Tobacco plc

SG

Answer 2

There is no exit strategy to withdraw investment from British American Tobacco plc. It forms part of our diversified portfolio of assets and has performed very well.

It is worth noting that the Tobacco index has outperformed the FTSE Allshare index by 337% over the last 10 years, making a substantial contribution to the overall Fund return.

As highlighted in the presentation, the Investment Policy is

“to invest the Pension Fund with the aim of maximising its returns subject to an agreed level of risk”

This means that our primary objective is to consider investment returns to

achieve our fiduciary responsibilities to our stakeholders (which include Council Tax Payers) and to comply with our investment regulations.

Question 3

I have worked for Derbyshire County Council since 1993 and have been happy to contribute to the scheme since that time. I am concerned about the proposed 3.2% increase in pension deductions. Many staff may feel that the cost is too great and withdraw from the scheme. This is likely to have a negative effect on the viability of the scheme. I can't deny that I would need to make significant adjustment to how I live to cover the increased deductions (particularly when linked with a long period of pay freeze and rising prices) I would probably manage. However, it seems to be the case that the extra deductions will not reach our pension fund. Instead, the 3.2% will go to the Treasury.

I would like to have confirmation of where this extra money will go. If we are to see more money deducted from pay, it must go to the appropriate pension fund, in our case the Derbyshire fund.

As I understand it, the LGPS needs to make savings of @ £900,000,000 by 2014. The LGPS have been warned they need to perform better regarding investments. Well if contributions increase by almost 50%, wouldn't that help? Higher contributions to the fund (although hopefully not an extra 3.2%) would ease the pressure on the employers and hence council tax payers. I would find it difficult to argue against that.

I have also looked at the Derbyshire LGPS financial report for last year. There was a significant increase in the value of the fund, so I am struggling to see where the problem lies. Our fund may not be typical in its performance in that returns on investments are impressive, which shows a very well managed fund.

PA

Answer 3

There needs to be a clear distinction between funded and unfunded public sector pension schemes. The LGPS is a funded pension scheme which means employee and employer pension contributions are paid directly into the relevant Pension Fund, in our case the Derbyshire Pension Fund so they can be invested in the Fund. The proposed additional 3.2% contributions would follow this same route and would not go directly to the Government Treasury.

Nationally, the LGPS has been required to save £900m and currently there are proposals on how this can be achieved. The consultation on a number of options closes on 6 January 2012 although recent news suggests what is introduced may be radically different to the options put forward for consultation.

The LGPS remains a very good defined benefit, index linked pension scheme and an excellent benefit for eligible LG employees. No-one would be encouraged to opt out of the LGPS but scheme members have this right, should they wish to. Government have factored in an opt out rate of current contributors, should contributions increase, but still retaining the viability of the scheme and making the £900m required savings.

Question 4

I am pleased to see that the Derbyshire Pension Fund does not invest in arms companies. As a provider of services to people, I am assuming that a decision was made not to invest in arms companies on ethical grounds.

However, some of the other companies the pension fund invests in, have controversial histories on ethical issues.

Royal Dutch plc, BP plc, Rio Tinto, British American Tobacco and others have been severely criticised by a number of organisations e.g. War on Want, governments etc. for their human rights and environmental pollution records. For example BP has been described as one of the 10 worst companies in the world on its environmental and human rights record.

Does the Derbyshire Pension Fund have an ethical investment policy?

Can you provide a full list of all companies the fund invests in?

How are decisions made about investments?

How can pension fund members influence decisions about ethical investment?

Yours sincerely

SO

Answer 4

The Pension Fund has a number of investments in the Aerospace Defence sector in the UK and overseas.

As mentioned earlier, the Investment Policy is

“to invest the Pension Fund with the aim of maximising its returns subject to an agreed level of risk”

This means that our primary objective is to consider investment returns to achieve our fiduciary responsibilities to our stakeholders (which include Council Tax Payers) and to comply with our investment regulations.

Nevertheless, the Investment Committee aims to manage its assets in a way as to benefit society as a whole, by supporting companies with a good record in relation to social, environmental and ethical matters.

The Fund prefers to engage with investee companies to influence good practice rather than dis-invest and have no influence. This way, it can deliver on its primary fiduciary objective as well as being a responsible investor. The

Fund is a member of the Local Authority Pension Fund Forum, representing around £100bn of Local Authority Pension Fund value. This strengthens our influence on investee companies and ensures our views are heard.

The Fund's policy on Social, Environmental and Ethical Considerations is included in the Statement of Investment Principles, which is on the website.

We hold our investments through a number of managers and it will take some time to meet your request for a complete list of our investments. We will publish them on our website when ready and will advise you when this is done.

Strategic and tactical asset allocation decisions about investments are made by the Investment Committee. Day to day decisions on investment transactions are made by the individual Fund Managers.

The Investment Committee have responsibility for setting policy decisions, including those on Social, Environmental and Ethical Considerations. You may wish to contact them with any suggestions you may have.

Question 5

I should like to inquire whether the County Council has sought any form of actuarial advice on the impact on the fund of the government's proposals for changing the LGPS and if so what it is.

Regards
RM

Answer 5

DCC has not yet sought any form of actuarial advice on the impact of the government's proposals primarily because of the uncertainty.

Original proposals were limited to employee contribution increases which would have improved the funding level – subject to the impact of drop outs which are impossible to predict

Current proposals for consultation have a mix of increased employee contributions and worsening accrual rates, the effects of which would be similar but equally difficult to predict

Latest news (Thursday 8th Dec) is that these short term measures may be incorporated into major reforms associated with Hutton proposals including Career Average Revalued Earnings (CARE) and an increase in the retirement age.

Other factors which will impact on the fund going forward are Auto Enrolment in January 2013 and the usual variables of inflation and investment performance

All in all it is difficult to say what information we could have provided to the actuary that would enable him to carry out an assessment. However we will

be talking to the actuary about when and how it would be appropriate to evaluate the effects of changes – bearing in mind that actuarial advice does not come cheap.