FALKIRK PENSIONS

news

THE NEWSLETTER FOR FALKIRK PENSION FUND MEMBERS

What you get from the LGPS

The Local Government Pension Scheme (LGPS) is a great way to **save for your future.** Here's a reminder of some of the Scheme's key features

A Secure Pension and Lump Sum on Retiring

You get a pension for life that increases in line with the cost of living (currently the Consumer Price Index – CPI).

A Tax Free Lump Sum

You can also take part of your benefit as tax free cash. For every £1 of pension you give up you get £12 of tax free cash.

Life Cover

A lump sum of 3 years' pay if you die in service. If you die whilst you are a deferred member, a lump sum of 5 times your deferred pension (or, for pre April 2009 leavers, a lump sum equal to your deferred lump sum).

Cover for Your Family

Your spouse, civil partner or partner and your children will get a pension if you die in service or die after leaving the Scheme with at least 2 years' membership.

If you die within 10 years after retiring and before age 75, then the balance of 10 years' worth of pension is payable. If you left the Scheme before April 2009, it is the balance of 5 years' pension that is payable.

Your Employer Pays Contributions too

If you are a contributing scheme member, your employer will be paying a contribution of around 20% of your pay to help keep the Fund solvent.

When Can I Retire?

Members can access their scheme benefits on retiring from age 55. However, as this is before the Normal Scheme Retirement Age (NRA) of between age 65 and 68, penalties for early payment do apply.

You must take your benefits before age 75.

Other Retiral Options

- Ill-Health Retirement if you leave work due to permanent ill health.
- Flexible Retirement from age 55 if your employer agrees that you can reduce your hours or move to a less senior position.
- Early Payment of Accumulated Benefits if your employer retires you on redundancy or business efficiency grounds (i.e. severance) and you are aged 55 or over (or age 50 and over having been a scheme member on 5 April 2006).

Getting More from your Benefits

Did you know you can pay extra contributions to boost your benefits?

This can be done by paying Additional Pension Contributions (APCs) or Additional Voluntary Contributions (AVCs).

APCs allow you to buy a fixed amount of extra pension over a period of time chosen by you. The benefits build up as part of your entitlement in the Falkirk Fund.

With AVCs, you decide for how long and how much you want to pay. This builds up to an AVC pot which on retiring (or from age 55 without retiring) you can use to give you additional benefits. See the Fund website for more details.

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Falkirk Pension Fund Newsletter

Welcome to the 2019 version of the Falkirk Pension Fund Newsletter. In this edition, with Climate Change increasingly being part of the news agenda, we focus on what the Fund is doing to try and promote the transition to a lower carbon world, whilst still meeting its legal obligations to stakeholders (i.e. members and employers).

On the front page, we highlight the great benefits that the Scheme continues to provide for its members and their families, whilst on this page:

- we give the "Story so Far" on proposals to change the structure of the Scheme, and
- set out some important Scheme rule changes

Lastly, on Page 4 we show how the Fund has performed during 2018/19 plus - hot of the press - mention the recent McCloud legal judgement.

Stay up to date with Fund news by logging on to www.falkirkpensionfund.org/client-area/news.

Structural Review of Scheme

The Local Government Pension Scheme in Scotland is administered by 11 local authority pension funds.

At March, 2017, the Scheme had over 400,000 members and combined assets of over £40 billion.

When the latest incarnation of the Scheme was established in 2015, it was part of the agreement between Employers and Trade Unions that a review of how the scheme was structured would be undertaken.

A consultation exercise was launched in the summer of 2018 with consultees asked to consider four structural options:

- the Status Quo of 11 Funds
- Increased Collaboration between the Funds
- Pooling of Assets
- Fund Merger (e.g. one Fund or several Funds)

Consultees were asked to comment on the pros and cons of each option in terms of costs, governance, operational risk and potential for infrastructure investment.

After due consideration, the Falkirk Fund submitted a response in support of a three Fund solution.

This was on the basis that a three Fund structure was likely to deliver the best long term outcome for Fund stakeholders.

In particular, this structure could lead to:

- Improved decision making
- Fee savings from scale investing and internal investment management
- Lower employer contributions from fee savings
- Better management of key person/systems risks
- Greater focus on stewardship responsibilities

The consultation responses have been collated by an academic body, the Pensions Institute and the results presented to the Scheme Advisory Board (SAB) which is the joint Employer/Trade Union body responsible for advising the Scottish Ministers on Scheme changes.

The current position is that the option to pool assets appears to be off the table and that the SAB intends to commission more work to assess further the feasibility of moving to a merged structure.

Recent Scheme Rule Changes

Deferred Members
All deferred members are now able to access their benefits from age 55 irrespective of when they left. Early payment penalities continue to apply.

Leave of Absence under 31 days
Employers will now automatically collect contributions in respect of any authorised periods of leave of less than 31 days. Previously, employees' had to elect for these period to be pensionable.

Cohabiting Partners Pensions
A cohabiting partner's pension can now be paid where a couple have been living together for at least two years (previously they had to be living together and free to marry for at least two years)

Ill Health Retirement
Protection of career average benefits has been given to members who reduce their hours because of ill health but who ultimately have to retire because of their incapacity. **If you are reducing your hours as a result of ill health and wish to rely on this provision, you should ensure that the reason for your hours' reduction (i.e. ill health) has been agreed with and documented by your employer.**

Responsible Investment

Investing in a Climate Changing World

These days, topics such as Climate Change, Carbon Emissions and Sustainability are rarely off the airwaves with the result that the Fund is increasingly being asked what it is doing to support the transition to a lower carbon environment and a more sustainable planet.

Does the Fund invest in fossil fuel companies?
Yes. Around 2.5% of the Fund or £62m (out of assets of £2.5 billion) is invested directly in the Oil and Gas Sector.
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Why invest in fossil fuel?
Positive returns have been delivered by this sector over a lengthy period and investment in the sector is therefore consistent with the Fund's legal purpose which is to invest members and employers contributions to pay for future pensions and lump sums. To invest with some other primary objective in mind (e.g. to eliminate carbon emissions) would not be legal. At present, the Fund's investment managers - who are paid to assess all relevant risks and returns - consider that a modest allocation to the oil and gas sector can be maintained. Managers are regularly challenged to ensure that holdings continue to be justified in the light of the risks posed by environmental regulation and competition from renewables.

Given forecast global energy needs over the coming decade, it is likely that oil and gas will continue to have an important role to play. The sector will therefore need to be policed by responsible investors to ensure that business models align with climate targets (e.g. by curtailing output and capital expenditure) and that providers harness their specialist knowledge and research and development capabilities to pursue cleaner energy solutions.

Why does the Fund not disinvest from fossil fuel companies?
Once you disinvest, you lose the opportunity to influence company behaviour and run the risk of your shares falling into the hands of less responsible investors. The Fund believes that for the present more good can be achieved for the planet by continuing to be invested in fossil fuel companies and working with like-minded investors to pressure them into adapting their business models. Two recent instances where this approach has borne fruit are:

a) The resolution at the BP AGM to align its business model with the Paris Climate Change agreement, and
b) Shell's decision to link executive pay to a reduction in carbon emissions

Do you invest in any carbon friendly projects?
Yes. In recent years, the Fund has been building up its investments in infrastructure, many of which are in the renewables space or are carbon friendly, and this strategy will continue. Some of the investments are listed below:

- **Solar Farms in Middle England**
- **Wind Farms in the Ochils, West Lothian, the Borders, Northern England, the North Sea and Wales**
- **Cory Riverside Energy plant, London – which converts non-recyclable waste to energy** ``
- **HS1 and Italo – High Speed electric trains in UK and Italy**
- **Thames Tideway Tunnel – delivering more environmentally friendly disposal of sewage**
- **Hydroelectric Schemes / Wind Farms in Maine, California, Tennessee and New Hampshire**

What else makes the Fund a Responsible Investor?
The Fund has adopted the principles of the UK Stewardship Code which includes working with other investors; voting on company resolutions and monitoring investee companies. The Fund is also supportive of the work of its investment managers, many of whom now provide quarterly reports on their engagement activities.

The Fund is a member of the umbrella organisations – the Local Authority Pension Funds Forum (LAPFF) and the Institutional Investors Group on Climate Change (IIGCC). LAPFF acts for over 75 local authority funds lobbying on issues such as Executive Pay, Sustainability, Tax Transparency, Gender Equality and Human Rights. The IIGCC is a leading proponent in the Climate Change debate.

More information about the Fund's approach to responsible investment can found in its Statement of Investment Principles and in the Unaudited Annual Report and Accounts 2018/19. These can found on the Fund website.

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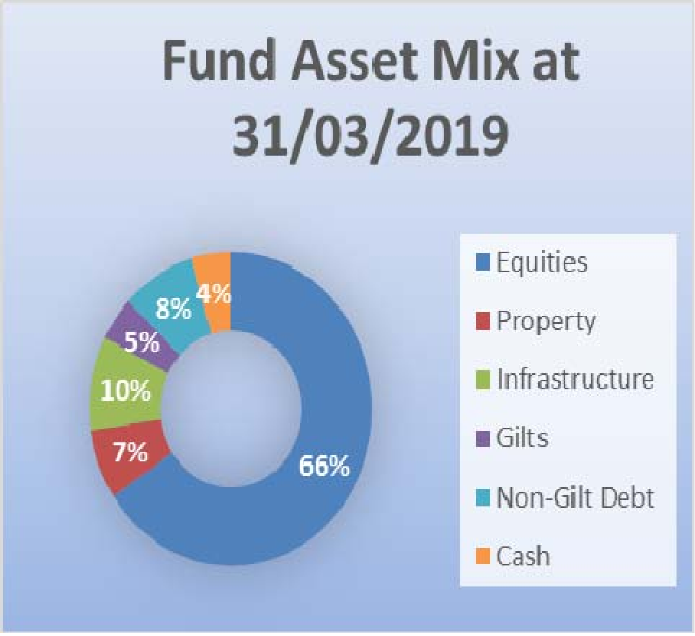
Fund Summary 2018/19

Fund Value at 31/03/2019 = £2,490,000,000

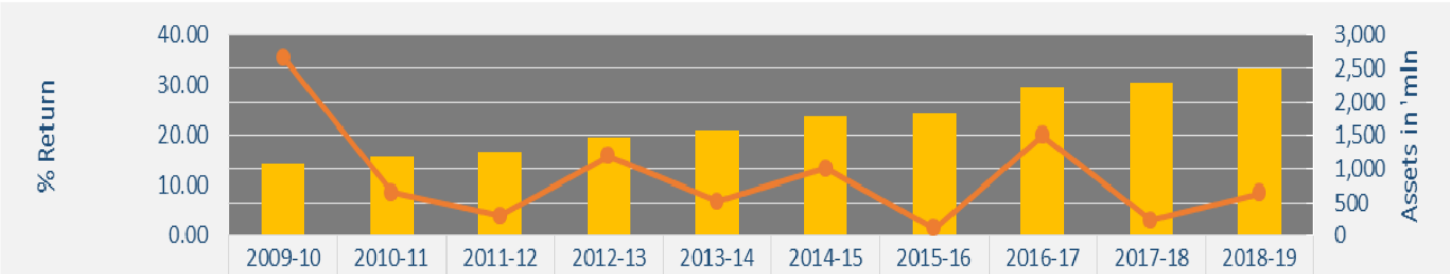
How the Fund was invested at 31 March 2019



How the Fund changed during 2018/19

	£millions
Fund Value at 31 March 2018	**£2,289**
Plus:	
Contributions and Transfers	93
Investment Returns	200
Less:	
Benefits Payable	79
Management Expenses	13
Fund Value at 31 March 2019	**£2,490**

Fund Value and Annual Returns over the last 10 years



	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Assets in'mln	1,073	1,181	1,252	1,463	1,577	1,780	1,837	2,219	2,289	2,490
% Return	35.43	8.65	4.04	15.94	6.89	13.43	1.53	19.98	3.10	8.50

For more details, see the unaudited Annual Report and Accounts 2018/19 on the Fund website.

STOP PRESS……………………………..

You may have seen media coverage recently about the "McCloud" legal judgement and Public Sector Pensions. The case relates to the way pensions were protected when schemes moved to a career average basis in 2015. Some of the protections have been found to be age discriminatory and the UK Government, having initially contested this, has now been refused any further right of appeal by the Supreme Court. In a written Ministerial Statement (which has been uploaded to the News Section of the Falkirk Fund website), the Government has confirmed that it will be working with employer and member representatives of the various public sector schemes to identify suitable remedies.

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