

CITY OF WOLVERHAMPTON COUNCIL	Pensions Committee 21 January 2019
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Report Title	Pensions Investment and Administration Benchmarking	
Originating service	Pension Services	
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Recommendation for noting:

The Committee is asked to note:

1. The initial results and key outcomes of the benchmarking exercises undertaken for 2018-2019 for both the Fund's Investment and Pension Administration Services.

1.0 Purpose

- 1.1 To inform Committee of the outcomes of the benchmarking exercises undertaken in relation to 2018-2019 for both the delivery of Fund's Investment and Pension Administration Services.

2.0 Background

- 2.1 Benchmarking is a vital tool that helps drive improvements and assess value for money. By measuring a range of functions and comparing performance to similar organisations, the Fund can identify areas of best practice and those which may benefit from review and improvement, providing Committee and Board independent assurance on the service the Fund provides.
- 2.2 The Fund participates in annual benchmarking exercises, one for Pension Administration and one for Investment Management undertaken by a global third party organisation, CEM Benchmarking Inc. CEM is a specialist investment and pension administration benchmarking and research organisation which the Fund has utilised to assess value for money in implementation of investment strategy for the last four years. In 2018-2019, CEM expanded their benchmarking to include the Local Government Pension Scheme (LGPS) Pension Administration services and the Fund is one of eight participating in the first year of research specific to the LGPS.
- 2.3 In addition, the Fund is a member of the Chartered Institute of Public Finance and Accountancy (CIPFA) benchmarking club for Pension Administration, which aims to collect the transactional volumes and processing costs for administering the LGPS using the SF3 definitions and is a comparator for LGPS Funds. The Pensions Administration Benchmarking Service mirrors new reporting introduced in to the CIPFA Annual Report Guidance from 2019, to aid consistency of reporting across the LGPS.

3.0 Key observations

3.1 Pension Administration

- 3.1.1 The Fund's peer group for CEM benchmarking comprised of 14 pension schemes and was selected based on the availability of data, scheme size and membership mix, all are administered in-house. The peer group consists of 8 large local government pension funds, and a selection of larger UK private sector defined benefit schemes. In comparison the CIPFA comparator group, are a range of LGPS Funds only, of mixed size.
- 3.1.2 The benchmarking reports compare headline costs and the levels of service provided, but also take a broader look at how services are delivered and provide a measure of value added. On review of the results, key drivers of lower cost include employee salary levels, spend on third party support and direct costs such as accommodation.
- 3.1.3 Benchmarking a service on cost in isolation is unbeneficial, and further context is required to enable a measure for value for money. CEM measures Funds on 'member service', which is defined from a member's perspective, with a higher scoring for service

based on the provision of more channels, faster turnaround times, and more availability and choice.

3.1.4 Overall the Fund's member service score was broadly inline with the peer median. The Fund scored higher than its peers in several key areas, including a higher volume of face to face support to members and the wider support and services available on our website and online portal. It was recognised that the Fund has a higher percentage of members registered on the online portal (twice the peer median amongst pensioners), but currently has more limited information and analytics available to analyse usage, and less developed tools for deferred members.

3.1.5 The Fund services a higher than average number of employers compared to the peers and the Fund was recognised for its dedicated employer online services and the higher level of functionality available for employers. In addition, the Fund uses more employer specific service targets to measure the service.

3.2 Investment Management

3.2.1 The Fund has participated in the investment management benchmarking for a number of years, with updates being provided to Committee in previous years. The Fund's peer group for investments comprises eight other LGPS funds and eight other schemes operating outside of the LGPS (including other large government-backed schemes across the globe), with criteria for selection based on size (as scale is a key driver of costs), with the median size of fund in the group being £15.4bn compared to WMPF of £15.6bn.

3.2.2 The report looks at the level of returns delivered compared to the LGPS and other global schemes and examines how the asset allocation and benchmarks have impacted relative to the peer group, although recognising that the asset mix will be impacted by appetite for risk. The results show that the risk appetite for WMPF is not out of line with other LGPS Funds. Returns for the Fund over the five year period show a higher net total return as well as a higher level of net value add from its management of the portfolio compared to the peer group.

3.2.3 The benchmarking also looks at the investment management costs paid by the Fund and compares these to the the peer group. This shows that the investment costs for the Fund against benchmark costs were significantly below the benchmark due to a combination of achieving lower overall cost compared to the peer group in a number of asset classes, but also due to implementation style, for example by having less investments through fund of funds which are higher cost. As the Committee are aware the Fund has had a focus on cost transparency and looking to actively reduce its investment management costs in recent years through a mix of negotiating lower fees with its external managers and looking to implement more cost effectively through changes to asset mix and implementation (e.g. removal of hedge funds and more direct and co-investment in private markets including infrastructure). Over the five year period the benchmarking exercise shows that the Fund has positive added value for a lower cost compared to both the LGPS and also against global peers.

4.0 Summary and next steps

- 4.1 The benchmarking exercises demonstrate the Fund continues to provide a value for money service across pension administration and investments. Work continues to develop services to enable the efficient and effective administration function, responding to increasing demand for services and an evolving investment strategy. It must be noted that research undertaken by CEM suggests a low correlation between cost and service, and Funds should focus on service improvements that can be implemented cost effectively whilst ensuring resources are in place to deliver business as usual support to the standards expected by pension members and required to manage the scale and complexity of Fund assets.
- 4.2 Work continues to develop the Digital Transformation Programme at the Fund, with the aim of the programme to transform its business areas through the use of information and technology to drive business efficiencies and cost savings whilst improving the service we provide to our members. As part of this programme we are already addressing the increase demand for frontline member and employer services, for example, Retirement Estimates available online for deferred members and an improved online portal for our employers.
- 4.3 As noted above the Fund has continued to focus on understanding and managing its investment management costs and has been a leader in the field of investment management cost transparency, including participating in the pilot study for new Cost Transparency Initiative templates. Understanding the full costs of managing its investments assists the Fund in making more informed decisions in where to allocate assets. As the Fund works through its strategic asset allocation review (for consideration at the March 2020 Pensions Committee), it is recognised that some of the changes to strategy could result in allocations to higher cost asset classes in order to deliver the Fund's long term funding strategy and meet pension payments due to members over the long term, with a focus on risk and return. Consideration will include how the Fund implements any changes (including through development of products within the LGPS central pool), again focusing on ensuring that cost management is taken into account to retain a low cost compared to the amount of positive value add.

5.0 Financial implications

- 5.1 The report contains no direct financial implications.

6.0 Legal implications

- 6.1 There are no legal implications for this report.

7.0 Equalities implications

- 7.1 There are no equalities implications.

8.0 Environmental implications

- 8.1 The report contains no direct environmental implications.

9.0 Human resources implications

9.1 There are no human resources implications for this report.

10.0 Corporate landlord implications

10.1 The report contains no direct corporate landlord implications.

11.0 Schedule of background papers

11.1 CEM Executive Summary Report for Pension Administration.

11.2 CEM Executive Summary Report for Investment Management.