

## SVSPS EMPLOYER CONSULTATIVE GROUP MEETING

**Minutes of a Meeting held on Thursday, 18 May 2017  
at TPT Retirement Solutions, Verity House, 6 Canal Wharf, Leeds LS11 5BQ**

All members of the SVSPS Employer Consultative Group were invited to attend.

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**Present:** Tim Hencher (Chair), Gordon Edwards, Jan James, Angus Johnson, Claire Locker, Beverly Malcolm.

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**In Attendance:** Russell Graham, Rachel Holmes, Jacki Johnston (minute taker), Andrew Marson - TPT  
Glenn Austen, Karen Parry – TPT, representing the Trustee

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**Apologies** Charles Younger

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**Conflicts of Interest:** none declared.

The officers left the meeting.

### **CLOSED SESSION**

A closed session was held.

#### **2017/01 ELECTION OF CHAIR AND DEPUTY CHAIR**

During the closed session T Hencher and G Edwards were elected Chair and Deputy Chair respectively.

The officers re-joined the meeting

#### **2017/02 WELCOME & INTRODUCTIONS**

2.1 All present introduced themselves for the benefit of members and officers meeting with the ECG for the first time.

J James joined the meeting.

2.2 The ECG noted the resignation of Isabelle Guillot D'Hauterives, and recorded its thanks for her service since the ECG was formed. The ECG agreed that Harmeny School should be offered the opportunity to fill the casual vacancy. **JJ**

#### **2017/03: MINUTES OF PREVIOUS MEETINGS**

The minutes were approved as a true record of the meeting held on 20 September 2016. These would be posted on the website, replacing the draft version which had been posted, with the ECG's approval, as a year had elapsed since the previous meeting. **JJ**

## 2017/04: **MATTERS ARISING FROM THE MINUTES**

### 2015/02 – unincorporated organisations –

A letter would be issued by the end of May to unincorporated organisations to alert them to the possible consequences of not being incorporated. **RG**

2016/10.5 – The ECG noted that proceeds from payment of a s75 debt had been invested in line with the Scheme’s investment strategy. T Hencher stated that his question had been wider in scope: he was concerned about the payment being insufficient to cover the orphan liabilities at a future valuation. K Parry explained that the s75 calculation basis is prescribed in regulations; it uses the Scheme Actuary’s estimate of the cost of securing the benefits in full with an insurance company using market pricing at the date of the employer’s departure. T Hencher noted that this discussion could be revisited through the valuation process.

2016/6.1.2 – The ECG noted the Appendix listing employers whose affordability appeals had been unsuccessful and noted that Equal Exchange Trading was now in discussion with TPT to reduce its deficit contributions.

## 2017/05: **REVIEW OF MULTI-EMPLOYER SCHEMES GOVERNANCE**

K Parry introduced her paper.

- 5.1 TPT conducted a governance review and adopted a two-tier structure with effect from 1 October 2016. The review of multi-employer schemes governance commenced shortly after the new TPT structure was implemented.
- 5.2 K Parry stated that the SVSPS ECG has been used as the model for developing the new Employer Committee (‘EC’) framework. She drew attention to the longer, more comprehensive Reference Document and the proposal to discontinue the practice of co-opting members for their investment or actuarial expertise.
- 5.3 The ECG discussed the proposal to discontinue the practice of using non-voting co-options not connected with a participating employer.
  - 5.3.1 T Hencher explained that these co-options have been used to access investment and actuarial expertise. The contribution of co-opted members is considered to be valuable and their removal would represent a loss to the ECG.
  - 5.3.2 The ECG drew a distinction between the contribution from co-opted members and professional advice.
- 5.4 The ECG discussed how current members would migrate to the proposed four year term of office. K Parry stated that the current terms of office should be observed. Several members were due to stand down in 2018 and this would be considered nearer the time, as a significant amount of experience might be lost.

- 5.5 K Parry noted that the ECG's Terms of Reference had recently been updated to state that only existing vacancies should be contested during the 12 months leading up to the end of a valuation exercise. She believed this was good practice to avoid loss of experience during the valuation process and would incorporate this in the model Reference Document for each Employer Committee. **KP**
- 5.6 T Hencher asked K Parry to feed back to the MES Governance Working Party that the SVSPS ECG would like to retain the option to have non-voting co-options. If this change is agreed, he noted that a clear remit would need to be included in the Reference Document. **KP**

## 2017/06: **SCHEME FUNDING**

G Austen presented his papers.

### 6.1 Annual Actuarial Report to 30 September 2016

- 6.1.1 The Actuary's annual report showed that the estimated funding level had increased from 73% to 75% in the year to 30 September 2016. However, the estimated deficit had increased in absolute terms from £35.608 million to £41.446 million.
- 6.1.2 G Edwards was concerned to note that deficit contributions would need to increase by 33% or the Recovery Plan would have to be lengthened in order to pay off the additional deficit. G Austen stated that gilt yields had been particularly low as at 30 September 2016 - the position had slightly improved since that time.
- 6.1.3 T Hencher asked whether the valuation method, with its reliance on gilt yields, was appropriate. R Holmes and G Austen responded that TPT was not out of line with other schemes, though they acknowledged that there was some industry debate about alternative valuation bases.

### 6.2 Actuarial Valuation as at 30 September 2017

- 6.2.1 G Austen explained that this paper was provided in response to the ECG's request for earlier engagement with the Trustee regarding the valuation process, and in particular assumption setting.
- 6.2.2 G Austen outlined the initial steps in the valuation process. T Hencher noted that the 'roll forward' approximate results had caused great consternation in 2014. G Austen believed that principles agreed in 2014 – for example, how orphan liabilities should be valued - would reduce the margin for error in 2017. However, K Parry noted that the approximate results would not reflect member movements such as those arising from enhanced transfer value exercises. T Hencher asked TPT to provide a note of the major caveats behind the approximate results. **GA**

### 6.2.3 Covenant

- G Austen would circulate an update on financial assessment submissions after the meeting. **GA**
- B Malcolm and C Locker observed that the submission process was not straightforward and might be daunting for smaller organisations.
- C Locker asked whether it was appropriate to base the scheme's covenant assessment on financial data that was around 18 months out of date. G Austen stated that the alternatives were to bring forward the financial assessment, or request forecasting data.
- The change of focus towards affordability from balance sheet strength was noted.
- It was expected that the covenant assessment would be completed by the end of June. T Bhachu, Covenant Manager, would attend the next meeting to present the results.

### 6.2.4 Investment

- A Gregory would attend the first meeting in 2018 to discuss investment strategy.
- T Hencher asked for an explanation of the Scheme Actuary's statement that the investment strategy for SVSPS was not consistent with a return seeking asset portfolio non-pensioner liabilities. G Austen stated that the non-pensioner liabilities would usually be backed by growth assets, but the scheme's covenant did not support this; evidence suggested that employers might not be able to increase their contributions to make up a shortfall if growth assets failed to produce the anticipated returns. The Scheme Actuary has therefore adjusted (reduced) his assumption for the pre-retirement discount rate.
- The ECG welcomed the proposal that A Gregory should provide some training on the investment strategy and its evolution at the next meeting to increase understanding. **AG**

### 6.2.5 The Pensions Regulator

- G Austen believed the Pensions Regulator's letter regarding the 2014 valuation represented as good an outcome as any scheme could hope for. However, he cautioned that since the British Home Stores issue, the regulator has become much more proactive. Its Annual Statement on Scheme Funding had recently been issued and it is clear that a much harder line will be taken with Trustees; they will be asked to provide evidence to justify why they have decided to collect lower contributions or have relaxed their assumptions. Trustees and employers will have to assess and evidence the level of contributions employers can genuinely afford to pay.

- The ECG noted the Pensions Regulator’s guidance on Integrated Risk Management (‘IRM’) included as an appendix to the paper. G Austen explained that the guidance applies to employers and trustees, and the ECG was already doing everything expected of it apart from contingency planning. The 2017 valuation process would therefore consider ‘what if...’ scenarios.
- G Austen explained the IRM dashboard attached as Appendix C to the paper. This was an early draft and the next iteration would be brought to a future meeting. The ECG asked whether a column showing ‘likelihood’ should be added. K Parry believed the absence of a probability or likelihood rating would force trustees and employers to consider their contingency plans.

#### 6.2.6 Valuation Timetable

The ECG noted the ‘Summary of Key Stages’ for the 2017 valuation. It was expected that meetings would be required very early in 2018, and again in the spring, though this would depend on whether the ECG’s adviser offered a challenge to the Trustee’s proposals.

#### 6.2.7 Engagement with employers

- The ECG welcomed the proposal to circulate a postcard to employers in August or September to notify them of the valuation timetable.
- The ECG agreed to hold an employer forum in Scotland in early 2018 and would consider whether a similar event should be held in England.

**RH**

The meeting broke for lunch and reconvened at 14.20.

### 6.3 Review of Actuarial Factors

The ECG noted that:

- 6.3.1 TPT’s Funding and Investment Strategy Review Group (“FISRG”) had approved changes to Late Retirement factors and other less-frequently applied factors in order to maintain cost neutrality;
- 6.3.2 the Trustee had increased commutation factors by 15% as a step towards ensuring the rates presented fair value; and
- 6.3.3 the Trustee had resolved that a trivial commutation payment would be equal to the transfer value available to a qualifying member.
  - T Hencher asked whether this would incur a cost to the scheme. G Austen confirmed that it would, but this might be offset by more members taking up the option if they perceived it as representing better value than the previous basis.

## 2017/07: INVESTMENT

R Holmes presented the reports.

### 7.1 Investment Performance Reports

7.1.1 The report to 30 September 2016 was taken as read.

7.1.2 The ECG noted better than benchmark returns over the year and five years to 31 December 2016.

7.1.2 R Holmes drew attention to the importance of considering the Scheme liabilities alongside investment performance. The movement in liability values needed to be considered alongside investment returns and manager performance against their benchmarks. During the last quarter, the liability proxy had fallen by considerably more than the manager underperformance against benchmark. Over five years, asset returns were ahead of the liability proxy.

7.1.3 R Holmes confirmed that managers are set a benchmark appropriate to the particular asset class; they are not given a liability proxy target. TPT reports the liability proxy to enable schemes to assess whether their funding position is likely to have got better or worse over the period.

7.1.4 The ECG noted that the liability proxy referred to in the report is for an average scheme. However, TPT has recently introduced new software which will track movements in the SVSPS liabilities. This would be reflected in reports from Q2 2017.

7.1.5 The ECG considered the Value at Risk chart on page 10 of the report and noted that a fall of 1% in interest rates or a 0.75% increase in inflation would each have a greater impact on scheme funding than a 30% reduction in equity values.

7.1.6 R Holmes asked whether Investment Performance Reports should be circulated between meetings. It was agreed that in view of the frequency of meetings dictated by the valuation, the reports should be tabled at meetings. This decision would be reviewed when the valuation was complete and the interval between meetings would be longer. JJ

7.1.7 The ECG noted the contents of the reports.

### 7.2 Investment Committee Report

7.2.1 The ECG noted that the equity protection strategy, which was to be implemented in June, would provide the same broad protection to all schemes.

7.2.2 The ECG noted the implementation of the synthetic equities strategy which offered exposure to equity returns without holding physical assets, releasing capital to increase liability hedging ratios. T Hencher queried whether the ECG should have been consulted on this change. R Holmes stated that the use of synthetic equities was not a change to investment strategy so did not require consultation – in addition this was not likely to be required for the Scheme as it already had a high ratio of liability hedging. It was agreed that A Gregory would include a summary of how derivatives used in synthetic equity and liability driven investment strategies operate in the investment training at the next meeting. **AG**

7.2.3 The ECG noted the contents of the report.

J James left the meeting.

#### 2017/08: **PENSION INCREASES**

G Austen presented his paper.

8.1 G Austen apologised for an error in paragraph 3.4 of his paper; the correct RPI figure was 2.6%.

8.2 The ECG agreed that due to the deficit it was not appropriate to make discretionary RPI increases to benefits.

8.3 T Hencher asked about the cumulative impact on members' benefits of decisions taken over many years not to meet the RPI objective. G Austen would provide an example. **GA**

#### 2017/09: **ADMINISTRATOR'S REPORTS**

The ECG noted the Administrator's Reports and attached appendices.

9.1 R Graham confirmed that two new employer departures – Gay Men's Health and Send-It Fulfilment Solutions - had been added to Appendix C since the last meeting.

#### 2017/10 **ANY OTHER BUSINESS**

None.

2017/11: **DATE OF NEXT MEETING**

The ECG agreed that the next meeting would take place in September or October 2017 to consider the outcome of the MES Governance Review, the Scheme Covenant assessment and the ECG's requirements for professional advice regarding the valuation. The location would take into account the travel commitments for the required attendees. J Johnston would consider this and circulate dates. **JJ**

The meeting closed at 15.05

The officers left the meeting and a further closed session was held.

SVSPS ECG: 18.05.2017

v1 to officers 12.06.17

v2 to Chair 14.06.17; to ECG members 21.06.17