

## Summary of Pension Fund Risks

### Introduction

The purpose of this document is to assess the risk associated with the RCT Pension Fund and to outline the control measures in place.

### **Key to scoring**

Likelihood Assessment Matrix:

Factor	Score	Indicators
Almost certain	5	99% likely to happen or has happened on a regular basis over the last 12 months
Very likely	4	75% likely to happen or has happened at least once or twice in the last 12 months
Likely	3	50% likely to happen or has happened once or twice in the last 24 months
Unlikely	2	20% likely to happen or has happened once or twice in the last 5 years
Highly unlikely	1	5% likely to happen or hasn't happened within the last 5 years

Impact Assessment Matrix:

Risk	Score
Major	5
High	4
Moderate	3
Minor	2
Trivial	1

Ascertainment Of Risk Level According To Levels Of Impact And Likelihood:

Likelihood	5						
	4			1			1
	3			1	1		
	2	1	1	2	10	1	
	1		3	3	6	3	
		1	2	3	4	5	
		Impact					

  

1	High Risk
14	Medium Risk
19	Low Risk

<b>Overarching Fund Objective – to ensure Fund assets are sufficient to meet Fund liabilities in the short, medium and long term</b>
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<b>Risk Category</b>	<b>Risk Description</b>	<b>IMPACT</b>	<b>LIKELIHOOD</b>	<b>RATING</b>		<b>Control Measure</b>
Funding	Long term investment strategy unable to meet the objective of funding liabilities.	5	2	10		<ul style="list-style-type: none"> <li>Monitoring of deficit, reporting on the funding levels produced by the actuaries.</li> <li>Monitoring of the adopted asset / liability model.</li> </ul>
	Sub-optimal asset allocation throughout the portfolio.	4	2	8		<ul style="list-style-type: none"> <li>The investment strategy is reviewed and adopted by the Pension Fund Committee .</li> <li>The Committee (with advice from the Advisory Panel ) should regularly review the asset allocation strategy.</li> <li>The review should cover both the fund strategy and the asset allocation.</li> </ul>
	Actuarial assumptions are not met. e.g. discount rate, life expectancy assumptions.	4	2	8		<ul style="list-style-type: none"> <li>Agree and set prudent assumptions in conjunction with the appointed Fund Actuary, based on past trends, forecasts, longevity modelling.</li> <li>Adhere to triennial valuations.</li> <li>Monitor performance against assumptions, consider Interim Valuations where necessary.</li> <li>Receive regular Actuarial Funding updates.</li> </ul>
	Increases in Employer contributions.	4	2	8		<ul style="list-style-type: none"> <li>Participate in LGPS Scheme design consultation.</li> <li>Engage with Employers during and between Valuation cycles, particularly during times of organisational change e.g. downsizing, outsourcing.</li> <li>Ensure adequate securities / guarantees are in place where possible and that consequential risk is fully communicated to relevant parties.</li> </ul>
	Detrimental changes to the maturity of fund membership. As the scheme matures the ratio of pensioner / deferred pensioner to active employees increases.	4	2	8		<ul style="list-style-type: none"> <li>Monitor carefully through the valuation cycle. Ensure the investment strategy reflects current and forecast Fund maturity.</li> <li>Actively participate in pension consultation, giving due consideration to any proposals that may have a disproportional impact on scheme 'opt out' rates. [current considerations around 'Exit' caps]</li> </ul>

Investments	Financial Market suppressed by economic climate, national / global austerity measures and Brexit.	3	4	12		<ul style="list-style-type: none"> <li>Long-term funding plan with a diverse range of asset classes and Fund Manager styles.</li> <li>Panel clearly understand the impact of market conditions on asset classes and fund manager performance.</li> <li>Panel monitor and scrutinise performance, market conditions and forecasts.</li> </ul>
	Custody arrangements may not be sufficient to safeguard pension fund assets.	4	2	8		<ul style="list-style-type: none"> <li>An agreement is in place between the custodian and Pension Fund.</li> <li>Monthly reconciliations are carried out to check external custodian records.</li> <li>Funds held in the name of the Pension Fund, not the Fund Manager nor the Custodian.</li> </ul>
	Investment returns fail to meet agreed targets.	4	2	8		<ul style="list-style-type: none"> <li>Regular monitoring of investment returns.</li> <li>Advisory Panel review and challenge of fund manager performance against their benchmarks and targets.</li> <li>Use advisors to support the monitoring and challenge of fund managers.</li> <li>Where performance issues arise, put more targeted review and challenge arrangements in place.</li> </ul>
	Investments are not carried out by the fund manager in accordance with instructions given by the Pension Fund.	3	2	6		<ul style="list-style-type: none"> <li>Investment assets and transactions are monitored in-house via the Euraplan Shareholder II system.</li> <li>Investment management fees are monitored on a quarterly basis.</li> </ul>
	Pension fund investments may not be accurately valued.	4	1	4		<ul style="list-style-type: none"> <li>Investments are valued using correct prices obtained by fund managers from independent third party agencies.</li> </ul>
	Adverse impact of the transition of the Pension Fund's assets into the Wales Pension Partnership pooling	4	2	8		<ul style="list-style-type: none"> <li>Effective governance arrangement of the Joint Governance Committee and Officer Working Group</li> <li>Key role undertaken by the Joint Governance Committee at transition process</li> </ul>
	Fund managers may not have the appropriate control framework in place to protect pension fund assets.	4	1	4		<ul style="list-style-type: none"> <li>Agreements are in place between fund managers and the Pension Fund.</li> <li>Portfolios are managed in accordance with the investment objectives.</li> <li>Monthly reconciliations are carried out to check portfolios against administering authority records.</li> <li>Third parties provide the Pension Fund with an annual internal control report, which provides assurance.</li> <li>FCA regulated.</li> </ul>

	Fund manager mandate restrictions and benchmarks constrain returns.	<b>3</b>	<b>1</b>	<b>3</b>		<ul style="list-style-type: none"> <li>• Obtain advice from advisors.</li> <li>• Obtain advice from performance measurement company.</li> </ul>
Governance	Introduction of new pooling arrangements by central government	<b>5</b>	<b>4</b>	<b>20</b>		<ul style="list-style-type: none"> <li>• Joint Governance Committee and Officer Working Group has now been formally constituted.</li> <li>• All Wales Pension Fund's CIV proposal already well developed.</li> <li>• Passive manager for All Wales Pension Fund appointed, at transition stage.</li> <li>• Participation on consultation papers.</li> </ul>
	Failure to comply with LGPS Governance Regulation / Pension Regulator Code of Practice.	<b>5</b>	<b>1</b>	<b>5</b>		<ul style="list-style-type: none"> <li>• Fund Governance Compliance Statement is reviewed and published annually.</li> <li>• The Fund's 'Pension Board' became effective from 01st April 2015.</li> <li>• The Fund has a breaches policy.</li> <li>• Review the Investment Strategy Statement in accordance with DCLG guidance by 1st April 2017</li> <li>• Benchmark against regulator tool kit on code of practice</li> </ul>
	Members, officers and advisors do not have the right knowledge or skills.	<b>4</b>	<b>1</b>	<b>4</b>		<ul style="list-style-type: none"> <li>• The Pension Fund has adopted the CIPFA knowledge and skills framework. This ensures that over time the right knowledge and skills are available for decision making.</li> <li>• The Pension Fund subscribes to relevant professional bodies, e.g. LAPFF.</li> </ul>
	Loss of reputation.	<b>2</b>	<b>2</b>	<b>4</b>		<ul style="list-style-type: none"> <li>• The Fund holds Annual General Meetings, Communication Forums, seminars and training.</li> <li>• The Fund has a dynamic website responding to stakeholder requirements.</li> <li>• Knowledgeable and professional staff.</li> <li>• Meetings are held regularly with the Fund's employer authorities.</li> <li>• Benefit statements are sent out annually to members by 31<sup>st</sup> August .</li> <li>• Monitoring of Fund Manager voting decisions.</li> <li>• Annual reports are produced by 1<sup>st</sup> December</li> </ul>
	Conflicts of Interest arise.	<b>3</b>	<b>1</b>	<b>3</b>		<ul style="list-style-type: none"> <li>• Declarations to be made by Advisory Panel Members, Board Members and Committee Members.</li> <li>• Director of Legal Services maintains a Register of Interests.</li> <li>• Fund Governance Policy.</li> <li>• Employer / Member Engagement – Communication Policy.</li> <li>• Transparency – published audited accounts, Valuation, Annual Report, etc.</li> </ul>

	Failure to comply with the Myners Statement of Investment Principles.	2	1	2		<ul style="list-style-type: none"> <li>The Statement is reviewed annually by the Advisory Panel and approved by the Pension Committee.</li> </ul>
Operational	Failure to hold and share personal data in accordance with the General Data Protection Regulation (effective 28 <sup>th</sup> May 2018).	5	1	5		<ul style="list-style-type: none"> <li>Administering Authority Information Management Security policies.</li> <li>All Scheme Member correspondence securely imaged.</li> <li>Appropriate Data Protection Registration.</li> <li>Data Sharing agreements in placeData review underway prior to effective date</li> <li>Mandatory training undertaken by all staff</li> <li>Awareness sessions held with the Fund's Governance groups</li> </ul>
	Failure to meet Service Standards.	3	3	9		<ul style="list-style-type: none"> <li>Pension Fund Administration Strategy.</li> <li>Workforce planning, realign to meet one off demands, skills and training review.</li> <li>Appropriate systems and technology.</li> </ul>
	Failure to implement scheme changes.	4	2	8		<ul style="list-style-type: none"> <li>Regular updates are received, reviewed and acted upon in a timely manner.</li> <li>Ensure software is adapted appropriately.</li> <li>Membership of relevant pensions professional bodies.</li> </ul>
	Compliance with data quality regulation and best practice.	4	2	8		<ul style="list-style-type: none"> <li>Data Improvement Plan in place</li> <li>Good relationships / communication with Employers.</li> <li>Ensure timely notification by Fund Employers of new starters, changes and leavers.</li> <li>Issue annual benefit statements to scheme members for review.</li> </ul>
	Failure to complete GMP Reconciliation by December 2018.	4	2	8		<ul style="list-style-type: none"> <li>Reconciliation underway</li> <li>Plan implemented</li> <li>Resource requirements continually assessed</li> <li>Working group set up and meeting regularly</li> </ul>
	Admitted bodies go into administration.	3	2	6		<ul style="list-style-type: none"> <li>Employer covenants or bonds.</li> <li>Regular review of covenants.</li> </ul>
	Failure to pay pensioners on time.	5	1	5		<ul style="list-style-type: none"> <li>Payroll Timetables maintained.</li> <li>Business Continuity Plan.</li> </ul>
	Delivery of Triennial Valuation					

	Qualification of accounts.	4	1	4		<ul style="list-style-type: none"> <li>Financial Information reconciled on a timely basis.</li> <li>Accounts are prepared in accordance with the relevant regulations, guidance and Codes of Practice.</li> <li>Regular dialogue with external auditors.</li> </ul>
	Operational disaster (fire / flood, etc)	4	1	4		<ul style="list-style-type: none"> <li>Business continuity procedures are in place</li> </ul>
	Compliance with Fund 'Dispute' Regulation.	3	1	3		<ul style="list-style-type: none"> <li>Internal Dispute Procedure in place.</li> </ul>
	Failure by employers to pay contributions into the Fund on time and in accordance with the 2016 'Rates and Adjustments Certificate'.	2	1	2		<ul style="list-style-type: none"> <li>Monitoring of monthly receipts to remittances, with reference to the 2016 'Rates and Adjustment Certificate'</li> <li>Report any breaches to Regulator in accordance with the Fund's 'Breach Policy'</li> </ul>
	Fraud.	2	1	2		<ul style="list-style-type: none"> <li>Strict internal control mechanisms, segregation of duties, etc.</li> <li>Internal and External Audit Review.</li> <li>National Fraud Inspectorate participation.</li> </ul>
Regulatory	Loss of key staff / expertise.	4	3	12		<ul style="list-style-type: none"> <li>Job descriptions and person specifications.</li> <li>Dynamic training program.</li> <li>Workforce planning arrangements in place.</li> </ul>
	Failure to comply with LGPS regulations and any other new regulations.	4	1	4		<ul style="list-style-type: none"> <li>There are sufficient fully trained staff.</li> <li>Regular updates are received and acted upon.</li> <li>Membership of relevant pensions professional bodies.</li> <li>Welsh Pension Officer Group participation</li> <li>Welsh Pension Fund Treasurers Group participation.</li> <li>Compliance with MiFID II</li> </ul>
	Excessive charges by suppliers	1	2	2		<ul style="list-style-type: none"> <li>Regular budget monitoring</li> <li>Periodic review of suppliers</li> </ul>

