

Report to: Pension Board

Date of meeting: 17 June 2019

By: Chief Operating Officer

Title: Pension Administration – updates

Purpose: To provide general updates to the Pension Board on matters relating to Pensions Administration activities.

RECOMMENDATION

The Board is recommended to note the report

1. Background

1.1 East Sussex County Council (ESCC) is the Administering Authority for the Local Government Pension Scheme (LGPS) on behalf of the employers participating in the LGPS through the East Sussex Pension Fund (ESPF or “the Fund”). The LGPS is governed by statutory regulations.

1.2 The Pensions Administration Team (PAT) based within Orbis Business Services carries out the operational, day-to-day tasks on behalf of the members and employers of the ESPF and for the administering authority (ESCC). They also lead on topical administration activities, projects and improvements that may have an impact on members of the LGPS. There are currently four key projects that are being overseen by the PAT and are part of the pension’s legislative requirements.

2. Report Overview - Pensions Administration updates

2.1 This report provides an update on these four key projects, which are:

- GMP (Guaranteed Minimum Pension) Reconciliation
- Membership Data Cleanse
- Administration System Review
- Annual Benefits Statement (ABS) Exercise.

3. Guaranteed Minimum Pension (GMP)

3.1 The GMP is the minimum pension that a United Kingdom occupational pension scheme must provide those public sector employees who were contracted out of the State Earnings Related Pension Scheme (SERPS), between April 6, 1978, and April 5, 1997. GMP paid was broadly equivalent to the amount an employee would have received if they had not been contracted out of the state pension scheme. Starting April 6, 1997, a reference scheme test replaced the guaranteed minimum pension system. The test evaluated the overall benefits provided by the scheme as opposed to an individual guarantee for each participant. If the scheme passed the test, it retained its ability to be contracted out.

3.2 There were two main components to the U.K.’s old pension system: a basic state pension and the State Earnings Related Pension Scheme, also known as the Additional State Pension. Employees who paid National Insurance Contributions at the full rate built up a basic state pension. However, not all employees built up a SERPS. Many were contracted out of the state pension, either voluntarily or because their pension plan did so on their behalf.

3.3 HMRC provides two separate reconciliation support services. Shared Workspace is a web-based service for schemes that have surrendered their contracting-out certificate. Schemes that have not yet surrendered their contracting-out certificate can use HMRC's Scheme Reconciliation Service (SRS). Both are designed to help administrators reconcile the membership and GMP data held on scheme records with that on HMRC records.

3.4 JLT has been contracted to deal with the GMP reconciliation. Working with HMRC they provide an agreed position on membership and GMP amounts. JLT will continue to undertake the final analysis of HMRC and Scheme data. This will allow the final position from a membership and GMP value perspective and this is due in October/November. Decisions will then be needed on the treatment of any over/underpayments and will allow a rectification and communications plan to be written.

3.5 The work that JLT is undertaking includes data gathering, member reconciliation and rectification work and has committed to 100% completion. Workshops led by JLT are taking place and include key stakeholders from the Fund. These workshops are in place to prepare the Fund for the upcoming decisions required that would define the approach to the member reconciliation process.

3.6 The ESPF Governance Team, including the Chief Finance Officer, attended a workshop organised by JLT. This is part of the ongoing engagement process and to understand the basis for GMP reconciliation decisions, including the reconciliation status, GMP liability, exact match, tolerance, proposals, awaiting data, outstanding review, what is out of scope, and members with no liability under the scheme and no corresponding record on the HMRC data.

3.7 Significant progress has been made to date with 92% of membership and 96% of GMP amounts matched. Based on JLT's client base and broader industry involvement in this exercise, they are of the view that the current status of case reviews puts the GMP reconciliation at least on par with other LGPS funds across the country. The progress to date along with the actions to take place over the next quarter by JLT are laid out in Appendices 1 and 2.

3.8 The effect of LGPS pensions not showing the correct amount of GMP for its members would mean that their pension might be increased incorrectly. This can result in underpayments and overpayments, at a member specific level. Stage 3 of the GMP Reconciliation Project, i.e., rectification, will amend LGPS pensions in line with the reconciled Stage 2 GMP information. This stage will also involve a significant member communication exercise to explain the changes taking place.

3.9 Due to the extended delays in the response times to query logs raised with HMRC, we are not in a position to be able to finalise the GMP reconciliation at this point. HMRC has also advised that we will not receive the final Scheme Reconciliation Service data cut from them, showing the final position of membership and liabilities held on their records currently, until the end of July / early August. As such, we are unable to quantify the under/overpayment liability values as at 31st March 2019.

4. Membership Data Cleansing – update

4.1 The Pensions Regulator (TPR) previously issued guidance on the approach that they consider to be good practice for measuring the presence of member data. Pension administration has carried out data cleansing exercises and checks periodically in the past as part of year-end exercises and triennial valuations. These exercises checked data provided by employers and data held on scheme member records. However, as part of continuing efforts to improve the quality of its data, pension administration has started a project that will help in moving towards the regular reconciliation of data from employers.

4.2 The data cleanse project aims to ensure that the Fund data held in the administration system, Altair, is correct so that the contribution rates for the next 3 – 4 years can be set with the highest level of accuracy. This project links into the Valuation work taking place this year, as it will assist with the Valuations final submission.

4.3 The pension administration team have been working closely with the ESPF Governance Team on the data cleanse project to reduce the number of critical errors and influential warning

errors prior to the valuation in July 2019. The initial part of this project has seen the focus concentrate on the clearance of errors between April 2016 and March 2018. The progress made since the beginning of the year has been very encouraging, with critical errors (as defined by Hymans Robertson) starting at approximately 16,000; subsequently 14,000 of those cases have been processed, reducing the figure to 2,000 across active, deferred, frozen, pensioner and dependent up until 25th March 2019.

4.4 At the milestone point of Hymans Robertson's compPASS modelling (an LGPS specific Asset Liability Model to inform the valuation decision making), the data was successfully loaded into the actuary portal with zero errors, with some agreed assumptions and tolerances with the governance teams for the purposes of this exercise. At this stage, the pension administration teams are confident the data will be fit for purpose for the actuarial valuation when it is uploaded at the end of June. Please see Appendix 3 for more detail.

5. Annual Benefit Statements (ABS) – update

5.1 The ABS process is carried out annually and its purpose is to actively manage and monitor all employers associated with the ESCC fund. The employers are required to submit their end of year pay information by the set deadline of 30th April 2019 as part of the LGPS pension scheme. As part of the end of year process, the annual benefit statements to all active and deferred members are to be produced by the regulatory deadline of 31st August 2019.

5.2 Communications and reminders were sent to all employers in January and February. For the months of March and April, two communication emails were sent, and final reminders were sent in May. The amount of communications sent this year has seen the best return rates of the last three years. As at 31st March 2019, there were a total of 133 employers in the Fund of which 127 employers (as six employers ceased on 31st March 2019) were required to submit a return covering 23,500 active members. As at 31st May 2019, only two employers had not submitted a return, involving a total of three members, which is an exceptional position to be in. Further chasers will be sent, with additional support provided by the governance team, to those who have still not supplied this information.

5.3 Once the deadline has closed for 31st May, the process for finalising uploading of these returns will be actioned prior to the first run of active members ABS production at the end of June. There will be two further runs in July and early August to allow for as many of these statements to be produced as required. We anticipate all deferred statements will be sent out by the end of July 2019 and Councillor Statements will be sent by the end of June 2019. A project to improve the number of "gone aways" in the Fund will commence in September 2019 with two aims:

1. Collect as many updated addresses as possible as part of a matching exercise of key personal details across a comprehensive set of public and commercial databases.
2. Introduce an ongoing improvement to the address tracing process for deferred members approaching retirement age. This aim will bring value for money as it focuses on those members eligible to receive benefits.

5.4 The Board has previously considered the circumstances that led to deadline breaches for issuing ABS for the last three years. To prevent future breaches, the Pensions lead manager has carried out a full review of the process, including ABS project planning, preparation and production, and key actions have been put in place to ensure that the 31st August 2019 deadline is achieved.

5.5 The PAT has been given dedicated member types to take ownership of in terms of statement production once the data has been all loaded onto the admin system. Please see Appendix 4 for more detail and Appendix 5 for the 2019 ABS project plan.

6. System Review

6.1 The timetable for procuring a system to deliver administration on behalf of the Pension Administration service is in place. With the contracts ending in 2021 with Heywood, the Project Manager has started the system review of the market by gathering information on the available pension administration systems. This will ensure the system in use by the PAT continues to meet the necessary requirements for all members within the partnership.

6.2 At the end of April 2019 the PAT appointed a Business Analyst (BA) to undertake the initial discovery phase of this project. During the 12 weeks, there will be a number of workshops taking place with our key users, partners and members to begin understanding the requirements of all our stakeholders. A workshop has been agreed during June that will include the stakeholders from ESPF as part of the requirement gathering.

6.3 By the end of this discovery phase, the BA will produce a number of key documents providing information - including an impact analysis, an outline business case and a non-functional / functional specification – which will be used as part of a potential tendering process later on this financial year. The decision to obtain a new system will be made once all research and analysis has taken place, with the aim to produce a business case showcasing all potential options later this year. Whichever path is chosen, the PAT is aiming to move forward with a digital transformation that will see an increase in the use of self-service for members and employers, plus more efficient processes within the administration service. Please see Appendix 6 for more detail.

7. Key Performance Indicators

7.1 Since January 2019 there has been an improvement in performance, with February and March performance meeting targets set with the exception of one area where two cases were completed outside of target. However, there has been a slight drop in performance in April, with four areas being below the required targets (Appendix 7). This is due to the resource gap between leavers and replacements.

7.2 There are currently three vacancies within the administration team, and one member of staff on long term sickness absence. Recruitment is underway to fill these vacancies to help ensure the usual excellent administration service can continue.

8. Reporting Breaches Log

8.1 The Fund maintains a log of all breaches of the law as applicable to the management and administration of the Fund. It is necessary that all incidents of breaches identified are recorded in the Fund's breaches log, and the log will be reviewed on an on-going basis to determine any trends in the breaches log that might indicate any serious failings or fraudulent behaviour on an ongoing basis.

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