

# 2020 Pensions Increase Exercise – Errors and Warning Review

## Purpose and scope

This paper has been commissioned by and is addressed to East Sussex County Council in its role as Administering Authority to the East Sussex Pension Fund (“the Fund”).

Its purpose is to consider at an initial high-level the materiality of the warnings and errors produced as part of the Fund’s April 2020 pensions increase exercise and any potential impacts these may have had if not addressed in the past.

This report sets out our findings, together with possible further actions for the Fund to consider.

## Background

The pensions increase routine within the Fund’s administration software has been developed and supplied by the software provider, Heywood. It has been designed to process annual increases to standard local government pensions linked to the scheme member’s administration record. However, many administering authorities, like East Sussex, will make other annual payments to pensioners in the form of annual compensation or injury allowances for which no administration record is required. For accounting purposes these payments may be recorded differently to ordinary pensions. Invariably, historic pension and compensation records will have been migrated from third-party payroll systems and may have been configured differently to what the Heywood pensions increase routine expected. As a result, the pensions increase routine developed by Heywood is likely to report errors and warnings that simply reflect the local arrangements, rather than a specific issue with the person’s pension or compensation record.

## Pensions increase process

Pensions increases are applied on the first Monday in April on or after 6 April (i.e. the start of a new financial year). For 2020 the pensions increase date was 6 April. A standard calculation routine undertakes the necessary calculations in respect of each member to determine what, if any, pensions increase should be applied on and from the increase date. Where any member record contains data which is inconsistent with the expectations of the pensions increase process the routine will output error or warning messages, as appropriate.

**Errors** – where an error is reported it prevents the application of pensions increase being applied against the individual record. They do not, in themselves, suggest there is an error with the individual’s pension record. That said, further investigation is required to determine what, if any, corrective action is required to be undertaken and that corrective action then taken.

Errors may be reported for instance where the Guaranteed Minimum Pension (GMP) value is equal to or greater than the annual pension amount, where an individual has commenced their pension after the increase date or where a manual recalculation may be required.

We would expect all errors to be investigated and corrective action taken ahead of the pensions increase being run as an ‘actual’, rather than a ‘provisional’.

**Warnings** – these will not necessarily prevent the application of pensions increase against an individual member. Rather they indicate the potential for an issue to be present which should be investigated. This does not necessarily mean that further action is required to correct a record ahead of the pensions increase date.

While not critical to the successful running of the pensions increase exercise itself, warning messages still need to be investigated to ensure that everything is in order ahead of the 'actual' pensions increase run. Where necessary corrections should be made to the member records.

Warnings can occur for a variety of reasons. Many highlight where the presence of a GMP value is expected when it isn't. These can be explained away where an individual has been re-employed or has multiple pension entitlements and the GMP value is shown on the substantive records.

Warnings have also been flagged where the 'pension' component is missing from the individual's record. This is either as a result of the payment relating to an injury allowance (with the alternative component INJ used instead) or compensation (with the alternative component of COMP used instead).

A significant number of warnings (in the region of 17%) related to the application of supplementary pensions increase being applied to the individual's crystallisation data view. This appears to relate to the application of pensions increase on the lump sum awards and has no direct implication on the actual pension in payment.

### Source information

As part of our investigations we were provided with the following Altair output reports from the Fund's administrator, Orbis, on 23 April 2020.

- Provisional PI East Sussex Pensioner ("Pensioner")
- Provisional PI East Sussex Widow and Dependant ("Survivors")
- Provisional PI East Sussex Pension Debit ("Debit")
- Provisional PI East Sussex Deferred ("Deferred")

The above reports provide a detailed breakdown of the pensions increase assessment in respect of each individual. While they are split into their respective groupings the detail contained within each report is the same and includes: -

- The pensions increase percentage to be applied against each member;
- The current (pre-increase) pension amount;
- Details of any GMP that applies in respect of each member (including any 'post 88' GMP amount where applicable);
- The new, increased, pension amount;
- The pre-increase adjustment to be applied in the April reflecting that the increase is not effective from the 1<sup>st</sup> of the month;
- The relevant date used to assess pensions increase;
- Any errors or warnings shown against an individual's record, where applicable

In addition we were provided with a report in relation to the application of pensions increase on lump sum payment - Provisional PI East Sussex Lump Sum ("Lump Sum"). This report is less detailed, but provides information on supplemental increases due to those lump sums that have becoming payable in the year up to the pensions increase date where a further increase is required (i.e. lump sums in respect of deferred benefit members).

We have relied on the information contained within these reports in reaching our conclusions.

### Process

In undertaking our review of the above reports we have:

- Assessed the incidents of warnings and errors against each category of member;
- Undertaken spot checks, where possible against a cross section of the warning messages, to understand their relevance and satisfy ourselves that no material issues arose as a result of those messages; and
- Undertaken spot checks of the error messages to understand their relevance and satisfy ourselves that no material issues arose as a result of those messages.; and
- Considered which employers are impacted by the errors.

### Findings

The following table sets out the findings of our investigations against each of the reports provided to us

Report	Total number of records processed	Warnings	Errors
Pensioner	19,508	3,004	82
Survivors	2,913	534	40
Deferred	31,160	26	15
Debit	16	1	0
<b>Totals</b>	<b>53,597</b>	<b>3,565 (6.66%)</b>	<b>137 (0.26%)</b>

The above table shows that out of a total pensioner membership of 53,597 only 137 errors were reported. This represents just 0.26% of the pensioner and deferred pensioner membership. Given the size of the East Sussex Fund we consider this incidence of errors to be low. However, we consider the materiality of the errors below.

In terms of warnings, 3,565 against a membership of 53,597 represents 6.65%. While this number may seem high there can be a number of reasons for the pensions increase routine to throw up warnings, each of which can then be accounted for. Again, given the size of the East Sussex Fund we do not consider the incidence of warning messages to be of concern.

It should be noted that the incidence of errors or warnings does not in itself indicate an error or an issue with the individual's record or the amount of pension or compensation they are being paid. The Heywood pensions increase routine is the same for both the administration and pensioner payroll modules. It is based on a 1 to 1 principle of a single administration record to a single pension record. In reality, however, administering authorities may also pay a number of non-pension payments such as annual compensation, injury allowances and gratuities. These can be paid in addition to scheme pensions or as stand-alone payments (teachers annual compensation payments for example). A significant number of the warnings for the East Sussex exercise related to the element code used to distinguish pension over compensation or injury payments not matching the code set in the Heywood routine. Similarly warnings relating to missing GMPs can also be linked to the same payments (the routine expects a GMP to be present, but in reality one would not apply to the compensation or injury payments).

Given potential differences in local practices it is difficult to provide a direct comparison with other Funds. However, we consider the materiality of the warnings below.

Additionally, 252 errors were reported against pensions increase due on lump sum payments. Pensions increase on lump sum amounts is due primarily where a deferred benefit member commences pension part way through a financial year and a small amount of PI is due in respect of the period between the start of the increase period and the date pension benefits commenced. In each case where an error was reported the reason confirmed that the application of pensions increase was not relevant in those cases.

We are aware that concerns were expressed that any significant errors in the application of pensions increase could have a material impact on scheme employers, given potential funding implications.

### Materiality

**Warnings** – As part of the pensions increase routine set up within Altair a number of standard warning messages can be produced against individual member records. The existence of these warning messages does not necessarily indicate a problem with the members record, nor do they prevent the calculation of pensions increase where they do occur.

A significant number of the warning messages related to apparent inconsistencies with, or gaps in, the GMP information expected to be held against the member's pension record. We have been able to undertake a high-level spot check on a number of records against each type of warning that was reported. On the basis of this investigation we were satisfied that for the sample member records checked their individual pension records were in fact correct and no further action was required.

It is perhaps worth making the point that due to the pension increase routine set up within Altair we would expect these warnings to occur in future years for the individuals concerned. We would suggest, however, that as part of good practice the Fund is provided with assurance that warning messages have been investigated and, where necessary, member records amended ahead of the 'actual' pensions increase being run.

**Errors** – as above, the number of errors resulting from the 2020 pensions increase review is considered to be low. Where an error is been reported it will prevent the application of pensions increase in relation to that individual.

For some individuals (e.g. where the GMP is equal to the pension) this would be correct, and no further action would be required. In other cases, however, such as where it was indicated that pensions increase may need to be recalculated (72 of the 122 errors highlighted against pensioner and survivor records) it would be necessary to investigate each case and determine what action is required ahead of the payroll being processed.

For the purposes of our conclusions it has been assumed that the Fund's administrator has taken the appropriate action to investigate, and where necessary correct, these errors ahead of processing the April 2020 instalment of pension. We would further expect the errors relating to deferred members would be corrected ahead of the production of deferred member annual benefit statements later in the year.

In addition, we have investigated which employers are impacted by the errors (excluding the lump sum errors). We can confirm there is no pattern or concern of any particular employers impacted. As expected the majority (around 80%) of the errors fall within council employers, therefore these would have no material impact on their funding or contributions.

### Conclusions and next steps

Based on our high-level review of the warning and error messages resulting from the Fund's 2020 pensions increase exercise we believe the numbers and type involved are overall of an acceptable level for a fund of the size of East Sussex.

For the purposes of this initial analysis we have been provided with the output produced in respect of the 2020 pension increase update. We have not been provided with any historic output from previous years' exercises, but do not consider this to be material to the review we have undertaken. The outputs provided as part of the 2020 pensions increase exercise are considered to be consistent with the reports we would have expected to see in previous years. Our conclusions further do not give us any cause to believe there are any systemic issues associated with the pensions increase processes applied in respect of the Fund.

We would recommend that the Fund requests an update from the administrator on the progress made to resolve the errors. We would also recommend assurance is given to the Fund over the actions taken to consider warning messages and, where appropriate, to amend member records ahead of running the 'actual' pensions increase updates.

We would be happy to discuss our findings with you in more detail to consider if you would require a more in depth review and Committee report.

### Reliances and limitations

This paper has been prepared for the Fund for the purpose described above. It has not been prepared for use for any other purpose and should not be so used. The paper should not be disclosed to any third party except as required by law or regulatory obligation or with our prior written consent. We accept no liability where the paper is used by or disclosed to a third party unless we have expressly accepted such liability in writing. Where this is permitted, the paper may only be released or otherwise disclosed in a complete form which fully discloses our advice and the basis on which it is given.

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For and on behalf of Hymans Robertson LLP