



<u>Committee and date</u> Pensions Committee
18 March 2016
10.00am

<u>Item</u>
<b>13</b>
<u>Public</u>

## PENSIONS ADMINISTRATION MONITORING REPORT

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### 1. Summary

- 1.1 The report provides Members with monitoring information on the performance of and issues affecting the Pensions Administration Team.

### 2. Recommendations

- 2.1 Members are asked to accept the position as set out in the report and;
- 2.2 Agree that the GMP Reconciliation exercise is now carried out in line with the HMT recommendations in this report at section 8.

## REPORT

### 3. Risk Assessment and Opportunities Appraisal

#### 3.1 Risk Management

Performance is considered and monitored to ensure regulatory timescales and key performance indicators are adhered to. Administration risks are identified and managed and are reported to committee on an annual basis.

#### 3.2 Human Rights Act Appraisal

The recommendations contained in this report are compatible with the Human Rights Act 1998.

#### 3.3 Environmental Appraisal

There is no direct environmental, equalities or climate change consequence of this report.

#### 3.4 Financial Implications

Managing team performance and working with other Administering Authorities ensures costs to scheme employers for Scheme Administration are reduced. However, it must be noted that the introduction of the 2014 LGPS and the increased governance being introduced by the Public Services Pension Act 2013 will increase the

resources required by the administration team. Reconciling the Funds Guaranteed Minimum Pension Liabilities with HMRC will have a direct cost for the Fund but if this is not undertaken the Fund risks taking on financial liabilities it didn't need to and having its data called into question by the Fund Actuary. LGPS having to fully index GMP's will increase costs for the Fund going forward.

#### 4. Performance and Team Update

- 4.1 The team's output and performance level to the end of January 2016 is attached at **Appendix A**.
- 4.2 You will see that Tasks which became due and Procedures outstanding at the end of the month have both risen during the last quarter. This is due to going live with iConnect with Telford and Wrekin Council and identifying un-notified starters, leavers and changes as a result of a data cleanse that was undertaken. iConnect, as expected, is increasing the number of cases being identified on a monthly basis rather than the team having to identify missing data during our year end processes as usually happens.
- 4.3 Shropshire Council has recently also gone live with iConnect for their own payrolls plus their external clients payrolls, who are Fund employers, too. This means that we are now receiving clean data on a monthly basis for 88% of the Fund's membership. But has created a large amount of outstanding work.
- 4.4 A valuation plan is being put in place and workloads constantly monitored to ensure all records will be at the correct status when sending data to the actuary in July 2016. Pension Team managers are looking at this on a weekly basis to ensure priority is being given to the right cases.

#### 5. Help Desk Statistics

- 5.1 The following chart shows the number of queries received through the helpline number.

	Nov 2015	Dec 2015	Jan 2016
Telephone calls received	760	478	807
Queries dealt with by helpdesk at first point of contact %*	91.32%	91.21%	89.46%
Users visiting the Website	2245	Not available**	Not available**

\* Where queries have not been dealt with by helpdesk, this will usually mean that the calls have been picked up by the rest of the team.

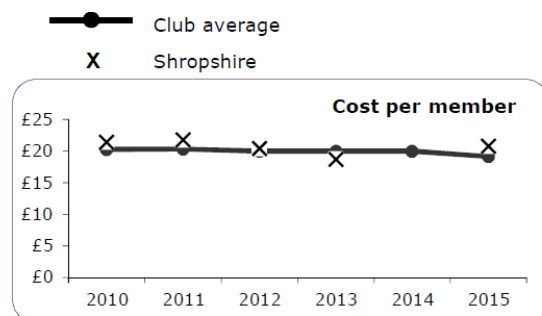
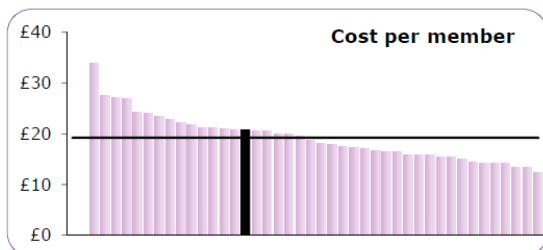
*\*\*Support for the website is provided to the team by Shropshire Councils web team. This includes providing access to google analytics to track website statistics. In September 2015 it had come to the Funds attention that the website statistics were not being recorded correctly. This issue was raised with the web team and has been an intermittent issue until February 2016 when the web team were able to fix the problem. During this period (Sept 15–Feb 16) the Funds statistics may have been affected due to a configuration issue.*

## 6. CIPFA Pensions Administration Benchmarking Club Results

6.1 The Pensions Administration Benchmarking Club has been in operation for some time and compares the cost of Pensions Administration with other Pension Funds nationally including some out-sourced to private contractors.

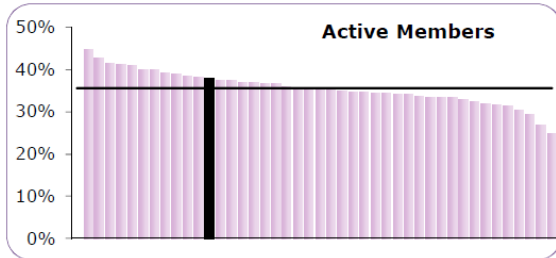
6.2 The first bar chart below shows Shropshire is just above the group average of £19.17 per member at £20.79 per member. The second chart shows Shropshire's position against the average cost since 2010. Benchmarking was not undertaken in 2013/14. Contributing factors are: that currently staffing costs, communication costs, IT, Actuary and central recharges are all higher than the benchmark average. Staffing was increased to pre-empt the 2014 changes and the increase in governance on the Fund. As a direct result of this we were one of a very few Funds who were able to produce Annual Benefit Statements on time in 2015. Shropshire has historically communicated very well with our members and Employers. This is not an area we wish to cut back on however we are striving to limit costs by increasing our use of electronic communications. IT has been invested in over the past couple of years to ensure we are getting clean data from our Employers. The aim is to work towards ensuring the overall Fund Administration costs do not deviate any further from the average but if possible return to either average or just below. Work will be undertaken to ensure all central recharges are transparent and appropriate.

**NET COST / MEMBER 2014/15**

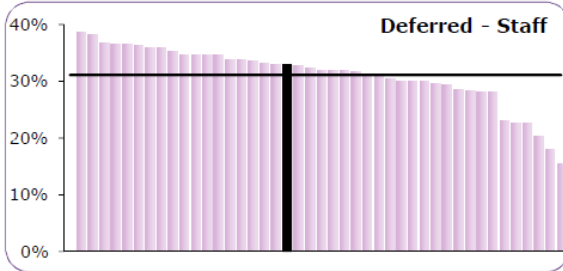
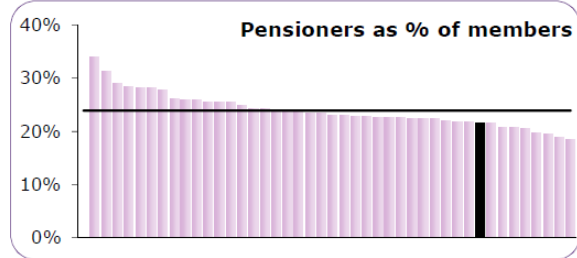


6.3 The following charts show the composition of members as at 31 March 2015. It shows that we have an above average proportion of actives with 40%, above average deferred membership but a lower than average number of pensioners. The charts also highlight that the number of employers in the Fund is below the average of 200, this is most likely down the fact that schools have been slower to convert to Academies than in the rest of the Country.

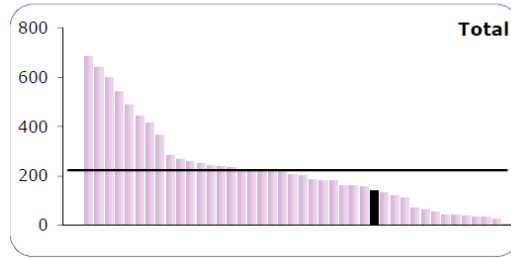
**ACTIVES AS A % MEMBERS**



**PENSIONERS AS A % MEMBERS**

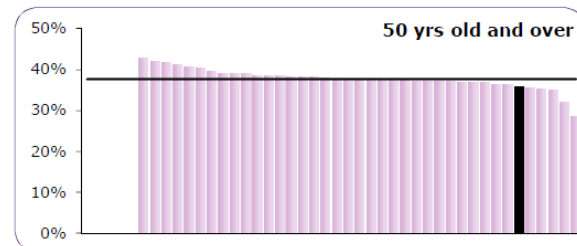
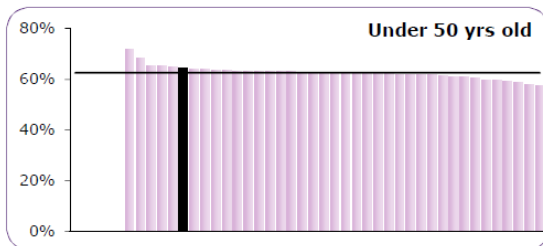


**NUMBER OF LGPS EMPLOYERS**



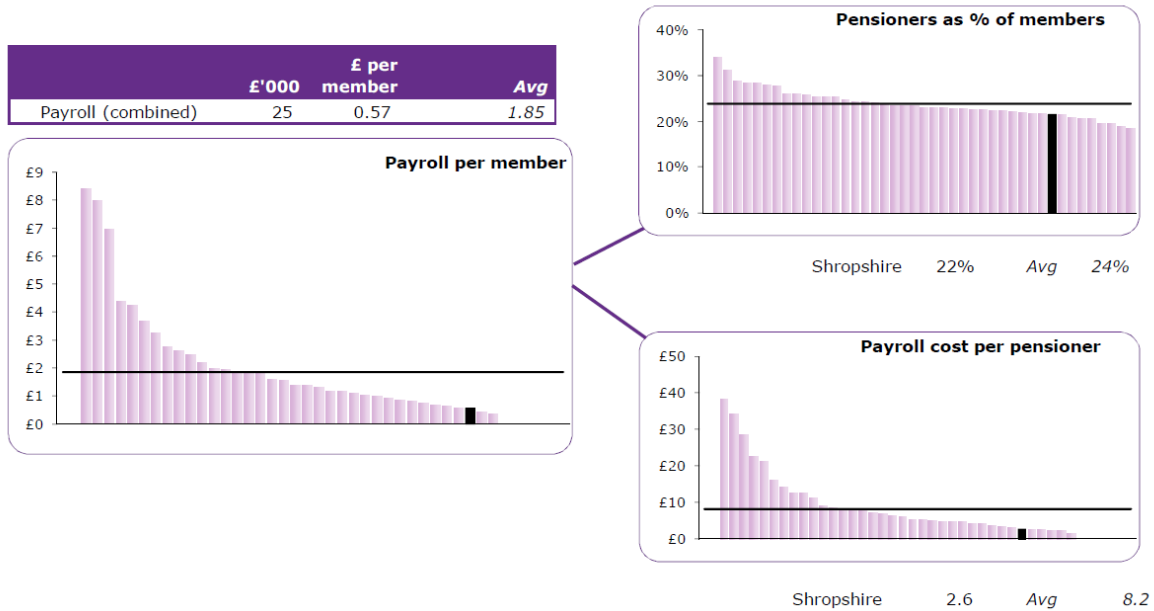
6.4 The following gives a composition of the active members in the scheme of the numbers who are above or below age 50. 64% of our active members are above age 50.

**COMPOSITION OF MEMBERS AS AT 31/03/2015**

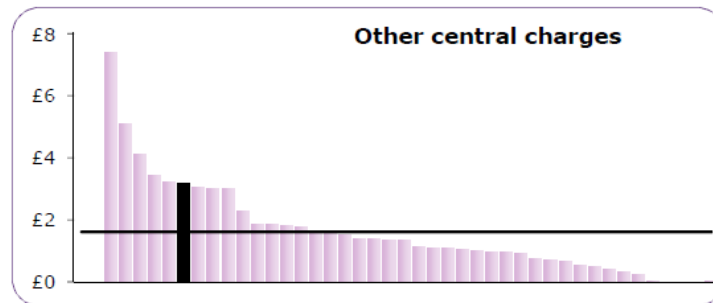


Composition of active members			
	No.	%	Avg
Under 50 yrs old	10,718	64%	62%
50 yrs old and over	5,930	36%	38%

6.5 The following charts show the payroll cost per member. This is an area that is low cost historically because of the current employer work undertaken by the Fund so a recharge was not made for utilising the Council's payroll software but this will change going forward from April 2016 for transparency purposes. Shropshire Council staff have been trained in the areas they have historically not undertaken and a plan is being put in place for the work to transfer to its correct area. This should be completed by March 2017.



6.6 The following chart shows that we are above the national average for other central charges the Council passes on to the Fund.



## 7 Communications

7.1 **Newsletter** - A newsletter was sent at the beginning of January 2016 to the home addresses of all active members. The newsletter was issued to meet Schedule 2 Paragraph 12 of the Disclosure 2013 Regulations for pension schemes, and informed members that they will no longer be participating in a contracted out pension scheme from 6 April 2016. Amongst other things the newsletter also informed members that their Annual Benefit Statement in 2016 would be available to view online with instructions on how members would do this. Members do have the option to elect to continue to receive paper copies but need to put their request in writing. To date, only 108 members have opted to continue to receive their Annual Benefit statement in paper format. A copy of the newsletter that was issued can be found at **Appendix B**.

7.2 **Annual Benefit Statements 2016** - Annual Benefit Statements have to be issued to active members now by 31 August each year. A project has been in place to transfer this year's statement to be viewable

online via Member Self Service (MSS). Testing of the system is currently underway. Hard copies will still be needed for those members who opt out of electronic communication so we are part of a collaboration, with 7 other Funds. To produce a standard Statement together with a standard set of notes are used. Once agreed as technically correct a review of the notes by the Plain English Campaign will also take place, to ensure they are easy to understand. The cost of all work, including the review of the notes by the Plain English Campaign, is being split between the 8 Funds, so that savings are made. Work is also taking place on producing the deferred members' Annual Benefit Statement which is also being done collaboratively but with 6 other Funds.

7.3 **Communicating changes to Annual Allowance and Lifetime Allowance** -. The last two newsletters issued by the Fund included information on the changes taking place and were sent to all active members' home addresses. Further communication however is planned to provide additional information on these changes to the two pensions' tax measures, Lifetime Allowance and Annual Allowance. This communication exercise however will be tailored to members in the Scheme mostly likely to be affected by the changes.

7.4 **Annual Meeting** – As the meeting in 2015 worked successfully in the Council Chamber at the Shirehall, it will be held there again this year. A date has been booked provisionally for 2 December 2016.

## 8. **GMP – Reconciliation**

8.1 As previously reported following the end of contracting out in April 2016, HMRC will be sending a statement to all individuals affected stating the amount of COPE (Contracted Out Pension Equivalent) they will receive and who is responsible for paying for it. Ahead of this, HMRC is advising that schemes should reconcile the GMP values they hold for members with those calculated by HMRC or face making overpayments to existing members and even individuals for whom they believe they have no liability.

8.2 Protections for scheme members' existing contracted out rights will be maintained, but HMRC's support services will be scaled down and eventually withdrawn. Therefore it is important that administering authorities reconcile their data against the data held by HMRC. HMRC provides the Scheme Reconciliation Service (SRS) which is a support service designed to help administrators with the reconciliation process. This piece of work was started by the Fund in 2015. The timescales for GMP reconciliation are set out below:

- By 5 April 2016 - funds should sign up to the SRS by this date. Sign up by 5 April 2016 is required so that HMRC can plan their resources to support the UK reconciliation project. Shropshire has signed up.

- From 5 April 2016
  - HMRC will no longer track individual's contracted out pension rights. It will be the Scheme's responsibility to keep track of GMP liabilities. The Fund needs to consider whether procedures need changing to obtain the current value of a member's GMP upon payment (or transfer out). This can be achieved by either: -
    - following reconciliation, annually increasing the GMP held, using section 148 orders within their own pensions administration system, or
    - using the GMP micro service to obtain the current value of the GMP at the relevant date. This service is intended to be self-serve so that schemes can input data for either individuals or multiple scheme members and obtain the GMP figure revalued up to the relevant date. To use this service though funds will need to ensure that they have procedures in place to record the SCON numbers of any GMPs transferred into their fund (including those from other LGPS funds). This is because, in order to obtain the value of a GMP from the GMP micro service, HMRC require the SCON number of the former scheme(s) from which the individual transferred.
    - At present it is unclear which will be used by Shropshire. It is prudent therefore to retain the SCON number of the former scheme(s) from which the individual transferred in case this may be needed for some reason in the future.
- January 2017 - data for active members will start to be issued to schemes
- December 2018 - HMRC support for reconciliation queries ends and individuals will be sent information about their contracting out history.

- 8.3 In February HMT outlined their recommended approach to this reconciliation exercise. Their guidelines have been agreed across their working group and MOCOP. It is recommended that the intention of this letter be followed by the Fund and the following data reconciled:
- i) data for active, deferred and pensioner members whose records include any contracted-out service between 6th April 1978 and 5th April 1997
    - data for non-members i.e. those who the administering authority believes have never been members of the Scheme
    - data for members who had been members of the Scheme but for whom the administering authority believes it has already discharged its liability i.e. via a transfer out, payment of a CEP or trivial commutation
  - ii) where a person who is within the scope of the reconciliation exercise has been underpaid, the person should be paid the correct level of

pension going forward together with the arrears of pension due (with interest in accordance with the Scheme rules).

- iii) Further advice is awaited as to how to treat overpayments fairly across the sector. HMT is to collect evidence from the reconciliation exercise on the extent of the overpayments. This will give more information on whether there will be value for money in recouping the overpayments.
- iv) Where any discrepancy is within £2 per week of the GMP held by HMRC the Fund should default to the HMRC data for active and deferred members. But for pensioners default to Fund data.

- 8.4 The working group and DWP are still considering whether it is necessary to reconcile the data of members with service beginning after 5 April 1997. Therefore no further action will be taken on this point by the Fund until informed otherwise.
- 8.5 The recommendation of Officers is that the Shropshire Fund follow HMT guidelines, but taking into account the announcement of 1 March covered below in **GMP Indexation**, and continue to work with ITM to reconcile these records. As previously reported there is currently no in-house resource available to work on this project and an interim appointment will therefore be required.

## 9. **GMP Indexation**

- 9.1 On 1 March HM Treasury announced their decision on the interim solution regarding the indexation of GMPs in the Public Sector following the introduction of the new flat rate state pension on 6 April 2016.
- 9.2 The statement confirms that public service pension schemes will be responsible for paying full pensions increases on both the pre and post 88 GMP (for the life of that member and any subsequent dependents) for members who reach State Pension age between 6 April 2016 and 5 December 2018.
- 9.3 For members reaching State Pension Age beyond 5 December 2018, HM Treasury intends to consult later this year on a solution to the indexation issue going forward.
- 9.4 At present the Fund pay only for CPI (capped at 3%) on the post-88 element of a GMP, and the Government pays for the top-up on both pre and post-88 elements up to full CPI, via the state pension.
- 9.5 The Fund's Actuary Mercer have stated that if full indexation had been implemented for all members who reached State Pension Age from 6 April 2016, the burden for the LGPS would have been additional liabilities of around £1 billion which equated to around 0.5% of the



Scheme's total liabilities. Based on this initial shorter window of pensioners, they estimate that the current impact on the LGPS will now be additional liabilities of the order of £225 million, which will have to be reflected in the forthcoming 2016 valuation: The impact will vary for individual employers, depending on their membership profile, but could be around 0.1% for Shropshire. This is something to be costed in the valuation.

- 9.6 The Pensions Increase Order for 2016 however is 0%. The increase is usually in line with CPI to the year to the previous September, however for September 2015 this was negative at -.01% and Pensions Increase cannot be negative so has to be set to zero for the year.

## 10 CARE Pension Revaluation

- 10.1 Please note however that the CARE pension accounts are subject to revaluation in line with Treasury orders and usually will follow CPI up to the preceding September.
- 10.2 The Government intend to push for negative revaluation of LGPS pension accounts.
- 10.3 The Public Service Pensions Act 2013 requires that where there is a percentage decrease the Treasury Order must be expressly approved by both the House of Commons and the House of Lords for it to become law; this is called the affirmative procedure. At the time of writing this report no confirmation has been received concerning the likelihood, or otherwise, of a negative revaluation percentage being passed in law.

### **List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)**

Pensions Committee Meeting 27 November 2015 Pensions Administration Report  
Pensions Committee Meeting 20 March 2015 Pensions Administration Report

#### **Cabinet Member (Portfolio Holder)**

NA

#### **Local Member**

NA

#### **Appendices**

Appendix A – Performance Monitoring  
Appendix B – Active member newsletter