



Committee and date
Pensions Committee

20 March 2015

10.30am

Item

15

Public

PENSIONS ADMINISTRATION MONITORING REPORT

Responsible Officer Debbie Sharp

Email: Debbie.sharp@shropshire.gov.uk

Tel: 01743 252192

Fax: 01743 255901

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 a GMP Reconciliation exercise is carried out in line with the recommendations in this report

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.

4. Performance and Team Update

- 4.1 The team's output and performance levels to the end of January 2015 are attached at **Appendix A**.
- 4.2 Over the last quarter the number of procedures outstanding has increased slightly. The help desk has been running with one member of staff down due to an unforeseen resignation before Christmas. To limit the effect of this on our help desk service phone cover has been shared amongst the team. In spite of this backlogs are still reducing in line with the plan in place to clear these by the end of this financial year.
- 4.3 A team training day took place on 16th March in the Shirehall Council Chamber. The day covered outstanding areas of the new 2014 Scheme Regulations where guidance has only recently been released from the LGA. This focused on the Aggregation of service and the employer role when undertaking an Ill Health Retirement. A Team Development session was also provided by Corporate Training which looked at understanding self and others and motivation.
- 4.4 As previously reported a middleware service called I-Connect (supplied by I-connect Ltd) is being piloted for 2 years. In readiness for using this service a full data match between Shropshire Council payroll and the Pension Administration software is underway. The same procedure will be done with Telford and Wrekin. Testing has started which should give a good understanding of how the service will work in practice. A project plan is in place.

5. Help Desk Statistics

- 5.1 The following chart shows the number of queries received through the helpline number and the number of emails received to the generic Pensions email inbox.

	November 2014	December 2014	January 2015
Telephone calls received	624	585	867
Queries dealt with by helpdesk at first point of contact	93.43%	85.3%	89.04%

%*			
Emails received and responded by help desk (within 3 working days)	294	213	412
Hits to the website	1942	1603	1737

* 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 outside of the helpdesk.

- 5.2 It's interesting to note the increase in both telephone calls and emails in the month of January 2015.

6. GMP Reconciliation

- 6.1 Following the end of contracting out in April 2016, HMRC will be sending a statement to all individuals affected stating the amount of Guaranteed Minimum Pension (GMP) 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.
- 6.2 Pension funds can begin reconciling deferred and pensioner membership now. HMRC anticipates making Active member records available for reconciliation towards the end of 2016.
- 6.3 Until 2018 Schemes will be able to challenge the figures where they believe discrepancies are the result of errors on HMRC's part, but past this point no further challenges will be accepted. With exercises frequently taking up to three years to complete, this gives schemes a limited window to make sure their own records tally with HMRC's.
- 6.4 This reconciliation process has been recognised to be resource intensive. Funds must initially match their records with those on the HMRC file before investigating the records that do not reconcile.
- 6.5 Errors in GMP values can lead to potentially significant pension overpayments. The National Audit Office (NAO) conducted a review¹ of GMP figures for five of the main public sector schemes (Teachers, NHS, Civil Service, Armed Forces and Judiciary) in 2009. The Local Government Pension Scheme (LGPS) was not included in this exercise. The NAO found significant overpayments were being made due to inaccuracies in the data held by the schemes. The average

overpayment at that time was £1,100 per member with around 5% of the members being affected.

- 6.6 The reconciliation of GMP values is not a mandatory regulatory requirement; however The Fund faces significant risks if it is decided not to reconcile values. These include:
- Incorrect calculation of GMPs by HMRC increasing the fund's liability
 - Liability for GMPs that are not the Fund's responsibility
 - Breach of The Pensions Regulator's (TPR) code of practice regarding Record Keeping
- As a result it is recommended that a GMP Reconciliation exercise is carried out and commences with the project immediately.
- 6.7 The level of effort to address GMP reconciliation will depend on the quality of our data, the level of tolerance we decide to use when reconciling the GMP amounts and the approach we take to performing the reconciliation.
- Reconciling members within the LGPS is complicated by the fact that a proportion of the membership has multiple employments. This means a number of GMP values may require validation for an individual. The activities involved in the project include:
- registering with HMRC for the GMP reconciliation service – completed.
 - agreeing and documenting an approach with the pension fund committee;
 - tolerance level for reconciling – **It is recommended the Fund adopts the Pension Regulators £2 per week tolerance.**
 - That Fund policy is followed regarding recovery of any current overpayments (reclaim, write off) and underpayments
 - legal advice is sought, if necessary, on any over or under payments
 - performing the reconciliation – Delegate authority to officers to select appropriate provider.
 - correcting incorrect values on the pension and payroll systems
 - communicating with HMRC
 - communicating with members
- It is estimated the effort involved in performing the reconciliation and updating the pension system records could be around 830 days. This is based on using a spreadsheet to perform the reconciliation and updating the administration system records separately.
- 6.8 The Administration team does not currently have the resource to undertake this project without automating or outsourcing part or the whole of the exercise.
- 6.9 To address this investigations are being made into solutions that may be available to perform the GMP reconciliation efficiently. Those researched are the Heywood GMP Service and ITM GMP reconciliation services. However, neither of these systems will fully negate the requirement for additional in-house staff resource. It is understood that the Funds Advisors Mercer & Aon may also be in a position to help with the reconciliation. All options will incur additional

costs for the Pension Fund which is at present unknown, but which will be substantial.

7. Risk Log

- 7.1 Pensions administration risks are monitored continually and the risk log is reviewed regularly. The Risk log is kept centrally by the Council. The current Administration risks that have been identified are attached at **Appendix B**.

8. The Pension Regulator Code of Practice

- 8.1 The Pensions Regulator has laid before parliament its draft public service code of practice (Governance and administration of the public service pension schemes) which will come in to force in April 2015. The code provides Administering Authorities and pension board members with a summary of their key governance and administration duties, standards of conduct and practice which the Pensions Regulator expects in relation to those duties. Links are on the Pension Fund web site.
- 8.2 The Pensions Regulator has released its free e-learning programme aimed at those running public service pension schemes; [Https://education.thepensionsregulator.gov.uk/login/index.php](https://education.thepensionsregulator.gov.uk/login/index.php). The programme has seven courses covering the governance and administration of public service schemes, as described in the draft public service code of practice. The modules are, Conflicts of interest, managing risk and internal controls, maintaining accurate member data, maintaining member contributions, providing information to members and others, resolving internal disputes and reporting breaches of the law.

9. Consultations

- 9.1 In December 2014 the DCLG issued a consultation on The Local Government Pension Scheme (Amendment) Regulations 2015. The consultation period closed on 30th January 2015.
- 9.2 There were two parts to the consultation:
- Draft amendment regulations which were intended to clarify and improve the drafting of some of the provisions of the LGPS 2013 Regulations and the LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014; and
 - Additional issues which have not been reflected in the draft amendment regulations but on which comments and suggestions were invited
- 9.3 An officer response was sent which is attached at **Appendix C**.

10. Pension Freedom and Choice - LGPS

- 10.1 From April 2015, non-pensioner LGPS members will still be able to transfer their LGPS benefits to defined contribution (DC) arrangements. However for the first time, from the age of 55 or over, they will have full access to the cash transferred to those arrangements.
- 10.2 HM Treasury, to support the April 2015 changes for Defined Contribution arrangements, has gone live with "Pension wise: Your Money. Your choice". Scheme trustees (including Administering Authorities) will be required to 'signpost' the service. This will be done via the Fund's web site. The guidance will be relevant to members of the LGPS with AVC pots or who are planning to transfer benefits into a DC arrangement on retirement. Plans are for a single 45 minute session per 'customer' (via telephone or face to face), to be booked in advance, with booking expected to be open in March.
- 10.2 The Pension Schemes Bill gives DCLG the power to designate a scheme if ministers believe that "the level or expected level of transfers out of the scheme increases the likelihood of payments out of public funds being needed to ensure that the scheme can meet its liabilities". A designation can be effective for up to 2 years and then needs to be revoked or renewed. The Bill gives HMT the power to make regulations which provide that, where a designation has been made, the scheme manager must reduce the CETV for acquiring flexible benefits in another scheme by an amount determined in accordance with the regulations. HMT is expected to issue draft regulations setting out the detail of how these protections will work in practice very soon.
- 10.3 The Bill also introduces the requirement for scheme members to take advice from an authorised Financial Conduct Authority (FCA) Independent Financial Advisor (IFA) at their own cost before making a transfers from safeguarded benefits (includes LGPS) to flexible benefits if the transfer amount is above £30,000. The Fund will have to check that a member has received independent advice and that it was from a reputable source.

11. Communications

- 11.1 Two training sessions have been given, by the Pensions Manager and Communications Officer, to Human Resources staff at Shropshire Council on ill health retirement. A further training session has been booked for HR staff at Telford and Wrekin Council.
- 11.2 'Employers Training Workshop' run in November covered the responsibilities of employers in the LGPS and the data requirements. The team received good feedback particularly from new scheme

employers that attended. A workshop is planned for May for recently converted Academies.

- 11.3 Retired scheme members will again receive their P60, April payslip and pension increase notification in April as a combined document. This was introduced last year to reduce costs. Each year approval must be received from HMRC to use the fund specific artwork for the combined P60 document and this has been received for the 2015 mailing.
- 11.4 An Employer meeting was held on 14th January and presentations were given on Ill Health Retirements, LGPS data requirements as well as a talk from the Pensions Regulator. In total 16 employers were represented on the day. The meeting was filmed for viewing on line by employers who were unable to attend.
- 11.5 Feedback was requested from the Funds Independent Registered Medical Practitioners (IRMP) on the current ill health retirement process. Three IRMP's responded with constructive feedback which has been shared with Fund employers. Some of the issues raised had already been covered in the recent training sessions.
- 11.6 Employers have been surveyed to find out how they communicate with their employees and what up take there might be if web based guidance and training. Disappointingly only 8 employers responded and the findings were:
- 4 out of 8 employers regularly directed their employees to view our website to find further information
 - Email to employees was the most popular method of contact followed by face to face meetings
 - All 8 employers communicate with their staff via email
 - 5 of the respondents indicated that they would be interested in webinars and a further 2 indicated that they would not be interested in live webinars but might be interested in web based solutions.
- 11.7 The team currently undertake the administration of the Firefighters pension scheme, for the Fire Authority. The communications officer has been working with the Fire Authority to deliver the work required to implement the changes to firefighters Pension Scheme as a result of their new scheme in 2015. A plan is in place and some of the work has already been undertaken. This included two presentations one at Shrewsbury the other at Telford Fire station.
- 11.8 Under the new public service pension scheme framework implemented by the Public Service Pensions Act 2013, the costs of the reformed pension schemes must be periodically assessed to ensure that the reforms are affordable and sustainable. The Shadow Advisory Board has issued a briefing note that gives a broad overview of the proposed process. The is attached at **Appendix D**

12. Annual Meeting

- 12.1 This year's annual meeting will be held at the Walker Theatre, Theatre Severn, Shrewsbury on XXX. Please ensure the date is saved in your diaries.

13. Governance Regulations.

- 13.1 The Governance Regulations were laid before parliament on 28th January 2015.
http://www.legislation.gov.uk/uksi/2015/57/pdfs/uksi_20150057_en.pdf
- 13.2 There were a few changes from the draft;
- The Regulations now specify that only the employer and member representatives will be given voting rights. Any 'other' members (including independent chairpersons) will not.
 - The hurdle for joint (i.e. cross-border) local boards has been lowered slightly, and the Regulations explicitly permit combined Boards (i.e. merged decision making Committee and new local Pension Board) subject to an appropriate business case being approved by the Secretary of State.
 - The amendment in the 2nd draft Regulations to allow elected members (except where they are from the Administering Authority and are responsible for the discharge of any function under the LGPS Regulations (i.e. on a Pension Committee already)) has been carried forward as planned to these final Regulations.
- 13.3 The Terms of Reference for the Shropshire Pension Board have been updated to take account of these regulations. The invitation to apply for the roles was issued on 5th March 2015 with a closing date of 23rd March 2015.

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

Pensions Committee Meeting 24 November 2014 Pensions Administration Report

Cabinet Member (Portfolio Holder)

NA

Local Member

NA

Appendices

Appendix A – Performance Monitoring

Appendix B – Risk Log

Appendix C – CLG – LGPS Regulation Consultation response

Appendix D - Shadow Board Briefing