



<u>Committee and date</u> Pensions Committee
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10.00am

<u>Item</u>
Public

## 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 To approve the addition of four further IRMP's to the Fund's approved list.

## 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. 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. Further compliance with TPR code has highlighted areas where further costs could be incurred.

#### 4. Performance and Team Update

4.1 The team's output and performance level to the end of July 2018 is attached at **Appendix A**. The chart shows that tasks that became due and procedures outstanding both have continued to reduce over the past quarter. This was mainly due to targeting workload clearance and filling vacancies.

#### 5. Help Desk Statistics

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

	May 2018	June 2018	July 2018
Telephone calls received	770	625	704
Queries dealt with by helpdesk at first point of contact %*	87.40%	89.28%	86.93%
Users visiting the Website	7240	1859	2529
Member drop ins	72	58	60

\* 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.

5.2 The average number of calls taken by the helpdesk per day is 28 for the quarter to 30 July 2018. The Helpdesk also responds to a number of emails on a daily basis the following table shows these numbers:

	May 2018	June 2018	July 2018
Emails Received	484	339	470
% of emails responded to within 3 working days	100%	100%	100%
Average number per day	21.04	16.14	21.36

## **6 Communications and Governance**

- 6.1 The Fund monitors member take up of its online area Member Self Service (MSS), known by members as 'My Pension Online'. The Annual Benefit Statements for both active and deferred members are now only available to view on 'My Pension Online' unless a member has requested a paper copy. As at August 2018 a total of 38.4% active members and 30.9% of deferred members were registered to view their records on 'My Pension Online'.
- 6.2 As previously reported a project is currently underway to update the system used to provide 'My Pension Online'. The upgrade will provide; an improved system for pensions staff updating content, better responsiveness for members logging on using a phone or tablet and will modernise the design of the current system. Both the technical and implementation studies have been completed by officers ready for the install of the upgraded system. Work has been required from the Council IT team to ensure the IT infrastructure for the install is fit for purpose. The project go live date has been set for the beginning of November 2018. Member communication will be undertaken to ensure all members are provided with information on how to use the upgraded system.
- 6.3 **Pensions Board vacancy**  
Interviews have been scheduled for 19 September 2018 to interview candidates to fill the current member representative vacancy on the Pensions Board.
- 6.4 **Annual Benefit Statements 2018**  
The Fund has issued Annual Benefit Statements to all active members as at 31 March 2018 by the statutory deadline of the 31 August. Annual Benefit Statements are only available to view on the Funds website via a secure area called 'My Pension Online' unless a member has requested a paper copy. This year 234 members received their statement in paper format posted to their home addresses.
7. **Request for approval of New Independent Registered Medical Practitioner (IRMP)**  
Regulation 36 (3) of the LGPS regulations 2013 (3) states that employers must obtain the Administering Authority's approval to its choice of IRMP. The Fund for many years has had an approved list of IRMP's who meet the criteria set out in the regulations that employers can use for ill health retirement opinions. A recent review of the list has shown that three IRMP's currently on the Fund's approved list have requested to be removed these are; Dr Hobson, Dr Archer and Dr Nightingale.

7.1 Members are asked to approve the addition of four further IRMP's to the Fund's approved list. These are; Dr Sharp, Dr Mcilroy, Dr Ezan and Dr Cathcart. All doctors meet the required qualifications in occupational health medicine, specifically that they are registered with the General Medical Council and-

(a) holds a diploma in occupational health medicine (D Occ Med) or an equivalent qualification issued by a competent authority in an EEA state; and for the purposes of this definition, "competent authority" has the meaning given by section 55(1) of the Medical Act 1983 (74) ; or

(b) is an Associate, a Member or a Fellow of the Faculty of Occupational Medicine or an equivalent institution of an EEA state;

7.2 Both Shropshire Council and Telford and Wrekin Council Occupational Health department colleagues have been consulted throughout this process as they administer the majority of the ill health cases for employers in the Fund.

## 8. **The Pension Regulators 2017 survey results**

The Pensions Regulator has oversight of the governance and administration of public service pension schemes such as the LGPS. The Code of Practice 14 sets out the standards of conduct and practice expected from public service pension schemes. In certain circumstances the TPR can open cases based on the risks in schemes and in response to breach of law and whistleblowing reports. Where standards are not being met and issues are not being resolved enforcement action, including the use of improvement notices and civil penalties are used.

8.1 In autumn 2017 TPR surveyed public service pension schemes to assess how they were being run. 207 public service pension schemes were surveyed including firefighter and police pension schemes. The 2017 survey built on previous surveys issued in autumn 2016 and summer 2015, all of which were responded to by the Fund.

8.2 A summary document of the TPR's findings is attached at **Appendix B**. As in previous years the survey results shown by the TPR identify the top risks for public sector pension schemes are in record-keeping and internal controls. It is also commented that improvements have stalled in some local government schemes and some LGPS Funds may be targeted for casework activities in the following 12 months.

8.3 For many years the Fund has recognised that good record keeping and robust internal controls are key parts to the successful running of a scheme. A TPR compliance review and a data quality exercise have already been completed, following which, a data improvement plan drawn up and reported to members.

- 8.4 A Reporting Breaches policy has been in place since November 2015 and the Fund records all potential breaches of the law to reduce risk and to provide an early warning if an employer is unable to adhere to their responsibilities which can then lead to the Fund not able to meet its legal obligations. If a breach (or multiple breaches) are deemed as 'materially significant' it can be reported to the TPR. A breach will not normally be materially significant if it has arisen from an isolated incident, for example resulting from teething problems with a new system or procedure, or from an unusual or unpredictable combination of circumstances. In such a situation, the Fund records all breaches to consider the other aspects of the breach, such as the effect it has had, and to be aware that persistent isolated breaches could be indicative of wider issues. Early engagement with employers is used so a plan can be put in place to address any issues early on. Training and guidance is a key part in breach resolution therefore the Fund offers training to those employers who persistently appear on the breaches log.
- 8.5 An annual employers meeting is also held and all employers are invited to attend. Members may wish to attend the next employers meeting being held on 11<sup>th</sup> October 2018 in the Council Chamber at the shirehall.

## **10. Pensioner Payroll Implementation**

- 10.1 The scope of this project has been agreed between Shropshire Council and the Software provider. Both the PID and Payroll survey documents have been signed off.
- 10.2 The project has been delayed by 1 month and is now due to go live in October. This is due to issues around the interfacing into the Council's new finance system. Testing has not been able to be signed off in time for go live of September. As the Council's current payroll system is still in use this delay does not have any financial or other implications for the Fund.

## **11 Equitable Life**

- 11.1 On 15 June 2018, Equitable Life announced that they have entered into an agreement to transfer the Society and all its policies to Reliance Life. As a result, they hope to be able to increase the current 35% capital distribution on with-profits policies to between 60% and 70%. However, for this to take place eligible policyholders will be asked to vote (expected to take place mid-2019) in favour of removing policy guarantees as well as on the arrangements to transfer to Reliance Life.
- 11.2 Equitable Life's proposal (which is to be reviewed by an independent expert whose report will be made available to policyholders before voting) is as follows, to:

- increase the current 35% capital distribution to a level expected to be between 60% and 70%
- close the with-profits fund, which means the guaranteed investment return would end
- convert with-profits policies to unit-linked □ transfer all policies to Reliance Life

11.3 Following the vote, the proposal will be put before a High Court judge for approval. There is currently no action for policyholders to take. Equitable Life will provide more information in October 2019. The full background to this change can be found on Equitable Life's website.

## 12 **Scheme Valuations and Cost Management Process for Public Sector Schemes**

12.1 Rather later than was originally expected, Treasury has issued draft amendments to Directions relating to the scheme valuations and cost management process for public service schemes (**Appendix C**).

12.2 GAD has also issued a Technical Bulletin (**Appendix C**) and provided a statement to Parliament.

In summary

- Member benefits will have to rise and/or member contributions reduce where the cost cap floor has been breached - The LGPS has a dual cost cap process which differs from the unfunded schemes.
- Employer contributions to the unfunded schemes will rise (largely due to a reduction in the Scape discount rate) - Therefore, the headlines regarding NHS, teachers and uniformed services will not necessarily apply to the LGPS.
- The LGPS has a dual cost cap process which differs from the unfunded schemes. There is likely to be tension between the LGPS SAB cost management process in England and Wales and the HMT process.
- Scheme valuations for the LGPS will move to every 4 years – The Treasury's aim is to have a single timetable for cost cap purposes across all public service schemes, so the LGPS cost cap process could be moved to be every 4 years to bring it into line with the unfunded schemes. However this is a separate exercise from the funding valuations which each fund conducts with its own actuary, and there is no strong reason why they could not take place in different cycles.
- The cost management process itself will be reviewed to ensure the original objectives are met

12.3 **Treasury Cost Management Process** - The cost cap floor has been breached for some (unspecified) schemes, requiring an increase to benefits and/or reduction in member contribution rates for the affected schemes. In hindsight this is perhaps not a surprise given that the

baseline cost against which the 2016 results are being measured was higher than that on which the new schemes were originally costed, noting the baseline valuation allowed for:

- higher expected longevity improvements at that time (which may now potentially prove to be the highpoint in terms of future improvements)
- use of commutation assumptions which, for the LGPS at least, appeared to underestimate the savings from members exchanging pension for cash at retirement and has been increased from 15% to 17.5% for the 2016 valuation
- higher expected salary growth compared to that experienced (and now expected over the next few years)

#### 12.4

**Implications for the LGPS** - Whilst the documents do not specify the schemes for which the floor has breached, there is a strong possibility this causes difficulties for the LGPS in England and Wales since the cost cap mechanism of the Local Government Pension Scheme Advisory Board appears more likely to suggest upwards cost pressure because:

- it allows for take-up of the 50:50 scheme which has been much less than originally assumed (although the assumption for future take-up is broadly unchanged)
- it uses the original baseline cost of 19.5% of pay (split 13% employer and 6.5% member) rather than a re-drawn (higher) starting point
- the baseline cost allowed for commutation at higher rates which reflect LGPS experience (so less likelihood of an emerging reduction in cost)

12.4.1 Other factors leading to upwards cost pressures in the SAB process (i.e. the effect of the public service transfer club and bringing forward of revaluation by a year for consistency with the other public service schemes) are not being shared with members so the upwards cost pressure from the SAB process is lower than it might otherwise have been. Nevertheless, the two processes may lead to opposing results for the LGPS in England.

12.4.2 The documents appear to suggest that the gentlemen's agreement, whereby the SAB process would run through before the HMT process with any recommendations suggested by SAB being taken into account in the HMT process, has been honoured. It is not yet clear how SAB will be able to square the circle of recommending changes to the LGPS which will mean the HMT process doesn't require changes if the former suggests reducing member benefits or increasing contributions but the latter suggests the opposite.

#### 12.5

**Change to quadrennial scheme valuations** - The amendments and technical annex refer to a move to quadrennial scheme valuations for the LGPS so the next LGPS scheme valuations in England, Wales

would be as at 31 March 2020 (rather than 31 March 2019). This will mean that all public sector scheme valuations will then be carried out at the same date. It is important to note that these amendments relate to the scheme valuations being undertaken by the GAD for cost management purposes and not to local valuations undertaken by the fund actuaries.

- 12.6 **Scape Rate** - Finally, the documents highlight a further reduction to the Scape discount rate adopted for the purpose of cost management and setting employer contributions to the unfunded schemes from 1 April 2019 to 2.4% above CPI. This is quite a material reduction to the current rate of CPI plus 2.8%. This will lead to increased employer contribution rates for the unfunded pension arrangements and, presumably to increased transfer values and scheme pay factors for lifetime and annual allowance exercises. Given GAD is currently reviewing the factors in use for the LGPS based on the 2016 LGPS scheme valuation, it is not clear if the change in the Scape rate will also be taken into account at the same time. It would make sense to do so given it is understood that there is likely to be a delay period between the factors being reviewed and their implementation particularly given the complaints from members about the way in which changes to the late retirement factors were implemented.

**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 July 2018 Pensions Administration Report

**Cabinet Member (Portfolio Holder)**

NA

**Local Member**

NA

**Appendices**

Appendix A – Performance Chart

Appendix B – TPR survey summary