

## 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 Note the additional costs that will incurred because of the McCloud extension to the statutory underpin. Item 13.

## 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 fund's guaranteed minimum pension liabilities (GMPs) 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. McCloud underpin will have financial impact on Employer contribution rates as well as on direct costs of running the Fund.

### 3.5 **Climate change appraisal**

1. Energy and fuel consumption: No effect
2. Renewable energy generation: No effect
3. Carbon offsetting or mitigation: No effect
4. Climate Change adaptation: No effect

## 4. **Performance and Team Update**

4.1 The team's output and performance level to July 2020 is attached at **Appendix A**. The chart shows tasks and processes within the Altair workflow system on individual member records. These can be created from either a request made to the team via email, post or phone call or through the data submissions from employers via the IConnect service. Tasks are single and stand alone and processes encompass a varied number of tasks to make up a full process. An example of this is, where a new record is created from an employer data submission and a single task to check this is automatically set up within workflow. But a retirement case will include a different number of tasks (steps) that is required to complete a full retirement process. By the end of July 2020 outstanding processes had fallen slightly and outstanding tasks had fallen by just under 400.

4.2 It is important to note that a lot of work undertaken by the team is not reflected in this chart as it is not captured in the workflow system. This includes monthly payroll processing, year end data checks and reconciliations, annual allowance checks for production of pensions saving statements and work on producing and checking annual benefit statements. All work undertaken on income collection and monitoring of contribution payments is also not recorded on workflow.

## 5. **Help Desk Statistics**

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

	May 2020	June 2020	July 2020
Telephone calls received	789	764	799

Queries dealt with by helpdesk at first point of contact %*	83.77%	74.47%	69.96%
Users visiting the Website	2,020	1,815	1,977
Member drop ins**	0	0	0

\* 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.

\*\* Drop ins suspended due to Covid-19 procedures from 23 March 2020.

- 5.2 The Helpdesk also responds to emails on a daily basis the following table shows these numbers:

	May 2020	June 2020	July 2020
Emails Received	826	771	628
% of emails responded to within 3 working days	100%	100%	100%
Average number per day	39.33	35.05	27.3

## 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 available to view on 'My Pension Online' unless a member has requested a paper copy. As at August 2020 a total of 45% active members, 37% of deferred members and 29% of pensioner members were registered to view their records on 'My Pension Online'.
- 6.2 The 2020 employer's meeting is due to take place on 21 October 2020. Plans are being put in place to deliver this meeting virtually, in case physical meetings are still inadvisable in the autumn due to the ongoing Covid-19 pandemic. This meeting has been advertised to scheme employers through a Gov Delivery email update on 14 July 2020. Further reminders to employers are planned. A news post advertising the employers meeting was also added to the website on 14 July 2020 in the employer's news area.
- 6.3 The fund issued Annual Benefit Statements to both active and deferred members by the statutory deadline of the 31 August. A total of 33,712 statements have been produced. 15,638 actives and 18,074 deferred members. 23 active statements were unable to be

produced, due to an error within the Pensions Administration System. Accompanying notes and a newsletter were produced collaboratively with other LGPS funds in a project led by Shropshire. Both the notes and newsletter were given the Plain English crystal mark.

- 6.4 A pensions tax information session has been organised with the fund's Actuary Mercers, to provide information to scheme members on Annual and Lifetime allowance tax limits. A webinar will take place on Friday 9 October for individuals nearing or breaching the current HMRC limits. A further one to one guidance session is planned for members requiring more information on the limits and protections available. The webinar and guidance sessions will be for information purposes only and no formal advice will be provided. Members will need to purchase this for themselves.

## 7. Employer performance

- 7.1 In line with the Shropshire County Pension Fund administration strategy, employers must pay their contributions by the 19<sup>th</sup> of the month. Accompanying data must also be submitted via i-Connect by this date. The below table shows the percentage of employers who have met the deadline over this quarter. This table also includes information about employers who make monthly deficit payments. Information about employers who did not meet these deadlines is covered in the governance report. July saw an improvement in compliance across all 3 areas. It is hoped that these employers will now continue to send data and payments in on time.

	May 2020	June 2020	July 2020
i-Connect data	90.78%	92.9%	95.04%
Monthly contributions	92.81%	95.04%	95.04%
Monthly deficit	95.45%	90.91%	96.97%

## 8. Cyber security

- 8.1 The Data Protection Act 2018, along with guidance from The Pensions Regulator, sets out rules that pension funds must follow to make sure they have good cyber security. Shropshire County Pension Fund takes data security very seriously and works closely with Shropshire Council's IT team and any companies providing pensions software to confirm that the systems holding personal data are protected.
- 8.2 Shropshire Council's IT security officer has confirmed that should any attacks become apparent on any of the Pensions Systems then we would be immediately made aware. To date no attacks to the Pensions administration Teams' systems have been reported.

## 9. Mortality Checking – Covid-19

- 9.1 Due to the Covid-19 pandemic the Fund have monitored the number of death cases over the last 6 months, compared to that of the previous 2 years. This data is based on date of death not the date of notification. The Fund is not always notified timely of a death, one of the reasons the monthly mortality service was undertaken:

Number of Deaths pm	January	February	March	April	May	June	July
2020	40	36	43	44	41	29	33
2019	29	25	25	43	46	33	27
2018	38	37	37	31	29	38	24

- 9.2 The Scheme Advisory Board (SAB) have asked the Local Government Association (LGA) to collate death data from each administering authority, to help understand the impact of the Covid-19 pandemic on the LGPS.
- 9.3 The purpose of collecting the data is to identify trends in the number of deaths. The expectation is that the data will show an initial upward curve that is now flattening. By continuing to collect this data in the coming months it will help identify indications of a second wave, as well as any increases in demand on resources and regional variations.
- 9.4 The data being requested is the total number of notifications of deaths of pension members each calendar month, rather than the number of actual deaths in each calendar month.
- 9.5 The total number of notifications of deaths of pensioner members in the Shropshire Fund, which have been provided to the LGA are;

	February	March	April	May	June	July
Total number of deaths on pension cases	48	36	43	42	49	47

## 10. GMP Reconciliation/Rectification Update

- 10.1 At the previous committee meeting on 24 July 2020, it was reported that the final data cut, which the Fund had been promised by HMRC since December 2019, had been received. The company contracted to work on this for the Fund has undertaken the work necessary to check this revised data and has identified the cases where the correct GMP was not in use. In these cases, rectification calculations will need to be undertaken.
- 10.2 The rectification calculations will now be undertaken. Corrections of the Pensioner benefits should then happen in January 2021.

- 10.3 A Communication should be able to be sent in November 2021 to those affected informing them of their revised pension and that the payment will alter in January 2021. Communications will be tailored depending on whether there has been an underpayment or overpayment. Those pensioners underpaid will receive arrears. Those pensioners who have been overpaid, no recovery will be made but the pension will be reduced to the correct amount from 1<sup>st</sup> January 2020. This is inline with LGA guidance and as previously reported to committee.

## **11. Exit Payment Cap - Update**

- 11.1 Representatives from LGA, GAD, MHCLG and the actuarial firms have met in August. Draft Regulations are expected this year and GAD has prepared guidance for Scheme-wide factors to be used for comparing early retirement strain costs with the cap.
- 11.2 The Fund may wish to explore how the GAD factors compare to strain costs on the current funding basis with the Actuary when known. Consideration will then possibly be needed in relation to charging costs for non-public sector employers (i.e. those not subject to the cap).
- 11.3 Software changes are going to be needed to ensure calculations pick up whether the cap applies. It is not known at present whether these changes will be available at the same time as the legislation change. This raises the possibility of needing manual calculation in the meantime.
- 11.4 Early retirement quotations for Fund employers are all carrying a caveat at present that the Exit Payment Cap would affect the information being provided. Consideration will also be needed on how to approach calculations if, as expected, there is a delay between the cap coming into force and the software systems being updated.
- 11.5 The Fund will need to communicate with employers once the draft regulations are out, both those subject to the cap and those that will not be. Clear communications will also be needed once it is clear whether the regulatory requirement for members over age 55 who are made redundant to be granted a full unreduced pension will remain for employers not subject to the cap.

## **12. MHCLG partial response to LGPS consultation (review of contributions and exiting employers) published**

- 12.1 MHCLG has partially responded to the spring consultation on changes to the LGPS rules, in relation to the review of employer contributions and flexibility on exit payments.

- 12.2 MHCLG intends to bring forward changes from 23<sup>rd</sup> September 2020 which introduce new flexibilities for administering authorities and employers in terms of reviewing contributions where there has been:
- a significant change to the liabilities of an employer
  - a significant change in the employer's covenant
  - an employer request for a review
- 12.3 The Fund will be required to consult with the employer when undertaking a review of the employer's contributions and will need to include the Fund's policy on the matter in the Funding Strategy Statement. MHCLG will also work with SAB and CIPFA on any guidance to support use of these new flexibilities.
- 12.4 Exit payments from an exiting employer can also be spread over a period where the employer no longer has active members in the scheme.
- 12.5 MHCLG has stated that there will now be a new "deferred employer status" in the LGPS. The exiting employer's responsibilities will be the same as for employers of active members but excluding the requirement to pay primary contributions.

**13 MHCLG – Consultation - Draft Regulations introducing amendments to the statutory underpin – 16 July 2020**

- 13.1 On 16 July 2020 MHCLG published its consultation introducing amendments to the statutory underpin for the Local Government Pension Scheme (LGPS) in England and Wales. The proposals are designed to remedy the unlawful discrimination caused by the protection of older members when the scheme was reformed in April 2014. The consultation is estimated to affect around 1.2 million members of the LGPS by extending the underpin to all qualifying members, regardless of their age. The consultation can be found at;
- <https://www.gov.uk/government/consultations/local-government-pension-scheme-amendments-to-the-statutory-underpin>
- 13.2 Views are sought on 29 questions as well as on draft regulations. An Officer response will be sent by the closing date of 8<sup>th</sup> October 2020, on behalf of the Pension Committee.
- 13.3 In April 2014, a series of changes were made to the Local Government Pension Scheme in England & Wales (LGPS) to reform the scheme's benefits structure. These changes were implemented as part of a wider project across Government to reform public service pensions and put them on a more sustainable, affordable and fairer footing for the longer term. In the LGPS, these changes included:
- moving benefit accrual from a final salary to a career average basis,
  - linking members' normal pension age with their State Pension age
- 13.4 Whilst all LGPS members joined the career average scheme in April 2014, members who met certain qualifying criteria (including that they

had been within ten years of their final salary scheme normal pension age on 1st April 2012) gained statutory underpin protection. Underpin protection means additional checks are undertaken for protected members with the intent of ensuring that the career average pension payable under the reformed LGPS is at least as high as the member would have been due under the final salary scheme. Where it is not as high, scheme regulations provide that an addition must be applied to the member's career average pension to make up the shortfall.

- 13.5 In the 'McCloud' and 'Sargeant' court cases (which related to the judicial and firefighters' pension schemes respectively), the Court of Appeal found that the transitional protection arrangements in those schemes directly discriminated against younger members in those schemes and this could not be objectively justified. In July 2019, the Government confirmed its view that the ruling had implications for all the main public service pension schemes, including the LGPS, and that the discrimination would be addressed in all the relevant schemes, regardless of whether members had lodged a legal claim.
- 13.6 At a high-level, the proposal is for removing the difference in treatment from the LGPS is to extend underpin protection to all in membership on 31 March 2012 and more than 10 years from retirement– i.e. those who were not old enough to receive underpin protection when it was originally introduced. This should ensure that the two groups listed are treated equally for benefits accrued from April 2014 onwards. The final salary link will remain until the member leaves active membership or reaches their underpin date if earlier. Accrual will be on a CARE basis only for all members from 1 April 2022.
- 13.7 The changes will be retrospective, and so benefits for all qualifying leavers since 1 April 2014 will need to be revisited to determine whether the underpin will produce a higher benefit. Qualifying leavers include retirements, deferred leavers, deaths, transfers out, trivial commutations, etc.
- 13.8 The underpin check will be a two-stage process, with a provisional check on leaving active membership, or reaching the underpin date (if later), and a final check when benefits are taken (the "underpin crystallisation date"). This is so that the effect of early and late retirement factors on the 2008 Scheme and 2014 Scheme benefits can be considered when calculating whether the underpin gives a higher benefit. This means that these calculations will be undertaken for many years into the future.
- 13.9 Another proposed change relates to aggregation of concurrent benefits. To simplify administration, members will be required to aggregate benefits to qualify for the underpin. This isn't the case currently and so the consultation also proposes that active and deferred members who haven't aggregated previously are given an additional 12-month window in which to do so.



- 13.10 All qualifying pensioners who retired on or after 1 April 2014 will need to have their benefits revisited to see if the new underpin produces higher benefits. This includes members who qualified for original underpin protection, as the proposed underpin will operate differently. If a member left active membership prior to retiring and became a deferred pensioner, the two-stage underpin calculations will need to be carried out. As well as pensions and lump sums, lifetime allowance and annual allowance calculations could be affected if the underpin applies.
- 13.11 Other types of leavers since April 2014 will also fall into scope of the changes and may be affected retrospectively. These include deferred benefits, deaths, trivial commutations, transfers between public service schemes and the LGPS, and other transfers out.
- 13.12 All these types of leavers since April 2014 are likely to have to be revisited. Given the likely number of cases involved, it is hoped that software companies will hopefully agree to develop bulk data extracts, uploads and calculations so that the work is carried out as efficiently as possible, to reduce the impact on administration teams and employers. This will be at a cost. In addition to this, additional internal and external resource may be required to process the casework.
- 13.13 Implementing these changes represents the biggest challenge to the administration team since the introduction of the CARE scheme in 2014/15.
- 13.14 There are many different aspects of work that will need to be carried out to implement the changes and to administer the changes once they take effect. These include:
- ongoing administration changes
  - benefits review for leavers
  - member communication
  - employer communication
  - data
  - systems
  - specialist areas
- 13.15 Whilst MHCLG doesn't envisage that many members will actually see an increase in benefits as a result of the new underpin, the underpin calculations will still need to be carried out for all affected members, both on an ongoing basis and as a retrospective exercise for leavers.
- 13.16 Key steps are now being planned to include;
- Identify the core McCloud team – Including appointing a programme manager. There are different strands to implementing McCloud and with such a large programme it will be essential to set up a formal programme. Assigning someone to lead each area will ensure that the deliverables within each workstream are owned.
  - Set up the programme and commence planning. Put in place governance arrangements and commence immediate tasks such as

any Pensions Committee and Pension Board training, data collection and communication.

- Carry out a thorough member impact analysis, now the remedy is known. Early investigations back in February highlighted a possible 4000 leavers with benefits still in our scheme that would need recalculations. This number will now have grown and doesn't account for transfer outs, trivial commutations or aggregations.
- Identify data gaps from Employers. Identify how we will collect and upload the missing data.

**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 July 2020 Pensions Administration Report

**Cabinet Member (Portfolio Holder)**

NA

**Local Member**

NA

**Appendices**

Appendix A – Performance Chart