

PENSION FUND COMMITTEE – 14 SEPTEMBER 2018

ADMINISTRATION IMPROVEMENT PLAN

Report by the Director of Finance

Introduction

1. Over the recent meetings of this Committee, there have been a series of reports in respect of the breach of pension regulation relating to the timely issuance of Annual Benefit Statements, and the on-going discussions held with the Pension Regulator. The discussions with the Pension Regulator widen the review to cover further breaches of the Disclosure Regulations relating to the requirement to inform scheme members leaving the Fund of their deferred benefits held in the scheme and their options going forward, as well as general data quality issues. The issues have also been thoroughly discussed at each meeting of the Local Pension Board.
2. This report updates the Committee on the achievements against the targets set out in the Administration Improvement Plan, as well as the longer - term plan to ensure no re-occurrence of the breaches suffered.

Achievement against the 31 August 2018 Targets

3. The Committee previously agreed with the Pension Regulator, four targets to be completed by 31 August 2018. The first three targets were related to outcomes of specific pieces of work, and the fourth target was the submission of a written report to the Regulator on the outcome against the first three targets.
4. Target 1 related to the issuance of annual benefit statements to all active scheme members for 2017/18 in accordance with the relevant pension regulations. This followed on from three years where we have reported breaches of the regulations, having issued 0%, 50% and 77% of statements respectively.
5. As at the statutory deadline of 31 August 2018, we had issued 97% of the required annual benefit statements to active scheme members. We would not regard the shortfall to 100% as a material breach of the regulations, which in a normal year would require a breach report to be issued to the Pension Regulator.
6. We have issued statements in respect of the vast majority of scheme employers within the Fund. There were 103 scheme members who did not receive their statement by the deadline where we had been unable to issue

any of their employer's statements. This reflects 0.5% of the active membership). We are currently reviewing the correspondence with these scheme employers to determine whether this failure to issue their statements constitutes a material breach of the regulations on their behalf, and as such needs to be reported to the Pension Regulator.

7. The remaining 527 (2.8% of active membership) cases where a statement was not issued relates to outstanding queries on scheme member records, where the majority of statements for the employer have been issued. There are no cases where we believe that the number of individual queries for a single scheme employer represent a material shortfall in their responsibilities, and we have no plans to make a report to the Pension Regulator on these cases.
8. We expect to be in a position to issue the outstanding statements by the end of September 2018.
9. The second target related to our overall data quality scores which all Funds will have to report to the Pension Regulator for the first time this year. There are two data quality scores, one relating to the common data used to identify individual scheme members, and one relating to the scheme specific data required to calculate pension benefits under the LGPS. The target was to achieve a score of 98% of all scheme member records without a single failure on their data quality checks.
10. We received reports calculating our data quality scores from Aquila Heywood, our software supplier on the afternoon of 31 August 2018 (we had delayed the final run to the last possible moment to allow data still being processed under the other projects to be included in the results – we had been provided interim reports to highlight areas requiring attention earlier in the project). For the common data, the report showed that 99.3% of the checks were passed, but as the different member records failed the different tests, only 94.3% of the records were without a single failure. For the scheme specific data the respective scores were 97.4% and 80.4%.
11. For the common data, there were two main areas of failure, being temporary or missing NI numbers, and incomplete or missing addresses, with the latter being of greater significance. On a quick analysis of the results, it is apparent that the majority of records where we have a temporary NI number relate to individuals who only remained within the Fund for a short period and are not entitled to a pension benefit. In these cases we are required to trace the individual and refund them their contributions. We will need to work closely with their former scheme employer to complete this work.
12. For the missing or incomplete addresses, we have employed a tracing company to find current addresses. They have completed their initial search and provided new addresses for around 2/3rds of the missing records. There are however over 2,000 cases which will require a more detailed search.
13. On the scheme specific data we are currently undertaking a full review of the information provided by Aquila Heywood. As this is the first year that the

Pension Regulator has required all LGPS Funds to publish their data quality scores, and the deadline for the return is not until later this year, we have been working closely with Aquila Heywood in defining the criteria for the report. Based on our initial review of the latest report, we believe there are still some teething problems to be ironed out in the selection criteria which has led to an overstatement of the number of data failings e.g. scheme members who left before 2014 but showing a data failure for missing CARE data which was introduced after they left.

14. We also believe that there are a number of data quality checks where a failure relates to historic records (including those initially recorded before the introduction of electronic records), and where the failure does not impact on the calculation of the pension benefit. This includes a number of pensioner records where the pension has been in payment for a considerable period, and where the missing data was not a factor in the calculation of the pension.
15. We are also aware that there are a number of data failures which relate to the backlog of previous queries which we are now addressing. In particular, as part of the work to address the significant backlog of leaver records, we are changing the status of member records to reflect the new information now available e.g. records are being changed from an undecided leaver, and may now be linked to another record we have on file where the individual has been re-employed. In these cases we need to ensure that the data quality checks are looking for the information against the correct record.
16. There is a similar issue in respect of the separate GMP Project (see the Administration issues report elsewhere on the agenda for further information) whereby there is a timing issue as records are amended as the reconciliation work proceeds with a number of records currently failing the data quality checks in respect of GMP figures.
17. Analysis of the latest reports is continuing in order to provide an updated data quality score, as well as understand the further actions and timescales in bringing the remaining data to standard.
18. The third target related to the clearance of the backlog of leavers which it was agreed would be outsourced, a contract awarded to ITM Limited under the national LGPS procurement frameworks. This work was initially scheduled to be completed by the end of April 2018, and we subsequently agreed a request from ITM to extend the deadline until the end of June 2018.
19. Unfortunately, ITM have been unable to complete the work within the revised timescales, and as at the 31 August 2018, only 4,593 of the 7,862 cases initially identified had been fully completed. ITM have been asked to produce a written report explaining both the reasons for the further delays, and why these delays were not highlighted at an earlier time. This written report will be included as an annex to the final report to the Pension Regulator.
20. At the present time, ITM have indicated that they will complete a further 2,000 cases by the end of 14 September 2018, but need to assess the information

currently outstanding from scheme employers, before they can agree realistic deadlines for the final cases.

21. In respect of the fourth target to issue a report on the delivery against the first three targets, the Pension Regulator agreed to receive an interim report on 31 August 2018 and a fuller report by close of business on 7 September 2018. The Interim report has been copied to all members of this Committee and the Local Pension Board, and the intention is to provide the same members the opportunity to comment on the final report before it is submitted to the Regulator.

Future Improvements

22. The final target agreed with the Pension Regulator was to produce a draft comprehensive plan setting out how it was intended to ensure no further breaches of the pension regulations in respect to the matters above. This is currently in progress, and again will be shared with all members of the Pension Fund Committee and Local Pension Board before submission to the Regulator by the agreed deadline of 30 September 2018.
23. In respect of the issuance of Annual Benefit Statements, the draft plan going forward will build on the success of this year's plan, but will look to improve those issues which could have gone better. A key point to note though is that some of the issues against this year's plan related to a lack of resources within the Pension Services Team, a factor exacerbated by the fact that we were running projects to clear the backlog of leaver queries, data quality issues and GMP reconciliation at the same time. The production of the 2018/19 Annual Benefit Statements will take place against an improved background where the majority if not all of the historic data issues have been resolved.
24. Some of the early points raised on conclusion of the 2017/18 Project Plan include:
 - Earlier loading of in year data from the monthly returns made by scheme employers, with the opportunity to raise queries throughout the year
 - Further improvements to the escalation arrangements, including ensuring we have received confirmation of an escalation point from all scheme employers
 - A review of communications with scheme employers as well as the provision of training – this in part will be developed through seeking the views of scheme employers on what worked well for them this year, and what further improvements they would like to see
 - Improved review of monthly data to ensure early identification of scheme employer changes – some of the outstanding statements relate to those individuals who have worked for multiple scheme employers during the year, whether due to out-sourcings, re-tenderings, transfers to academy status or movement between academy trusts – to ensure data is verified with the exiting employer at the time of transfer

25. In addition to the above more immediate changes, the draft plan will also outline longer term changes to improve the position going forward. This will include:
- The implementation of iConnect. This will be based on a standard data collection template to be agreed through the Scheme Advisory Board which will allow scheme employers to submit data electronically to the pension system without further manual intervention. As well as reducing the manual effort involved in the process, data validation checks can be built into the system to alert the scheme employer to potential errors in their data submissions, so that corrections are required at the point of entry.
 - A review of the team structure and processes within Pension Services to reflect the greater automation of the data collection processes, and ensure that staff resources are most effectively deployed
 - A review of the reporting requirements to ensure data quality standards are maintained on a continuous basis, and that the Pension Committee is given early warning of any potential build-up of backlogs of cases.
 - Improved use of the Members Self-Service module, so that members themselves can review their data and ensure it is kept up to date as appropriate.
26. These longer term changes are consistent with the wider changes proposed within the County Council under the new Operating Model, with improved self-service, greater automation and improved reporting.

RECOMMENDATION

27. **The Committee is RECOMMENDED to note the achievements against the targets set for 31 August 2018; and the key components of the comprehensive plan to be submitted to the Pension Regulator to ensure sustainable improvements going forward.**

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