

OXFORDSHIRE LOCAL PENSION BOARD – 21 OCTOBER 2016

EMPLOYER MANAGEMENT

Report by the Chief Finance Officer

Introduction

1. At the July meeting of the Pension Board, it was agreed to add an item to the agenda for this meeting, covering issues around employer management. This was to include the development of the Administration Strategy, the engagement with scheme employers and in particular how key risk issues were identified, and the support and training available for scheme employers.
2. This report respond to the request and sets out the latest position on where we are with employer management and the key background issues.

Background

3. The issues of employer management have grown in significance over the last few years. A number of factors have contributed to this including:
 - A significant growth in employer numbers as a result of the introduction of Academy schools, and greater numbers of outsourced contracts.
 - Greater complexity within the LGPS regulations which have increased the demands on employers for information. This has been at a time when many employers have been seeking to implement budget reductions.
 - A reduction in the overall cash-flow for the Pension Fund, which brings closer the day when cash-flow becomes negative, and the investment strategy needs to be amended to ensure sufficient cash is available each month to meet the pension pay bill.
 - A small number of employer failures and the writing off of pension deficits.
 - The increased scrutiny of the scheme through both the increased role of the Pension Regulator and the introduction of Pension Boards.
4. The Pension Fund Committee responded to the issue and made significant changes to its agenda from the June 2015 meeting onwards. They reduced the number of occasions each of the Fund Managers was required to present to the Committee from twice to once a year, and re-scheduled the running order so that issues associated with employer management were taken earlier in the agenda.
5. New reports were developed for the Committee which sought to present in simple traffic light form which employers were complying with the responsibilities and which were falling short. These reports continue to be developed in light of experience.

Current Position

6. The Fund's Administration Strategy sets out the key roles and responsibilities for the Scheme Manager and the Scheme Employers. This Strategy is reviewed each year at the June meeting of the Committee, and any significant changes are subject to consultation with all scheme employers. The current Administration Strategy is contained as an annex to this report, and was agreed at the June 2016 meeting.
7. The main change to the Administration Strategy in June involved the scale of charges to be invoked where employers failed to meet their responsibilities. Charges were raised significantly to reflect the significant workload that can be associated where data from employers is either inaccurate or late, and to ensure employers were incentivised to meet their responsibilities. At the Committee, it was confirmed that charges would not automatically be applied, but each case individually assessed.
8. The key returns from employers are the monthly contribution returns and MARS reports and the end of year returns. These returns detail all starters and leavers from the scheme, any key changes to their records, their monthly pay (for the CARE scheme) and annually, their final pay (for those in the scheme prior to 2014). These reports should reconcile the monthly contributions paid over following each month's payroll and the contributions attributable to each individual scheme member.
9. These returns have become increasingly complex since the introduction of the new scheme in 2014, with two different definitions of pensionable pay the cause of most issues. Pension Services are currently reviewing the guidance sent out to all employers to address the most frequent issues, and will follow this up with training sessions as required. Unfortunately, our experience is that those who tend to attend the regular employer meetings and training sessions are those with the least issues. The absence of those with the greatest challenges is sometime simply a consequence of limited resources within the employer particularly with the new smaller employers, though sometimes reflects a lack of understanding of their employer responsibilities.
10. The current review of the returns and associated guidance notes is also covering the level of checks that will be applied to the data on receipt, the process for returning inaccurate returns to employers for completion, and the escalation process including imposition of fines where accurate data is not forthcoming. Targets for receipt of accurate data are being revised and new reports are being devised to be shared with the Committee and this Board.
11. Accurate data is key to providing a service to individual scheme members, whether it is the statutory annual benefit statements, deferred benefit statements, and statements where annual allowances have been exceeded, or estimates for individual's pensions and employer costs on redundancy.

12. The summary data is also critical in monitoring the overall Fund and in particular the cashflow position. Currently the Fund receives around £1m more by way of contributions than it pays out in pensions allowing the Fund to invest the balance in assets best placed to deliver long term returns to the Fund, thereby closing the current Fund deficit and keeping employer contributions as low as possible. Once the position moves to where pension payments exceed contributions, the investment strategy will need to be reviewed to ensure there are sufficient cash generating assets to fund the monthly pension payroll. It is therefore critical to be able to monitor employer returns to identify any trends in contributions which suggest the Fund is becoming cash negative.
13. Alongside the monitoring of returns, it is hoped to start an engagement programme with the larger employers to develop a better picture of future changes within the employer which will directly impact on their Fund membership. This will allow a more proactive approach to cash management alongside the reactive monitoring of contributions.
14. As well as identifying those large employers where a strategic change could have a material impact on the overall position of the Fund, we are also looking to identify those employers where the size of deficit and current financial standing provides a risk to the Fund. A key measure identified in the recent report from the Government's Actuarial Department was the impact on contribution rates for those employers where there is a statutory underpin to payments, if the remaining employers were to default and be unable to meet their deficit payments.
15. We are currently awaiting for the Fund Actuary to complete his work on the 2016 Valuation, as this will provide a significant amount of data to enable us to identify key employers at risk and model various financial scenarios. This includes a follow up piece of work from Barnett Waddingham on employer covenants and financial status which the Committee have recently commissioned.
16. Going forward therefore we are looking to build a performance model which allows the Committee to monitor:
 - The overall cash-flow position of the Fund
 - Those employers presenting the greatest risk to the Fund in terms of default on deficit payments
 - Those employers presenting the greatest challenges in terms of accurate and timely member data, and the numbers of scheme members impacted.
17. The performance model will be supported through the Administration Strategy and the current communications and training programme. To ensure all employers who need training are encouraged to attend the training following their initial induction, it is proposed to make a further amendment to the Administration Strategy to offer mandatory training as an alternative to an

initial charge where an employer has failed to adequately respond to concerns about the accuracy and timeliness of their returns.

- 18. The Board are invited to note the latest position on employer management and offer any comments. As the full performance model is developed following completion of the 2016 Valuation, further reports will be brought to the Board for their information and consideration.**

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Background documents: Nil

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October 2016