

By: Chairman Superannuation Fund Committee  
Head of Financial Services

To: Superannuation Fund Committee-19 November 2010

Subject: **PENSIONS ADMINISTRATION**

Classification: Unrestricted

---

Summary: To provide members with a comprehensive update of administration issues including:-

- Workload position
- Achievements against Key Performance Indicators (KPIs)
- Performance in 2010 CIPFA benchmark survey
- Technology strategy
- The Hutton review – impact upon administration
- Other topical issues

## **FOR INFORMATION**

---

### **INTRODUCTION**

1. This report updates members on a range of issues concerning the administration of the Kent Pension Scheme.

### **WORKLOAD POSITION (APPENDIX I)**

2. Members have been advised in previous reports of the increasing workload being experienced by the section.
3. To meet this increase, Appendix 1 confirms that the total number of tasks completed in a 20 week period (May/Sept) in 2009 and 2010, shows an increase from 15641 cases to 19010. Monthly output is now running at over 4000 cases.
4. At 31 October 2010, cases outstanding at 6436 confirms a reduction against the last figure reported at 6604. This level of outstanding cases represents around 6 weeks output.
5. Cases outstanding, represent those tasks where all documentation is in place to undertake the process. Members are advised that a further 3000 cases await documentation prior to our being able to process the task.
6. In addition to this 'standard' workload, the section is experiencing increases in other administrative tasks as follows:-

- Bulk estimates  
We are able to provide employers with bulk estimates of employer costs for the premature release of benefits in redundancy. In preparation for budget cuts employers are seeking high levels of bulk estimates.
  - Review of Police and Fire injury allowances  
Where an officer is injured in the line of duty, an injury allowance is paid in the form of an 'annual pension'. If DWP benefits are payable, as a direct result of that injury, the injury allowance is reduced by the sum of all benefits. This year there was no 'inflationary' increase applied to injury allowances, whereas, DWP benefits were increased. It is therefore necessary to review all such cases.
  - Valuation data  
In order to complete the 2010 valuation in a timely fashion, the section was required to despatch all data by 23 July 2010.
7. Despite both the increases in workload and the extra work mentioned in point 6 above, the section continues to maintain work levels/output at a satisfactory level.

### **KEY PERFORMANCE INDICATORS (KPIs) (APPENDIX II)**

8. I am delighted to report that in all the recorded KPI areas we have outperformed, for the fourth consecutive six month period, the target set of 95% within turnaround time.
9. KPIs represent a small part of the sections overall workload. However, the KPI tasks are processes resulting in an output to scheme members, and as such, are a measure of service quality.

### **CIPFA ADMINISTRATION BENCHMARK SURVEY 2010**

10. The results of the 2010 survey are shown at Appendix III. Kent is compared with 18 other shire counties (comparator survey) and 62 LGPS authorities (all schemes survey).
11. I am pleased to say that at £19.12 per member, total administration costs are lower than both the comparator average (£19.84) and the all schemes average (£22.72). Our position in each survey was eighth of 19 in comparator survey and seventeenth of 63 in the all schemes survey.
12. It is important to remember that this survey merely reviews costs and does not test or have a measure for 'quality' of service. Lowest cost in itself does not necessarily represent the best outcome, if, this is achieved at a cost to the quality of service.
13. Staff costs per member at £10.19, are at the average cost for both comparator and all schemes (£9.51 and £10.05 respectively).
14. Pension payroll costs are significantly lower than both other survey averages (£1.43 : £2.76/£3.49). This reflects the practice in some authorities of charging the scheme on the basis of a full/dynamic payroll cost despite pensions remain constant and payslips are only issued once per annum.

15. The survey shows that our direct/overhead costs at £7.61 per member are lower than both other averages in the two surveys (£7.65 per member and £9.48 per member).
16. Costs warranting mention are our actuarial fees which were around twice that of other LGPS administration units. These costs are for 2009/10 and largely relate to Hymans Robertson..
17. Communication costs at £2.03 per member were higher than both other surveys (£0.95 and £0.92 respectively).

We have over 350 employers, the third largest number in the all schemes survey, and send all communications to home addresses. It is not possible to communicate via employers and previous pension ombudsman rulings, confirm that all formal notices need to be addressed to a members personal residence.

18. We are one of only three authorities communicating in this way. (See further comments on communication under section headed 'Technology Strategy'.)
19. Finally, the survey compared the cost of administration in the LGPS, both in house and outsourced, with the private sector, again, both in house and outsourced. The results were as follows:-

Kent LGPS in house	£19.12
LGPS in house	£22.85
LGPS outsourced	£21.11
Private sector in house	£47.00
Private sector outsourced	£41.00

(The above private sector figures were taken from the Capita Hartshead review. For the private sector results they **exclude** the cost of pensioner payroll).

## **TECHNOLOGY STRATEGY**

20. Members have previously been advised of our plans to use technology to improve both the quality and cost of the administration service. This strategy essentially focuses on improvements in the data we receive from scheme employers and the way in which we communicate with both employers and scheme members. However, there remains two further developments, which can be introduced, to further improve the processing undertaken within the section.

## **SCHEME EMPLOYERS**

21. We have installed Axis Employer which is the software package, part of the Heywood suite of administration software, which enables employers to remotely access the pensions database and undertake administrative tasks. We have a duty of care to ensure all processes are completed accurately and under our initial 'testing' period, all transactions will be checked for accuracy and then authorised, for the 5 pilot employers selected. To reach full competence, each scheme employer, will proceed through 3 stages of training.

22. I very much regret to advise members that we continue to suffer from delays/problems with the KCC ISG department, in achieving remote access for the test employers. We have been in discussions for over 2 years with our ISG colleagues and at the point of this report, are still unable to provide remote access as a consequence of compatibility issues with the KCC system. Our project leader continues to seek a solution but I regret the ISG response has been far from positive or timely.

## **SCHEME MEMBERS**

23. Work is well underway to move the KCC pensions website to its own unique www domain site. Branding and templates have been agreed and work will soon begin on moving the existing pages (employers, pensioners, investments etc) over to the new domain to be [www.kentpensionfund.gov.uk](http://www.kentpensionfund.gov.uk).
24. In the longer term both Employer (Axis Employer (mentioned in point 21) and scheme members will be able to access pensions database remotely. For scheme members this will be via a PIN number and allow estimates, AVC and ARC quotations to be requested online.
25. It is hoped that via the website it will be possible to reduce our communication costs by posting 'Annual Benefit Statements' on a members site and save postage. In much the same way as 'online banking'.
26. These initiatives represent the future for the administration of the scheme and it is hoped the very real problems being currently experienced can be overcome and progress will be made.

## **PROCESSING TECHNOLOGY**

27. Over the next 2-3 years we need to move our complete database to Axis Altair, which is the latest software release from our supplier, Heywood via the CLASS consortium arrangements.
28. Axis Altair is run on a 'relationship database platform' which enables the administration of multi contract/assignment staff to be undertaken by a single input. All amendments to a single assignment are automatically posted to all other assignments under that National Insurance number. We will need to ensure all assignments have a separate record to gain best advantage from this arrangement before moving to this version of the Heywood systems.
29. Finally, we continue to run the Axis pensioner database (currently on AXISe) and the Axis pensioner database (currently on Axis Payroll) on separate databases. Axis payroll allows a basic payroll record to be automatically set up upon calculation of the benefit with electronic transfer of data between Pensions and Shared Services. To ensure this is successful we will need to compare and update both databases to confirm consistency of the records held.

## **THE HUTTON REVIEW – IMPACT UPON ADMINISTRATION**

30. Lord Hutton has at this point completed the 'interim review', of public sector pensions in readiness for the spending review. He is now calling for evidence to inform his final report which is scheduled for completion by the Spring of 2011.
31. However, the interim report contained a number of clear messages with the potential to significantly impact upon the ongoing administration of public service pensions.
32. The clear messages are as follows:
  - A final salary pension scheme is not sustainable in the future.
  - Options for change include a CARE scheme with potential for 'capping' pensionable pay under the main scheme package.
  - The introduction of Hybrid arrangements to 'top up' where a member so decides.
  - A combination of the above.
  - All existing 'accrued' benefits to be protected.
33. A move to a CARE would in itself not prove significant in terms of the basic calculation process. However, it would require each of our 370 employers to provide, annually, an accurate pensionable pay figure, upon which the benefit accrual could be based. We currently have to question around 4500 pay figures each year. For a final salary arrangement this does not present an immediate problem, given, the benefit is based upon 'final salary' at retirement. In a CARE arrangement, the benefit is based upon the sum total of each annual pension for each year of service. We would therefore have to have an accurate figure each year.
34. LGPS administrators have no experience of running DC/Hybrid schemes and I suspect any 'top up' arrangement would be administered externally and on a National basis.
35. There is a real likelihood that in protecting existing 'accrued' rights, as confirmed in the review, the Government will defer these benefits and increase them by CPI until the normal retirement date. This being the case we will have to obtain all the data from employers to undertake deferred benefit calculations for every scheme member. This represents a very significant amount of work.

## **OTHER TOPICAL ISSUES**

### **HMRC review of tax allowances on pensions**

36. The long awaited review of the changes to HMRC pension legislation have now been published.

The outcome, whilst not as strong as was first considered likely, will nonetheless place further pressures on scheme administrators.

The responsibility of identifying those people in excess of the revised annual allowance (£50k) will fall to the administrator. This is achieved by comparing the value of a persons pension 'pot', on an annual basis year on year.

37. As currently drafted, legislation requires this to be completed and for members to be advised by the end of July. This will require all 370 scheme employers to complete contribution returns and salary confirmations, by the end of June each year. Under present arrangements this deadline would not be achievable. HMRC is proposing to impose penalties on schemes who fail to deliver at a cost initially of £60 per member.

#### **Data quality legislation**

38. The Pensions Regulator (PR) has issued guidance on the need to improve member data by December 2012.

The guidance requires that schemes have 100% accuracy in terms of common data and 95% accuracy in terms of scheme specific data.

The PR expects all schemes to undertake a data audit in 2011 and formulate plans to achieve the performance standards by December 2012. The PR expects schemes to have taken all 'reasonable endeavours' to achieve the data objectives.

#### **Mortality screening/member tracing**

39. We are now concluding our review of systems, to achieve a satisfactory 'mortality' screening process and member tracing process, having considered four providers offerings.
40. We are about to arrange a free data audit via ATMOS (one of the four providers and part of the Heywood software package). This will assist us not only in terms of mortality screening, but, will also inform the data audit mentioned under 'Data Quality Legislation' paragraph 38.

#### **Administration software system**

41. In light of the uncertainty around the future structure of the scheme following the Hutton review, which dictates the specification/requirements of any potential tender process, the CLASS Group has postponed any future collective tender process until the way forward is clear. It is anticipated that some collective tender process could therefore recommence around the Spring of 2011.

#### **Valuation**

42. The valuation process was completed satisfactorily by the deadline of 23 July 2010, to despatch data reports to Barnet Waddingham (BW). BW have confirmed the data to have been in good condition upon receipt.

#### **Staffing**

43. Members are advised we are presently interviewing for 4 x Trainee Administrator posts, as advised to Committee at the last report.

## **RECOMMENDATION**

44. Members are asked to note this report.

**Patrick Luscombe  
Pensions Manager  
Extension 4714**

## Appendix I

### Workload Summary

Cases completed in key administration areas.

Case Type	(Financial Year)				
	2005/06	2006/07	2007/08	2008/09	2009/10
Benefit calculation	1255	1547	1544	1814	1797
Divorce quotations	-	304	306	373	490
Estimate calculations	1206	2302	2121	2364	2348
Preserved Benefit calculations	-	3810	3923	4443	3913
Transfers In (Actual and Quote)	-	499	754	597	664
Transfers Out (Actual and Quote)	-	239	430	542	555
Widows benefits	342	307	346	379	311

Total cases completed and total cases outstanding (20 weeks comparison each year May/September).

	2006	2007	2008	2009	2010
Total cases completed	11464	15240	14885	15641	19010
Total cases outstanding	7844	9937	9129	7753	6436 (at Oct10)

**Appendix II  
Achievements against Key Performance Indicators**

Case Type	Target Time	6 months 04/08		6 months 09/08		6 months 04/09		6 months 09/09		6 months 03/10		6 months 09/10	
		No	% in target	No	% in target	No	% in target	No	% in target	No	% in target	No	% in target
Calculation and payment of retirement award	20 days*	731	96%	977	92.5%	837	98.5%	907	98%	913	98%	1069	98%
Calculation and payment of dependant benefit	15 days*	170	91%	172	95.8%	200	100%	134	99%	178	98%	141	100%
Calculation and provision of benefit estimate	20 days*	951	95%	1198	91.5%	1166	98%	1161	98%	1244	99%	1366	98%
Reply to correspondence	Full reply 10 days *	607	95%	741	91.0%	862	98%	785	99%	893	98%	691	98%

\* All targets run from the day all necessary data is received from the employer.

## Appendix III

### CIPFA Administration Benchmark Survey 2010

	<b>Kent County Council</b>	<b>Average comparator survey</b>	<b>Average all schemes survey</b>
<b>Total administration costs per member</b>	£19.12	£19.84	£22.72
<b>Staff costs per member</b>	£10.19	£9.51	£10.05
<b>Direct costs per member*</b>	£4.43	£3.07	£3.26
<b>Pension payroll costs per member</b>	£1.43	£2.76	£3.49
<b>Overheads per member</b>	£3.18	£4.92	£5.99

\* Direct costs per member

Total scheme members	109,568
Total pensioners	25,004
Full time	20,447
Part time	23,314
Deferred	29,011
Dependants	4,71
Other	7,321
	<b>109,568</b>

	<b>Kent</b>	<b>Comparator average</b>	<b>All schemes average</b>
<b>Communications</b>	£2.03	£0.95	£0.92
<b>Actuaries</b>	£2.03	£1.11	£1.11