

By: Chairman Superannuation Fund Committee  
Acting Corporate Director of Finance and Procurement

To: Superannuation Fund Committee – 1 July 2011

Subject: **PENSIONS ADMINISTRATION**

Classification: Unrestricted

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

- Workload position
- Achievements against Key Performance Indicators (KPIs)
- Progress in technology development
- Changes to pensions tax regime
- Other topical issues

## **FOR INFORMATION**

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### **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 previously been advised that workload in the section is increasing year on year.
3. Appendix I confirms the trend to be continuing. In particular, calculation of estimates and benefits, in the year to March 2011, has increased sharply.
4. It is anticipated, in light of the need of most key employers to reduce staffing levels that significant increases in these areas will continue over the next 2-3 years.
5. Estimates being received in the office, during April and May 2011, show a very marked increase. We are now receiving over 400 estimate requests each month, representing a significant increase. We are also running bulk estimate calculations of employer costs for batches of staff who are seeking voluntary redundancy.
6. In similar terms, it is anticipated that numbers of benefit calculations will increase as people are selected for redundancy and retirement.

7. Following changes made to the scheme regulations, it has been necessary to allow all scheme members, with previous service at other local authorities, a one-off opportunity to amalgamate their pension service. We have over 500 interfunds to complete as a consequence of this amendment.
8. The review of all Police and Fire injury allowances has now been completed. Members were advised of this review at the last report. Both the Police and Fire Authorities have been advised of the outcome of the review, which has led to large numbers of over/under payments of benefits. All pensions have now been amended. These over/under payments have arisen as a consequence of non-advice, by the scheme members, of changes to DSS benefits as a result of the injury sustained in service.

### **KEY PERFORMANCE INDICATORS**

9. Despite the increases in workload, I am pleased to advise members that in the year ending March 2011, the section outperformed the benchmark target, in each of the areas reported to committee.
10. Members are advised that in light of the significant levels of estimate requests being received, together with the anticipated increase in benefits to be calculated, it will be difficult to maintain the KPI service levels, particularly during the main holiday period.
11. Staff have been advised that overtime will be necessary in all likelihood, if we are to clear the work in reasonable timescales.
12. The section is presently running with 7 FTE vacancies, a number of staff absent due to maternity with a further maternity due to commence very shortly.
13. Every effort will be made to maintain our high standard of service, despite these circumstances and the increase in workload.
14. All employers are treated equitably in terms of the turnaround of work. Whilst KCC is clearly the largest single employer, it is agreed that KCC will not be given preferential service, in the difficult period that all employers face in the next few years.

### **TECHNOLOGY DEVELOPMENTS**

16. **Axis Employer**  
I am pleased to confirm that Axis Employer has now been installed at 5 test sites. This software enables employers to perform a range of administrative tasks online with direct access to the pensions administration system. One of the test sites includes 4 districts working collaboratively.
17. During testing, the tasks undertaken by employers were monitored to ensure the member data and transactions, held on our system, are not compromised.

18. Following this testing, further employer training of the system will be made available to other employers in a phased release.
19. It is anticipated that this development will reduce workloads, particularly in terms of relatively simple tasks within the section.
20. **Pension Fund Website**  
I regret that I must advise members that transfer of the Pension Fund website, from its existing location on the Kent County Council website, to its own unique web domain, has yet to be completed.
21. Progress is painfully slow, in light of a lack of progress being made by our ICT colleagues. I have written to our account manager, seeking assurance of completion by September 2011 but, to date have had no response.
22. Our need to develop an interactive website for scheme members, together with the need to communicate the significant changes following the Hutton Report, make this initiative an essential part of our future plans, to utilise technology solutions.
23. We have to date invested £6014 in this project over 3 phases via ICT with little progress being achieved. This is an initial payment on an estimate of phase 1 predicted to cost £14,000, phase 2 and 3 are yet to be costed.
24. It may be necessary at some future point, to contract the services of an external website organisation, in order to complete the initiative.
25. **Pensions Administration system**  
The KCC Pension Scheme, together with 88 other administering authorities, utilise the Heywood AXISE administration platform.
26. Development, system releases, testing and technical specification of the system is facilitated by the CLASS Group. The CLASS Group is a consortium of 88 local authorities, out of 90 in total, administering the LGPS.
27. However, each authority currently contracts individually with Heywood (Acquila Group) for the provision of the package of software, upon which the scheme database and calculations are maintained.
28. The development of the system (i.e. when a regulation change occurs) when undertaken nationally by the CLASS Group, represents a significant saving to all CLASS members.
29. I am Chairman of the CLASS management team for the UK, responsible for all matters relating to the functionality and development of the Heywood product, used to administer the LGPS.
30. Members of the CLASS Group, have requested the Management Team, by way of achieving greater collaborative working, to seek to tender as a single framework arrangement, or alternatively, via a separate procurement vehicle, a national contract with the software providers.

31. The Management Team is therefore seeking advice via DCLG, Independent Legal Advisers and the Central Procurement Officers (SIPPS), to establish the most suitable and cost effective way of achieving a national tender process.
32. I will advise members as progress is made, but in the interim, would ask members to endorse our continued support of the CLASS arrangement and this initiative in particular.
33. The Management Team is very conscious of the likely changes to be made to the LGPS following the Hutton Report (see separate paper on Hutton). It is likely therefore, that a specification of the system needs, will not be possible until 12 months hence.
34. The Management Team envisage the national framework to be completed by April 2013, providing a 2 year period, to accommodate the changes in 33 above.
35. In addition, it will be necessary to accommodate recent changes to HMRC Tax Rules (see latter remarks) and the requirements of overarching legislation being part of the NEST proposals (all non-members to be auto enrolled on a 3 year cycle).
36. Much work therefore needs to be undertaken by the Management Team over the next 2 years.

## **CHANGES TO PENSION TAX REGIME**

37. Members are advised that HMRC have recently changed the rules which govern the amount of tax relief an individual may receive on an annual basis and over their lifetime of pension savings.
38. The annual limit is called the 'Annual Allowance' (AA), whilst the lifetime savings limit is called the 'Lifetime Allowance' (LTA).
39. The previous limits of AA £250,000 and LTA £1.8m have been reduced to £50,000 and £1.5m respectively.
40. In addition, the calculation of the annual accrual or increased pension pot value has been changed.
41. The changes to the regime are anticipated to reduce the UK tax relief cost to the Exchequer, by £4bn per annum.
42. Whilst originally intended to limit tax relief to 'high earners', the new rules have the potential to impact upon a much wider populations of LGPS members.

43. By virtue of the method of calculating annual 'pension pot values', LGPS members on much more modest salaries, could exceed the AA if:-
- They have long service and have a promotion, and
  - Enjoy a significant pay rise
44. Details of the revised rules, together with useful links to detailed information, are to be added to the 'current scheme members' area of the Pension Fund website.

## **OTHER TOPICAL ISSUES**

45. **Mortality/Data cleansing screening**  
Members were advised at the last report of our intention to appoint a mortality screening and data cleansing agent.
46. A specification was issued, informally, to the three key players in this area. Quotes from all three were received.
47. A key element of the selection criteria was the need to transfer pension scheme data without risk of compromise.
48. We have contracted with ATMOS Ltd (a part of the Aquila/Heywood Group) who were best able to meet the full specification and offered the very best security solution.
49. Annual contract value is £7200 per annum. An initial data cleanse was undertaken at a cost of £11,000. This provides a full monthly mortality screening on the complete pensioner database and in addition, provides a full address/postcode matching service across the UK, as we require it in the future.

## **RECOMMENDATION**

50. Members are asked to note the content of this report and endorse the continued involvement of the Kent Pension Section in the CLASS Group and its intent to seek a national procurement framework.

**Patrick Luscombe**  
**Pensions Manager**  
**Extension 4714**

## Appendix I

### Cases completed in key administration areas Workload Summary

<b>Case Type</b>	<b>2005/2006</b>	<b>2006/2007</b>	<b>2007/2008</b>	<b>2008/2009</b>	<b>2009/2010</b>	<b>2010/2011</b>
Benefit calculation	1255	1547	1544	1814	1797	2076
Divorce quotation	-	304	306	373	490	544
Estimate calculation	1206	2302	2121	2364	2348	2871
Preserved benefit calculation	-	3810	3923	4443	3913	3732
Transfers in	-	499	754	597	664	547
Transfers out	-	239	430	542	555	407
Widows	342	307	346	379	311	315

## Appendix II

### Achievements against Key Performance Indicators

Case Type	Target Time
Calculation and payment of retirement award	20 days
Calculation and payment of dependant benefit	15 days
Calculation and provision of benefit estimate	20 days
Reply to correspondence	10 days - Full reply

2008/2009		2009/2010		2010/2011	
No	% in target	No	% in target	No	% in target
1814	95%	1797	98%	2076	99%
372	98%	311	98%	315	99%
2364	95%	2348	98%	2871	98%
1603	95%	1722	99%	1705	99%

\* All targets run from the day the section has full/correct data from employer to complete task.