

By: Chairman Superannuation Fund Committee  
Corporate Director of Finance & Procurement

To: Superannuation Fund Committee – 10 February 2012

Subject: **PENSION 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)
- CIPFA benchmark survey 2011
- Pension Section website
- Other technology issues
- Automatic enrolment
- Other topical issues

**FOR INFORMATION**

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## **INTRODUCTION**

1. This report brings members fully up to date on a range of issues concerning the administration of the Kent Pension Scheme.

## **WORKLOAD POSITION**

2. Members have been advised in previous reports that workload for the section has been increasing steadily over the last few years.
3. Appendix I gives details of workload levels for the years 2007/08 through to 2010/11. The 9 month figures, from March 2011 to December 2011, have been annualised to provide a projection for 2011/12.
4. These projected numbers confirm that the trend of year on year workload increases is continuing.
5. Estimate and benefit levels are relatively constant, with similar results over the last two years, but, these levels are significantly higher than the 3 preceding years.
6. Of particular interest and some concern is the sharp increase in the numbers of preserved benefits being completed. The 2011/12 projected numbers, show an increase of 37%, on those recorded for the previous year (3732/5136).

7. An analysis of the age bands of those people for whom we have calculated a deferred benefit provides the following profile:-
- In the last 3 years we have created 8483 deferred benefits. This is partly due to the reduction in the vesting period to 3 months from 2 years
  - Of the above cases, 55% (4685) were for members aged 31-50 years
  - Some 2238 (26%) were for staff aged 18-30 years.

We propose to monitor the reasons and age analysis of opt outs over the next 12 months. We wish to establish if large numbers of young people are leaving the scheme for financial reasons.

8. Total cases outstanding on 1 April 2011 for the LGPS were 7107. At 6 January 2012, this has been reduced to 5332. A significant effort by the administration team.
9. The review of the Police and Fire schemes Injury Allowance cases has now been completed. This required an individual review of some 600 cases. The results have been notified to both the Police and Fire Authorities through their respective committees.
10. Estimate requests, resulting from the downsizing being undertaken by a number of the schemes employers have been completed quickly and efficiently by the team.

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

11. The results of our performance against the KPI targets set at the beginning of the year are shown in Appendix II.
12. The results confirm that even in light of the increases to workload, our production staff have exceeded each of the KPI targets, set at 95% of all cases, being completed in the target time.
13. These targets have been met during a period when we have been operating with 7 vacancies.
14. Some overtime has been necessary to maintain these high standards, but even in light of the vacancies above, we remain on target, to achieve a budget saving on staff costs of around £130k for the year.

### **CIPFA BENCHMARK SURVEY 2011**

15. The Kent Pension Fund participates in the CIPFA Benchmark Survey. This survey measures the cost of the administration service and compares Kent with other LGPS administering authorities.

16. The results of the survey are shown at Appendix III. The results are expressed as a cost per member of the scheme. Members include current contributors, deferred beneficiaries and pensioners.
17. The Kent Scheme is compared with a range of comparator schemes (19 shire counties of various sizes) and also all those LGPS schemes which take part in the survey (all schemes average 59 authorities including the comparator group).
18. It is important to remember that the survey only compares the cost of administration. Whilst it also looks at work volumes and employer numbers it does not compare 'quality of service'.
19. At £19.40 per member (last year £19.12) we are below the all schemes average at £22.14 (£22.72) but marginally above the comparator scheme average at £19.12 (£19.84).
20. This places the Kent Scheme 13<sup>th</sup> of 19 in the comparator survey and 22<sup>nd</sup> of 59 in the all schemes survey.
21. An analysis of the results confirm the following trends:-
  - Staff costs are marginally below the all scheme average but again, slightly above the comparator average. I conclude this is likely to reflect our proximity to London.
  - Payroll costs per member at £1.54 are significantly lower than both survey averages at, comparator £3.11/all schemes £2.84.
22. Our communication costs at £2.09 per member are significantly higher than the average for both surveys. £0.81 for the comparator survey and £0.82 for the all schemes survey. These costs I hope will reduce as we utilise the website in future for both annual benefit illustrations and deferred benefit statements. Both are presently sent to home addresses at high cost to the scheme.

We also cover the cost of the Open Lines magazine, sent out twice a year to all pensioners, at a cost of £16,000 per issue.
23. I believe we communicate professionally with all our 320 employers and the various classes of scheme membership. Whilst we can make good use of technology as described above, I do not endorse we seek reductions in cost at the expense of comprehensive communications
24. Our actuarial costs are higher than both of the survey averages (£1.86: £1.25/£1.24). Again, I consider our high employer numbers at 320, drives these costs upwards compared to other LGPS schemes where numbers are significantly lower. We have 100 more employers than any other authority in both surveys.
25. Finally, accommodation costs are double the average of both surveys (£1.23:£0.65/£0.79).

26. I am confident that if we utilise the benefits of technology to provide a greater proportion of our communications to both employers and employees, our overall survey results will improve significantly.

We remain below the all schemes average by over £3 per member and significantly below the private sector average of £47 per member (Capita Hartshead annual pension scheme admin survey 2010).

## **PENSION SECTION WEBSITE**

27. I am very pleased to confirm that the pension section website is now situated on its own website domain and can be found at [www.kentpensionfund.co.uk](http://www.kentpensionfund.co.uk).
28. The new design is receiving very favourable comment from both employers and scheme members alike.
29. At the point of this report, two months since the site was launched, it has received 26,000 hits to separate page views.
30. The site is divided into the following specific areas:-
- Scheme employers
  - Current scheme members
  - Deferred scheme members
  - Thinking of joining
  - Pensioners
  - Investments
  - Police
  - Fire
  - Teachers
31. In the longer term we are seeking to incorporate interactive facilities for scheme members to include benefit estimates and ARC projections. At present we have the facilities but KCC IT are still working on the integration to the site.

## **OTHER TECHNOLOGY ISSUES**

32. **AXIS Employer**  
We now have Axis Employer installed at our test sites. Axis employer allows the employer to perform a number of administrative tasks, including data input, direct to the Axis administration system.
33. We are presently restricting its use, until we are satisfied employers are operating the system correctly. All transactions are checked by us before the system is instructed to change the member data screens.
34. This is clearly an important tool for the future when training is fully delivered to all employers.

35. **CLASS Group – Framework Tender – Administration**  
Members were advised of the initiative for members of the CLASS group to move to a ‘framework’ tender in respect of the pensions administration software.
36. In light of the very real potential, for a single step solution to the long term LGPS reform process, it is decided that a single framework tender will be pursued, by those authorities wishing to be a party to such an arrangement. This means a tender process cleared during this year and open to market tender by the year end.
37. I will keep members advised of progress in this respect. I have confirmed the Kent support of the initiative, on behalf of the members, including our agreement to share a part of the tender costs.
38. **Automatic Enrolment**  
Members are advised that Government is introducing a new initiative, designed to stimulate and encourage pension savings in the future, called auto-enrolment (AE).
39. AE involves qualifying pension schemes (the LGPS is a qualifying scheme) being required to auto enrol all eligible staff. Eligibility is based upon either mid age or salary levels.
40. Each scheme employer will have a ‘staging date’. AT this point all employees for that employer must be enrolled to the LGPS. Each employee has 1 month to opt out. The opt out must be instructed to KCC as the administrator.
41. After 3 years, the exercise must be repeated by all scheme employers. The ‘staging date’ and therefore the auto enrolment date for each employer, varies according to payroll size.
42. KCC has a staging date of February 2013.
43. Staff who are not eligible at the staging date, but, become eligible prior to the 3 year re-enrolment date, must be auto enrolled at the point of becoming eligible. Responsibility falls entirely to the employer.
44. I am sure members will fully appreciate the administrative complexity this could create for the Pension Section. We will keep members informed as more detail becomes known, but, at this early stage, one has to believe this will cause significant administrative problems across the LGPS.

## **OTHER TOPICAL ISSUES**

45. **The Hutton Review**  
Members are aware of the ongoing discussions relating to long term reform of the public service pension schemes, including the LGPS.
46. Ministers have agreed that the LGPS, being the only ‘funded’ scheme in the public service arena, can be treated independently to other public service schemes.

47. This simply means that both the long and short term savings can be delivered by way of a 'one step' redesign of the scheme, assuming changes are implemented soon enough, for the actuaries to build the changes into their valuation process in 2013. Other public service schemes, who are 'pay as you go', can only deliver long term savings, by way of increases to member contributions.
48. This has impacted upon our plans to tender collaboratively for a software system (see paragraph 35) and would be a greatly simplified procedure for administrators, compared to, interim contribution hikes quickly followed by major scheme changes.
49. The actuary will provide a full update at the 2 March meeting of the Committee.

## **INTERNAL AUDIT REPORT**

50. Finally, members are advised that internal audit have conducted an audit of pension overpayments. The audit reviewed the cases to ensure overpayments are accurately identified, calculated and recovered correctly within a timely manner and only written off where appropriate.
51. The outcome of the audit was that full assurance can be given to members, this is the highest rating category.

## **RECOMMENDATION**

56. Members are asked to note the content of this report.

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**Appendix I**  
**Tasks created in key administration areas**  
**Workload Summary**

<b>Case Type</b>	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>	<b>* 2011/12</b>
<b>Benefit calculation</b>	1544	1814	1797	2076	2145
<b>Divorce cases</b>	306	373	490	544	427
<b>Estimate calculation</b>	2121	2364	2348	2871	2820
<b>Preserved Benefit Calculation</b>	3923	4443	3913	3732	5136
<b>Transfers In</b>	754	597	664	547	250
<b>Transfers Out</b>	430	542	555	407	542
<b>Widows</b>	346	379	311	315	381
<b>TOTAL</b>	<b>9424</b>	<b>10512</b>	<b>10078</b>	<b>10492</b>	<b>11701</b>

\* 9 months to 31 December 2011 annualised.

## Appendix II

### Achievements against Key Performance Indicators

Case Type	Target	2008/09		2009/10		2010/11		* 2011/12	
		No	% in target	No	% in target	No	% in target	No	% in target
Calculation and payment of retirement award	20 days	1814	95%	1797	98%	2076	99%	1836	99%
Calculation and payment of dependant benefits	15 days	372	98%	311	98%	315	99%	266	98%
Calculation and provision of benefit estimate	20 days	2364	95%	2348	98%	2871	98%	2399	98%
Reply to correspondence	10 days and full reply	1603	95%	1722	99%	1705	99%	1079	98%

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

\* 9 months to 31 December 2011.

## Appendix III

### CIPFA Administration Benchmark Survey 2010

<b>Total administration costs per member</b>	<b>Kent County Council £19.40</b>	<b>Average Comparator £19.12</b>	<b>Average All Schemes £22.14</b>
<b>Staff costs per member</b>	£9.80	£8.60	£9.91
<b>Payroll costs per member</b>	£1.54	£3.11	£2.84
<b>Communication costs per member</b>	£2.09	£0.81	£0.82
<b>Actuarial costs per member</b>	£1.86	£1.25	£1.24
<b>Accommodation costs per member</b>	£1.23	£0.65	£0.79
<b>IT costs per member</b>	£1.99	£2.17	£2.97