

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

To: Superannuation Fund Committee – 8 February 2013

Subject: **PENSION ADMINISTRATION**

Classification: Unrestricted

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

- Workload position
- Achievements against Key Performance Indicators (KPIs)
- Automatic Enrolment
- Update on fraudulent overpayment cases
- Framework tender
- Annual Benefit Illustrations
- CIPFA benchmark survey 2012

FOR INFORMATION

INTRODUCTION

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

WORKLOAD POSITION

2. Successive reports have confirmed increasing levels of workload being dealt with by the administration team.
3. Appendix I confirms that in the 9 months to December 2012, volumes of daily administration tasks, are slowing down after the peak in 2011/12.
4. Workload levels seem to be returning to the volumes seen in the year 2010/11. I am confident this reflects a period of calm following the downsizing activity seen in the previous year.
5. Members were advised at the last report of my fear that young/low paid staff were opting out of the scheme for financial reasons. I am pleased to say that of 123 optants out since 1 February 2012; only 8 have been under 21 years of age. This suggests my concern was unfounded, but, we will continue to monitor the position (see also remarks on automatic enrolment).

ACHIEVEMENTS AGAINST KEY PERFORMANCE INDICATORS (KPIs)

6. We are charged to complete 95% of all tasks within the target time.
7. Despite the slowing down of cases, it is still very pleasing to report almost all cases have been completed within turnaround times.
8. We continue to run on an establishment with 5 FTE vacancies. We have recruited 3 Pension Support Assistants who have settled in to the team very well. Two of these new staff were taken on after successful apprenticeship periods.
9. Despite reporting further successes in the achievement of key performance indicators, members are advised that the section faces yet a further period of intense change, in the year 2013/14. This is due to the 3 year valuation, preparation for automatic enrolment and the introduction of the new LGPS on 1 April 2014.

AUTOMATIC ENROLMENT

10. Members were given a summary of the initiative known as 'Automatic Enrolment' and the demands this will place on the Pension Section.
11. Since the last report, Kent County Council has decided to use the option of postponement until October 2017. This will require that KCC automatically enrol all new staff, meeting the criteria, but, can postpone the enrolment of existing staff who are not members of the LGPS.
12. We await the outcome of consideration of a similar decision by Medway Council.
13. All training for employers, who are largely responsible for the statutory requirements of automatic enrolment, is now complete. All stationery is also complete and available from the section website.
14. We have yet to receive responses from all employers, of the numbers of eligible staff, who are presently not members of the Pension Scheme. This will give us a clear guide of the number of new members to expect and potentially, the number of opt outs that may follow.
15. The whole process of automatic enrolment will place considerable burden upon scheme employers and administrators alike. Whilst we are well prepared it does present further pressure to be placed upon the section.

UPDATE ON FRAUDULENT OVERPAYMENT CASES

16. Members were advised of 4 overpayment cases, totalling £39,449.97, which it was suspected to be the result of fraudulent activity, on the part of surviving relatives.
17. Internal Audit continue to work with the Kent Police, who initially displayed some reluctance to pursue these cases. I understand some progress has been made but I remain less than confident that those responsible for these frauds will be prosecuted.

18. I will advise members if further progress is made and if this is not forthcoming it may be necessary to write these sums off.

FRAMEWORK TENDER

19. Members agreed that Kent County Council should act as lead authority, in the open framework tender initiative, to procure the necessary IT software systems, to administer the LGPS, Police and Fire Pension Schemes.
20. The initiative was formally approved by the KCC Procurement Board in late 2012.
21. The process is moving forward well and it is anticipated that contracts will be awarded by late summer 2013.
22. Within the overall group of 11 founder members, a core group of 6 authorities, including Kent, have agreed to move the process forward, to ensure the completion of the process by late summer 2013.
23. Members will be kept informed as further progress is made.

ANNUAL BENEFIT ILLUSTRATIONS 2012

24. I have to formally advise members of a breach of the requirements of the Data Protection Act, during the process of despatching Annual Benefit Illustrations for the year ending 31 March 2012.
25. We were required to send out circa 40,000 illustrations to members of the LGPS.
26. The Pension Section has a robust, documented, established and longstanding procedure, which ensures that data needed to print statements and personal data for all members, is sent securely and confidentially to our internal printers at Kent Commercial Services.
27. Within hours of illustrations being delivered at home addresses, telephone calls made it abundantly clear, that a problem had occurred.
28. It transpires that 1682 statements became corrupt during the printing process at Kent Commercial Services. This resulted in each of the 1682 members, receiving the personal and pension details, of the member who preceded them on the print run.
29. The extent and impact of the problem was identified and considered under advice to the Corporate Director Finance & Procurement, the Corporate Director Enterprise & Environment, the Head of Financial Services, Internal Audit and our Data Protection department.
30. A series of communications by email via scheme employers and by direct letter to the affected member's home addresses was commenced. These letters acknowledged the problem, extended an unreserved apology and asked those affected to return the incorrect illustrations.

31. At the time of writing this report we have received 1130 incorrect statements returned. Where statements had been opened by recipients, we asked if they would sign confidentiality agreements. Circa. 500 agreements have been received.
32. A full external audit of the process was commissioned and undertaken by Deloitte under instruction from the Corporate Director Finance & Procurement.
33. In summary, the Pension Section were exonerated of all blame, for the error, having conducted the process entirely in line with our documented process.
34. The audit discovered that a mechanical problem in the printer occurred, during one of four print runs, which resulted in this error. The error was confined to scheme members with surnames commencing in the alphabetic sequence of Mi-No (1682 cases).
35. Our colleagues in Kent Commercial Services continue to engage with the machine manufacturers to establish what caused the error and how to avoid it in the future.
36. In the interim, an initial report of the incident was sent to the Information Commissioners Office. The Information Commissioner has passed the matter to his Compliance Team who will investigate the error on his behalf.
37. A further detailed questionnaire has been received from and returned to the Information Commissioner and we await further developments in this respect.
38. All 1682 scheme members will be sent a replacement illustration and each of these statements will be checked manually, by the Pension Section, prior to despatch.
39. Further complaints/correspondence received from scheme members, will be dealt with on an individual case by case basis.
40. We await the outcome of the Information Commissioners investigation. In the event that a fine is to be imposed as consequence of this breach of the Data Protection Regulations, it will be important to establish if any liability passes to the machine manufacturers. Any fine to be borne by Kent County Council will not fall to the Pension Fund.
41. A series of recommendations has been made to Kent Commercial Services, by the auditor, when dealing with confidential printing runs in the future.
42. The Kent Pension Fund will go out to tender to external print organisations when undertaking this process next year.
43. Throughout this unfortunate event the scheme members have acted with huge integrity and understanding and have made the recovery process much easier than otherwise it might have.

CIPFA BENCHMARK SURVEY - ADMINISTRATION

44. The Kent Pension Fund participates in the CIPFA Benchmark Survey. This survey compares the cost of pension's administration services with both a comparator group (19 authorities) and an all scheme survey (62 authorities).
45. The comparator group consists generally of shire counties of various sizes, whereas, the all scheme survey, compares against every authority which takes part in this annual evaluation.
46. The survey simply compares costs on a 'per member' basis. No allowance or comparison is made of the extent or quality of service. An authority may therefore perform well in a simple cost comparison but, may equally provide a service of a significantly lower quality.
47. I must also stress that there exists considerable variance in the manner in which individual authorities account for costs. The clearest example being the cost of payroll per pensioner, which varies from a low of less than £2 to the highest at something close to £60 per pensioner.
48. Despite this, I find it useful if only as a marker to identify any key variance from the average across both surveys.
49. In this sense we compare reasonably in most areas. Setting payroll aside, for the reasons above, our actuarial costs are somewhat higher than the average, but, we also have significantly more employers, than almost all other schemes. Kent has 400 compared to an all schemes average of 125 per scheme. This employer base will impact upon a range of other costs including communications and the actuarial fees.
50. Our communication costs are double the average. This is accounted for in our sending a pensioners newsletter twice per year and the costs of developing our excellent website over the last couple of years.
51. The key to reducing communication costs is clearly use of technology in providing scheme members with direct online access to the website. This already exists in a number of the larger authorities but to date we are struggling to overcome the extent of firewalls and security measures existing on the Kent County Council platform.
52. Our accommodation costs reflect our proximity to London and our IT costs whilst presently lower than the average will increase as we manage to reduce our communication costs by use of technology.
53. Our total cost at £19.57 is lower than both the peer group and all schemes average. We place 28th out of 62 schemes in the all scheme comparison.
54. The report confirms that private sector administrators, both internal and external, are significantly more expensive, at £47 and £41 per member respectively.

RECOMMENDATION

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

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

Case Type	2009/10	2010/11	2011/12	9 months 2012 to date
Benefit calculation	1797	2076	2434	1561
Divorce cases	490	544	449	225
Estimate calculation	2348	2871	3133	2079
Preserved Benefit	3913	3732	5185	3682
Transfers In	664	547	283	270
Transfers Out	555	407	418	279
Widows Benefit	311	315	364	222
TOTAL	10,078	10,492	12,266	8,318

Achievements against Key Performance Indicators

Case Type	Target	2009/10		2010/11		2011/12		9 months to date (2013)	
		No	% in target	No	% in target	No	% in target	No	% in target
Calculation and payment of retirement benefit	20 days	1797	98%	2076	99%	2434	99%	1561	99%
Calculation and payment of dependant benefit	15 days	311	98%	315	99%	364	98%	222	99%
Calculation and provision of benefit estimate	20 days	2348	98%	2871	98%	3133	99%	2079	99%
Reply to correspondence	10 days	1722	99%	1705	99%	1473	98%	854	99%

NB. All targets run from the day the section hold full/correct documentation.

CIPFA Administration Benchmark Survey 2012

Cost Element	Kent County Council	Average Comparator Group	Average All Schemes
Total administration costs per member	£19.57	£19.60	£21.54
Staff costs per member	£9.61	£8.55	£9.58
Payroll costs per member	£1.65	£2.84	£3.04
Communication costs per member	£2.07	£0.91	£0.81
Actuarial costs per member	£2.15	£1.13	£1.48
Accommodation costs per member	£1.21	£0.78	£0.83
IT costs per member	£1.94	£2.70	£3.22