

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

To: Superannuation Fund Committee – 2 July 2014

Subject: **PENSIONS ADMINISTRATION**

Classification: Unrestricted

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

- Changes to the LGPS from 1 April 2014
- Workload position
- Achievements against Key Performance Indicators (KPIs)
- Automatic Enrolment
- Pensions Administration system
- Tax changes from April 2014.

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.

CHANGES TO THE LGPS FROM 1 APRIL 2014

2. 1 April 2014 saw changes to the LGPS with the principal changes being from a final salary scheme to a Career Average Revalued Earnings Scheme and the introduction of the 50/50 section allowing members to pay half rate contributions to provide half rate pension.
3. Members were informed at the last committee meeting that delays had been experienced in the release of key elements of the regulations and guidance needed in order to administer the changes to the scheme from 1 April 2014 with some of the guidance not being delivered until 4 days before the changes were effective.
4. These delays have also affected our pension administration software provider which has resulted in the software not being updated in order to deal with some of the changes. This has caused problems in processing some benefit calculations with manual calculations being undertaken in some cases.
5. These delays have occurred at the same time as we are receiving an increase in requests for estimates of pension benefits as employers go through cost saving exercises.

6. As a result of the above our Key Performance Indicators are being affected in a detrimental way.
7. Resource within the section has been diverted from other areas of work to help to tackle the backlog of the day to day administration work for a period of 2 weeks to ensure that the Key Performance Indicators return to acceptable levels

WORKLOAD POSITION

8. Appendix 1 shows the year on year comparison of work levels being received in the section.
9. Work levels have increased on the levels seen in 2012/13 particularly in the areas of correspondence, estimates and deferred benefits.
10. The reasons for these increases are increased correspondence from members regarding the changes to the scheme and the increase in estimates and deferred benefits following the continuation of restructures throughout fund employers.

ACHIEVEMENTS AGAINST KEY PERFORMANCE INDICATORS (KPIs)

11. Appendix 2 shows the achievements of the section in meeting its KPIs compared to the previous 4 years.
12. We are required to complete 95% of the recorded KPI tasks, within the agreed target turnaround times.
13. It is pleasing to report that nearly all cases have been completed in the agreed turnaround time and the section has exceeded the agreed target time in all areas.

AUTOMATIC ENROLMENT

14. Members were previously advised that both Kent County Council and Medway Council had taken the decision to postpone their staging dates until October 2017.
15. As the automatic enrolment timetable reaches employers with smaller payroll numbers we are aware that a number of employers have reached their staging dates and have automatically enrolled their employees not currently in the LGPS into the scheme.
16. This has increased the number of new entrants to the scheme but has also led to an increasing number of members opting out of the scheme which the Pensions Regulator requires us to record. The whole process of Automatic Enrolment continues to place particular pressure on both employers and the administration section.

PENSIONS ADMINISTRATION SYSTEM

17. The decision was previously made by the Corporate Director of Finance and Procurement, in consultation with members, that the administration system that would be used to administer the pension scheme, for the 2 year period to 31 December 2016, would be the Heywood's Altair product.
18. Initial work has been undertaken by both Heywood and the pensions section with regard to the migration of data from the Axise system to Altair with data cleansing being undertaken.
19. A functionality study has been produced by Heywood with the technical study currently under discussions with Heywood, the pensions section and KCC's ICT department.
20. A project initiation document has been produced by Heywood with work progressing from June through to the Live migration of data in October 2014. This work includes the parallel running of pension payroll over 2 months to ensure this can be carried out successfully via the Altair system.
21. Advice from ICT section has highlighted considerable problems with regard the technical hardware required and the provision of back ups, disaster recovery plans and ongoing support needed with the Altair product from the ICT section.
22. Significant delays with regard to being able to implement solutions to these problems have already been highlighted by the ICT section which in turn would have a serious impact on the PID timescales which we cannot let move backwards.
23. A solution to these problems is to use Heywood's hosting service at an initial cost of £115,000 per annum. ICT are supportive of this approach.
24. A summary of the savings and advantages of using this service are:
 - Altair implementation costs reduced by £14,000
 - No ongoing disaster recovery costs - currently £26,000
 - No hardware purchases or ongoing maintenance costs
 - No initial set up costs and ongoing costs with regard to ICT's support for the Altair product
 - Single point of contact for support and tier 4 security of hardware

TAX CHANGES FROM APRIL 2014

25. In 2006 the Government introduced restrictions with regard to the growth of pension savings that receive tax relief. These are the Annual Allowance, which restricts the amount of pension growth in any year, and the Lifetime Allowance, which restricts the amount of pension savings over a member's lifetime.

26. From April 2014 the Annual Allowance was reduced from £50,000 to £40,000 pa and the Lifetime Allowance from £1.5m to £1.25 million.
27. For those members who had either exceeded or were projected to exceed the Lifetime Allowance they could if they wished apply for HMRC protections, known as Fixed Protections, which would allow them to apply the previous allowance amounts but they would no longer be able to accrue further pension benefits.
28. The Lifetime Allowance only affects a small number of members of the scheme and as advice on this topic is particularly complex and specialised advice was sought from Barnett Waddingham with regard to these members.

RECOMMENDATION

29. 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	2012/13	2013/14
Benefit calculation	1797	2076	2434	2056	1978
Correspondence	1722	1705	1473	1152	1467
Divorce case	490	544	449	351	312
Estimate calculation	2348	2871	3133	2672	2861
Deferred benefit	3913	3732	5185	4769	5244
Transfer in	664	547	283	365	374
Transfer out	555	407	418	403	478
Dependants	311	315	364	305	364
Total	11,800	12,197	13,739	12,073	13,078

Achievements against Key Performance Indicators

Case Type	Target Time	09/10		10/11		11/12		12/13		13/14	
		No	% in target	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%	2056	99%	1978	99%
Calculation and payment of dependant benefit	15 days	311	98%	315	99%	364	98%	305	99%	364	99%
Calculation and provision of benefit estimate	20 days	2348	98%	2871	98%	3133	99%	2672	99%	2861	98%
Reply to correspondence	10 days	1722	99%	1705	99%	1473	98%	1152	99%	1467	98%

NB. All target turnaround times commence when we have all the necessary documentation to complete the particular task.