

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

To: Superannuation Fund Committee – 18 March 2016

Subject: **PENSIONS ADMINISTRATION**

Classification: Unrestricted

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

**FOR INFORMATION**

- Workload position
- Achievements against Key Performance Indicators (KPIs)
- CIPFA Benchmarking Survey Results 2015
- Annual Benefit Illustrations 2014/15
- Scheme Sanction Charge
- Staffing

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## **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. Appendix I shows the year on year comparison of work levels being received in the section together with the 6 month position as at September 2015.
3. Most work categories appear to be in line with 2013/14 levels with the exception of correspondence and transfers out.
4. The level of enquiries and correspondence has again increased dramatically with 2427 general enquiries being dealt with during the 6 month period ending September 2015. This is a continuation of the increase in this area seen in the 12 month period ending in March 2015 and is representative of the increasing high profile of pensions in general and for members to receive information regarding the pension scheme.
5. In April 2015 the Government announced 'Freedom and Choice' options for those in defined contribution (DC) schemes. Although this provision was not replicated in the Local Government Pension Scheme (LGPS) there have been a growing number of enquiries and requests from members, particularly deferred beneficiaries, to transfer their pension rights to a DC scheme in order that they may take advantage of the changes.

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

6. Appendix II shows the achievements of the section in meeting its KPIs in the 6 month period to September 2015 compared to the previous 4 years.
7. We are required to complete 95% of the recorded KPI tasks, within the agreed target turnaround times.
8. The period from April to September is a particularly busy time in the section as in addition to dealing with the normal workload we deal with the year end process which culminates in the issuing of Annual Benefit illustrations to all current members of the scheme. This added pressure has an impact on the KPIs during this period and this is reflected in these results. The calculation of retirement benefits and dealing with correspondence are given priority during this period and as result these 2 areas did remain in the 95% target.
9. However as a result of concentrating efforts on these areas of work the targets were not met with regard to the calculation and payment of dependent benefits and the calculation of estimates.
10. The targets with regard to all these areas of work have improved subsequent to these results.

## **CIPFA BENCHMARK SURVEY RESULTS 2015**

11. The Kent Pension Fund participates in the annual CIPFA administration costs benchmark survey.
12. The survey this year compared our costs with those of 44 other authorities (all authorities survey) and 19 comparator authorities, largely Shire Counties.
13. Appendix III shows our performance against both groups in a range of administrative areas. I have shown the Kent performance for 2014 and 2015 for additional information.
14. The results place Kent 8<sup>th</sup> of the 44 authorities (1<sup>st</sup> being the lowest) in terms of the cost of administration per member of the scheme.
15. In comparison to all schemes and comparator group figures total administration costs per member at £14.97 is lower than both averages (£19.17 and £17.94 respectively).
16. Staff costs remain higher than both the comparators however in analysing the staff pay and staff experience breakdown provided it would appear Kent has a larger number of staff with more than 5 years experience in Pensions Administration than other comparators which could explain the higher staff costs.
17. In previous years the number of scheme members dealt with by each FTE staff member has fallen below the club average however this has improved with the

number of scheme members being dealt with by each FTE staff member in 2014/15 increasing to 4226 members per FTE with the club average being 4230 members.

18. Although payroll costs per member have increased they are still lower than both survey averages (£1.59 compared to £1.85 and £2.17).
19. Accommodation costs tend to be higher than the average.
20. Actuarial costs tend to be lower than the averages. We believe this is because our interpretation of the requirement of this category is that these costs should relate solely to the actuarial costs associated with the administration of the scheme rather than the Kent Pension Fund's total actuarial costs. The balance of the costs are as a result of work undertaken by the Investments and Treasury section and should not be reported in this benchmarking exercise.
21. The report indicates that Kent has the fourth highest number of employers in the Fund when compared to the other 44 authorities.
22. The most significant variance is seen in our communication costs. These are high when compared to others but the Kent Pension Fund has always strived to provide clear and regular communication which receives positive feedback from our members. The costs have decreased slightly when compared to last year, despite the increase in postage costs, and we continue to strive to reduce communication costs without impacting on the service we provide.
23. Another anomaly with regard to the communication costs is that we believe there is disparity between some of the participants in the benchmarking survey as to the costs that are included in this category. We have a member of the pensions section on the CIPFA working party with regard to this survey and continue to pursue clarity regarding the costs that should be included in the communication category.
24. In general terms I believe the results reflect well on our achievements particularly given, there is no 'quality' measure, built into the survey.

### **ANNUAL BENEFIT ILLUSTRATIONS 2014/15**

25. The Public Service Pensions Act 2013, together with the regulations governing the LGPS now require that all active members of the scheme receive an annual benefit illustration no later than five months after the end of the Scheme year to which it relates. In the LGPS this date is 31 August and unfortunately due to the non submission and inaccuracy of data provided by employers we were only able to supply 55% of active members with an illustration by this date. Further illustrations were produced with the last being despatched at the end of October.
26. The Local Government Association (LGA) became aware that the non compliance with this statutory requirement was a national problem and was due to the lateness of submission of data together with incorrect data from employers and IT issues in producing illustrations containing CARE benefits. As a result the LGA liaised with the Pensions Regulator on behalf of all administering authorities and on 9 October the Pensions Regulator's office issued their response (Appendix IV).

27. Kent decided that as they had not been able to issue all active members with an illustration by the 31 August that this was a material breach and therefore reportable to the Pensions Regulator. Appendix V contains a copy of the letter sent to the Pensions Regulator.
28. As the letter explains we continue to provide information and training to employers to ensure that the same problems do not arise with regard to the illustrations to be issued by 31 August 2016.

### **SCHEME SANCTION CHARGE**

29. In September 2011 on the request of a former member of the scheme we paid transfer values totalling £14263.06 to an Overseas Pension Scheme calling itself 'Danica', registered in Sweden. The member signed all the relevant transfer discharge forms together with the scheme administrator who also provided a letter issued by HMRC on 10 May 2011 to Danica which provided them with a QROPS (Qualifying Recognised Overseas Pension Scheme) reference number and confirmed that Danica had provided HMRC with notification that it wanted to be published on the HMRC's QROPS list and that it satisfied the conditions as a QROPS.
30. On payment of the transfer values it is normal practice to check the HMRC QROPS list and on that day a scheme 'Danica Pension' was on the list and so payment was made.
31. At that time all transfers paid to QROPS had to be notified to HMRC on an annual basis on an event report. In November 2015 HMRC informed KCC that 'Danica' was not a QROPS and had not appeared on the HMRC list since 29 June 2011. They confirmed that they had issued Danica with a QROPS reference number however had subsequently established that 'Danica' represented itself as a QROPS but that it was not a pension scheme. It confirmed that 'Danica' should not be confused with 'Danica Pension' which was a genuine pension scheme.
32. They highlighted that transfers to overseas schemes which are not QROPS are treated as unauthorised member payments which give rise to tax charges on the scheme member and the scheme administrator. As a result they have raised a scheme sanction charge against the Fund which is 40% of the value of the transfer with a 25% deduction where the scheme member's unauthorised payment charge has been settled.
33. I have written to HMRC explaining that Kent had undertaken due diligence before making the payment of the transfer values and that the transfer was made in the reasonable belief that the receiving scheme was a QROPS and asking for the scheme sanction charge to be discharged. However it would appear that HMRC are unwilling to do this and therefore a charge of £5706.00 will have to be made by the Fund.
34. Internal procedures for dealing with transfers to QROPS have been tightened to ensure no further unauthorised payments are made.

## **STAFFING**

35. We are currently running with 8 FTE vacancies within the section and in order to meet our statutory obligations under the pension scheme regulations and to deal with upcoming projects and backlogs of work we are to redeploy one of our current Pension Support Assistants to the role of Pensions Administrator and to recruit 4 new Pension Support Assistants.
36. All staffing costs are met by the Kent Pension Fund.

## **RECOMMENDATION**

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

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**Background Documents – none**

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

<b>Case Type</b>	<b>2011/12</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>6 months to September 2015</b>
Benefit calculation	2434	2056	1978	1928	944
Correspondence	1473	1152	1467	3450	2427
Divorce case	449	351	312	293	179
Estimate calculation	3133	2672	2861	2541	1611
Deferred benefit	5185	4769	5244	2475	1137
Transfer in	283	365	374	189	124
Transfer out	418	403	478	558	363
Dependants	364	305	364	323	201
<b>Total</b>	<b>13,739</b>	<b>12,073</b>	<b>13,078</b>	<b>11,757</b>	<b>6,986</b>

## Achievements against Key Performance Indicators

Case Type	Target Time	11/12		12/13		13/14		14/15		6 months to September 2015	
		No	% in target	No	% in target	No	% in target	No	% in target	No	% in target
Calculation and payment of retirement benefit	20 days	2434	99%	2056	99%	1978	99%	1928	99%	944	95%
Calculation and payment of dependant benefit	15 days	364	98%	305	99%	364	99%	323	87%	201	77%
Calculation and provision of benefit estimate	20 days	3133	99%	2672	99%	2861	98%	2541	63%	1611	51%
Reply to correspondence	15 days	1473	98%	1152	99%	1467	98%	3450	98%	2427	98%

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

## CIPFA Administration Benchmark Survey 2014

	Kent County Council		Average comparator group 2015*	Average all schemes 2015
	2014	2015		
<b>Total administration costs per member</b>	£17.61	£14.97	£17.94	£19.17
<b>Staff costs per member</b>	£8.49	£9.17	£7.69	£7.83
<b>Payroll costs per member</b>	£1.45	£1.59	£2.17	£1.85
<b>Communication costs per member</b>	£2.18	£1.96	£0.75	£0.78
<b>Actuarial costs per member</b>	£0.57	£0.21	£1.10	£1.14
<b>Accommodation costs per member</b>	£1.12	£1.04	£0.56	£0.65

\* 19 shire counties