

By: Corporate Director of Finance and Procurement
To: Pension Board – 14 October 2016
Subject: **PENSIONS ADMINISTRATION**
Classification: Unrestricted

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

- Workload position
- Achievements against Key Performance Indicators (KPIs)
- Change in Actuarial Guidance
- Communications
- Guaranteed Minimum Pension(GMP) Reconciliation

FOR INFORMATION

INTRODUCTION

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

WORKLOAD POSITION

2. Appendix 1 shows the year on year comparison of work levels being received in the section.
3. The majority of work categories remain in line with 2014/15 levels with the exception of correspondence, deferred benefits, transfers in and transfers out.
4. The level of enquiries and correspondence continues to increase. This is mainly due to increased enquiries from members regarding changes to the pension scheme but also increased interest in pensions following media coverage. We encourage members of the scheme to visit our website www.kentpensionfund.co.uk to answer as many of their questions as possible however many still require a personal response. Emails are still growing as the preferred method of communication but this is still outstripped by the number of telephone calls received in the section, which averages at approximately 1850 each month, which are not included in the section's workloads.
5. The decrease in the number of deferred benefits shown in Appendix I is partially due to members now requiring 2 years' membership of the scheme before being entitled to a deferred benefit, an increase in the previous requirement of 3 months membership, however the main reason for the difference in the number of deferred benefits when compared to previous years is that due to increased workloads in other areas we have deferred benefit calculations that have not yet been processed.

6. The number of actual transfers in fell due to the delay in clarity from Central Government with regard to how these should be dealt with under the LGPS CARE scheme. The rise in transfers out of the scheme was probably due to members transferring their LGPS pension benefits to a defined contribution scheme in order that they could take advantage of the new 'Freedom and Choice' options announced by the Government which came into force from April 2015.

ACHIEVEMENTS AGAINST KEY PERFORMANCE INDICATORS (KPIs)

7. Appendix 2 shows the achievements of the section in meeting its KPIs for the year 2015/16 compared to the previous 4 years.
8. We are required to complete 95% of the recorded KPI tasks, within the agreed target turnaround times.
9. In the categories of the calculation and payment of retirement benefits and correspondence, although these dipped during the year overall averages were within target.
10. However as a result of concentrating efforts on these areas of work and due to the changes to the scheme still impacting, especially with regard to data received from employers, and the requirement in the scheme regulations that annual benefit illustrations and deferred benefit updates have to be issued by 31 August, other areas of work have suffered.

CHANGE IN ACTUARIAL GUIDANCE

11. The majority of the work that we undertake in administering the LGPS is governed by the scheme regulations and actuarial guidance which the Secretary of State for the Department of Communities and Local Government (DCLG) obtains from the Government Actuary Department. On 29 April we received a letter from DCLG, Appendix 3, stating that revised guidance and factors were published and to be used immediately. The revised information of approximately 25000 factors was contained in 20 tables applying to different calculations.
12. The letter also indicated that a further letter, providing details on transitional arrangements for quotations together with guidance on late retirements, would be sent early the following week
13. Neither ourselves or the pension administration software providers had been made aware that revised actuarial guidance was to be issued and as a result categories of work were put on hold waiting for the further guidance and updates to the software.
14. As a result delays occurred in processing certain calculations which have had an impact on the Key Performance Indicators for the first quarter of 2016/17.
15. The guidance referred to the letter was in fact issued 4 October 2016.

COMMUNICATIONS

16. During 2016 we have dealt with the following communications:

- Cessation of contracting out
We were required to make members of the Local Government Pension Scheme (LGPS), aware of the changes the Government were making to the state pension and the ending of 'contracting out'. A letter was sent to 52,452 members of the LGPS, Police and Firefighters schemes on 30 June 2016
- Deferred Benefit updates
Even though the increase awarded to both deferred beneficiaries and pensions in payment was zero in April 2016 we are still required to supply all deferred members with an update regarding the current value of their deferred benefit by 31 August. On 12 July 2016 we despatched the updates to 37,089 LGPS deferred members
- Annual Benefit Illustrations
It is also a requirement that all current members of the LGPS receive an Annual Benefit Illustration by 31 August. We are still experiencing problems with employers supplying us with correct data and in a timely fashion so that these illustrations can be produced however despite these problems we were able to despatch 44,597 to current members of the scheme on 25 August 2016.
- Pensioners
Bi-annually, in March and October, we issue approximately 35,000 pensioners with a newsletter, Open Lines. In the March edition we inform pensioners of any increase that is applicable to their pensions from April.

In addition this year we developed a joint April payslip and P60, rather than separate correspondences, which made savings on both printing and postage.

GUARANTEED MINIMUM PENSION (GMP) RECONCILIATION

17. The option to contract-out of the State Second Pension (S2P) came to an end in 2016 when the Single State Pension was introduced.
18. When contracting-out ended in April 2016, HM Revenue and Customs (HMRC) no longer track contracted-out rights and will issue closure schedules to schemes so they can compare these against GMP amounts held on scheme records. This is known as GMP reconciliation.
19. Following this, from December 2018 HMRC is planning to send individuals information about their contracting-out history. As a result of the above, all schemes will need to reconcile their GMPs with those held on HMRC's records.
20. The section has registered with the HMRC to provide the relevant data with regard to the members of the Kent Fund and has used a company ITM Limited to undertake an initial comparison between the data held by HMRC and our data.
21. The Local Government Association (LGA) has estimated that the total reconciliation will cost the LGPS £100m and funds may have to cover additional pensions increases of

£200m a year. The reconciliation exercise is likely to uncover significant over and under payments

22. Several external consultancy companies are offering to undertake this exercise for schemes with the LGA being quoted between £20 and £40 to reconcile each LGPS member record with these costs escalating to between £60 and £80 where a record is incorrect.
23. The ITM report has highlighted that there are 40,000 discrepancies between our data and that held by HMRC. The report suggests that after applying recommended tolerances that we should consider investigating approximately 10,000 of these.
24. Having carried out exercises with other funds of a similar size to Kent their view is that the number of discrepancies is in line with these.
25. ITM Limited have quoted an amount of £120,000 to undertake the reconciliation work, based on an analytical, materiality based review of issues to keep costs and timescales to a minimum.
26. Due to the costs involved it will be necessary to investigate other quotations before undertaking the second stage of this exercise.

RECOMMENDATION

27. The Board is asked to note this report.

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

Case Type	2011/12	2012/13	2013/14	2014/15	2015/16
Benefit calculation	2434	2056	1978	1928	1766
Correspondence	1473	1152	1467	3450	4719
Divorce case	449	351	312	293	385
Estimate calculation	3133	2672	2861	2541	2810
Deferred benefit	5185	4769	5244	2475	993*
Transfer in	283	365	374	189	73
Transfer out	418	403	478	558	651
Dependants	364	305	364	323	377
Total	13,739	12,073	13,078	11,757	11,774

*This represents the number of leavers that have been identified as deferred benefits and have been processed. It does not include members who have left the scheme and where we have still to process the leaver

Appendix 2

Achievements against Key Performance Indicators

Case Type	Target Time	11/12		12/13		13/14		14/15		15/16	
		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%	1766	96%
Calculation and payment of dependant benefit	15 days	364	98%	305	99%	364	99%	323	87%	377	86%
Calculation and provision of benefit estimate	20 days	3133	99%	2672	99%	2861	98%	2541	63%	2810	62%
Reply to correspondence	15 days	1473	98%	1152	99%	1467	99%	3450	98%	4719	98%

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