

From: Chairman Pension Fund Committee
Corporate Director of Finance

To: Pension Fund Committee – 29 March 2023

Subject: McCloud Remedy - Planning

Classification: Unrestricted

Summary:

This report brings the Committee up to date with the planning for the McCloud Remedy and the various options being considered to successfully implement the requirements of the legislation.

REPORT SUMMARY

1. Background
2. Data Collection
3. Data Validation
4. Costs – Data Collection and Validation
5. Costs - Rectification
6. Recommendations

Recommendations:

The Committee is recommended to note the report.

FOR INFORMATION

For Information

1. Background

- 1.1 The LGPS changed from a final salary scheme to a career average re-valued earnings scheme on 1 April 2014. From that date, administering authorities were no longer required to collect certain data that used to be needed to calculate benefits built up in a final salary scheme.
- 1.2 The protections introduced for older members of other public service pension schemes when those schemes were reformed in 2015 (2014 for LGPS) were judged to be unlawful on the grounds of age discrimination in 2018. The Government confirmed that it will make changes to all public service pension schemes, including the LGPS, to remove the discrimination.
- 1.3 The Department for Levelling Up, Housing and Communities (DLUHC) has already consulted on proposals to extend the current underpin to younger

members and remove the requirement to have an immediate entitlement to benefits on leaving to qualify for underpin protection.

- 1.4 DLUHC has also proposed other amendments to ensure that the underpin is applied consistently and fulfils its purpose of providing a meaningful comparison of career average benefits and the benefits that would have built up in the final salary scheme.
- 1.5 Administering authorities will need to re-create notional final salary membership in the remedy period for those members in scope of protection by the new underpin. The remedy period runs from 1 April 2014 to 31 March 2022 or, if earlier, to a member's normal pension age under the 2008 scheme or date of leaving.
- 1.6 The proposed changes would mean that a revised underpin will apply to all members, regardless of their age, who were active on 31 March 2012, build up benefits in the 2014 Scheme and do not have a disqualifying break.
- 1.7 Under the proposals, in order to calculate if an underpin addition applies, Administering Authorities will need hours and service break data for all qualifying members for the period from 1 April 2014 to the earliest of 31 March 2022, the member's 2008 Scheme normal pension age (NPA) or the date the member left active membership of the Scheme.
- 1.8 Members in scope will be retirements, survivors, divorces, transfers, annual allowance and aggregations.

2. Data Collection

- 2.1 Use the McCloud LGPS Data Collection template to request hours and service break data, plus Final Salary at age 65 and at 31 March each year for all members who have been active since 1 April 2014, and to continue providing this data on a regular basis going forward.
- 2.2 Include the 'Key bullet points for employers', 'FAQ's for employers' and 'McCloud data collection template notes'.
- 2.3 Use the Scheme Advisory Board (SAB) guidance on what the options are if employers no longer exist, do not respond, do not hold the data or there is reason to believe the data is inaccurate.

3 Data Validation

- 3.1 Validate the completeness, consistency and format of employer data spreadsheets.

- 3.2 Compare the validated data with the member Altair records and analyse mismatches.
- 3.3 Apply pre-agreed tolerances and assumptions to determine which data to accept and upload to Altair.
- 3.4 Consider the approach (using SAB guidance) where the expected data items cannot be provided.
- 3.5 Where data cannot be validated or assumptions/tolerances applied, send data queries to employers and support with resolution.

4 Costs – Data Collection and Validation

- 4.1 **In House** – based on circa 617 employers and a timeframe of 12-18 months = £37,326 for x1 Communication & Support Officer. Based on the resource requirement for dealing with data submissions at year end, it is anticipated x6 Communications & Support Officers would be required for this part of the project. **Estimated cost - £335,934.**
- 4.2 **Outsourced** - based on a draft proposal received by a third-party provider, therefore subject to change dependant on successful bidder)
Estimated Cost - £168,500.

5 Costs - Rectification

- 5.1 **In House** - As at August 2021 it was determined that there were 43,295 members in scope for the statutory underpin check. Due to the passage of time, this number is subject to change. However, based on analysis of data by Heywood's for authorities who have collected data, it is anticipated that there will be circa 75 recalculations/corrections to benefits required. Taking approximately 5 hours per case if processed manually at Pensions Officer level – **Estimated cost = £7,256.25.**
- 5.2 **Outsourced – (based on £47.50 per case) = £3,562.50**
- 5.3 The Fund would also need to factor in costs for Project Management and Communication.

6 Initial Conclusions

- 6.1 Due to the complexity and anticipated length of time to complete this project, plus the demand from members once final Regulations are laid, it is likely that this project will be outsourced in full on completion of a full tender exercise to procure a third-party provider.

- 6.2 By outsourcing this project in full, the Kent Pension Fund will be able to continue at pace with its development and improvement plans. If resource has to be re-directed to deal with McCloud internally it is anticipated that there will be a minimum 2-year delay in the delivery of service improvements and efficiencies.
- 6.3 In addition, there will be reduced scope to focus on data improvement in preparation for Pensions Dashboard. It is envisaged that resource will still be required to support the McCloud project in some capacity and the additional resource currently being recruited will be able to assist with items that fall out of scope of the third-party provider service provision.
- 6.4 Officers will full assess the options available to the Fund, and report progress to the Committee at its next meeting.

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