

Pensions Audit Sub Committee

10am, Friday, 20 September 2013

Prevention of Fraudulent Pension Payments

Item number	5.4
Report number	
Wards	All

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Executive summary

Prevention of Fraudulent Pension Payments

Summary

The purpose of this report is to allow the Pensions Audit Sub-Committee to understand and scrutinise the work undertaken by Lothian Pension Fund to prevent fraud. The report provides details of our participation in fraud prevention initiatives as an integral part of the control environment and the overall management of risk.

Recommendations

The Pensions Audit Sub Committee is requested to note the work undertaken by Lothian Pension Fund to prevent pension payment fraud.

Measures of success

Lothian Pension Fund is committed to deter and ultimately prevent fraud. Suitable controls are in place and subjected to regular scrutiny. Should any fraud be detected, however, immediate action is taken to prevent future losses.

Financial impact

The Lothian Pension Fund budget includes expenditure for fraud prevention. Direct costs are detailed in paragraph 2.3. Staff resource is met within the existing budget for pension administration employee costs.

Equalities impact

There are no adverse equalities impacts arising from this report.

Sustainability impact

There are no adverse sustainability impacts arising from this report.

Consultation and engagement

The Consultative Panel for the Lothian Pension Funds comprising employer and member representatives, is integral to the governance of the Funds.

Background reading / external references

None

Prevention of Fraudulent Pension Payments

1. Background

1.1 Administration of the pension funds includes the prevention and detection of fraud. Pension Fraud can include:

- pensions continuing to be paid out after the death of a member;
- a member failing to disclose relevant information;
- a transfer of a scheme member's pension being made to an arrangement that will allow them access to their funds before the age of 55;
- fraudulent payments instigated by those involved in its administration.

2. Main report

2.1 The pensions administration team deliver services to members using a browser-based pension software system. The software stores and controls all aspects of the membership database, document management and benefit calculations. Access is restricted to authorised individuals by user identification and password protection. In addition, the Fund's compliance policy includes the restriction that members of staff should not be involved in the computation or checking benefits payable to a member who is a connected person.

2.2 The operation of internal controls also gives comfort that the risk of fraud is mitigated or minimised. Procedural controls include:

- obtaining the originals of relevant certificates;
- where a beneficiary of a death grant is a child and the payment is being made to a parent/guardian on his/her behalf, evidence that the parent/legal guardian is capable and has the appropriate capacity to act in the best interests of the child;
- authorisation of payments in line with the Scheme of Delegation.

2.3 We mainly rely on relatives to inform us of the death of a pensioner member. If a payslip or bank credit is returned undelivered, the pension is suspended pending investigation. To further mitigate the risk of not being informed of a member's death, the following procedures and checks are in place:

- **The National Fraud Initiative (NFI)** - The NFI is a well established data matching exercise led by Audit Scotland, which is carried out every two years. It is designed to help organisations identify causes of fraud and detect and correct any consequential overpayments from the public purse. The matching exercises undertaken include a comparison of public sector records to death records and other pension related outcomes, for example, when retirees have returned to work but not reported circumstances that require their pension to be reduced. Costs are met through the annual audit fee.

Investigations from NFI 2010/11 identified 38 cases where Lothian Pension Fund had not been informed of the death of a pensioner. 19 of the cases identified were written off (total value £3,470.19) because they were uneconomical to pursue.

We are currently matching data for NFI 2012/13. Audit Scotland will publish the outcomes in May 2014.

- **Matching our records to the General Registrars Office for Scotland, Disclosure of Death Information** - Since December 2012 Lothian Pension Fund has worked with General Registrars for Scotland who offer a quarterly mortality screening service. The June 2013 exercise highlighted potentially 30 members in receipt of pension whose death had been registered. These cases amount to £94K per annum. The fee charged by General Registrars Office for Scotland for providing this service amounts to around £480 each quarter. Undertaking this exercise regularly should highlight cases more promptly and as a result, the number of cases identified through NFI should reduce.
- To further reduce risk, the Fund intends to access the "Tell us Once (TUC)" project. TUC is a national application of registering a birth and death funded by the UK Government. It facilitates a single point of contact for customers to register a birth and death and notifies the relevant service areas (local and national) of each birth and death registration as soon as they have been reported. Presently, pension services are not yet available through TUC but are anticipated in a future release.

2.4 **Pensions Liberation** - The Pension Regulator, HM Revenue & Customs, the Financial Conduct Authority and the Serious Fraud Office have all recently combined to warn pension funds and the public of the dangers associated with those seeking to encourage members to liberate their pensions, commonly with enticements of receiving an early cash-lump sum and/or tapping into 'enhanced' investment performance. The Fund is required to exercise discretion as to whether to approve transfers. While the Pension Regulator has issued guidance in terms of identifying potential cases of liberation fraud, it places the onus on the pension funds themselves to have sufficient procedures in place to identify any suspicious practices and properly exercise their discretion as to whether or not to approve a transfer. We have therefore put in place a procedure which involves additional levels of diligence/enquiry of the member itself and the proposed transferee scheme. This is to ensure that any decisions to approve these types of transfer can be as informed as possible, are clearly documented and also to assert that we are sending a clear external message that these transfers are not being approved as a matter of course. Since January 2013, we have received 247 transfer requests, from which 26 cases were identified as potential liberation fraud. To date out of these 26 potential cases, the transfer payment for 10 cases has been refused. Each potential case has been referred to one of the regulatory bodies (The Pensions Regulator, HMRC or Financial Conduct Authority) and/or to Action Fraud, the UK's national fraud and internet crime reporting centre.

3. Recommendations

3.1 The Pension Audit Sub Committee is requested to note the work undertaken by Lothian Pension Fund to tackle and prevent fraud.

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Appendices None