

Pensions Audit Sub-Committee

2.30 p.m., Monday, 22 September 2014

Pensions Administration Data Quality

Item number	5.6
Report number	
Executive/routine	
Wards	All

Executive summary

The purpose of this report is to inform the Pensions Audit Sub-Committee of the ongoing work to enhance the quality of pension administration membership record data.

Aside from poorer service for members and additional costs in areas such as error correction and compensation claims from members, poor record-keeping could potentially necessitate more conservative actuarial assumptions as well as causing reputational damage. Lothian Pension Fund, therefore, places a high importance on the quality of its pension administration data. The information demands of accurate record-keeping are also expected to increase with the introduction of a scheme based on career average revalued earnings (CARE) in 2015.

The Fund continues with its efforts to improve the flow of data from employers through regular reporting and meetings to discuss issues and improvements. Criteria for passing on the Fund's costs associated with poor record keeping and/or poor service from employers have also been developed and consultation with employers will follow in the coming months.

Links

Coalition pledges

Council outcomes

CO26 –The Council engages with stakeholders and works in partnership to improve services and deliver on agreed objectives.

Single Outcome Agreement

Pensions administration data quality

Recommendations

- 1.1 Pensions Audit Sub-Committee is requested to note the report and highlight any points it would like to raise at the Pensions Committee on 23 September 2014.

Background

- 2.1 At its meeting on 20 September 2013, Pensions Audit Sub-Committee noted the report by the Director of Corporate Governance on the ongoing work to enhance the quality of pensions administration membership record data. This report also emphasised the importance of good record-keeping, given the serious negative implications of inaccurate and missing information. An update on progress is now provided on an annual basis.
- 2.2 As stated in the Lothian Pension Funds Annual Report 2014 Unaudited, the Funds are fully compliant with best practice as defined by The Pensions Regulator's "Guidance on record-keeping".
- 2.3 As Committee is aware, Lothian Pension Fund introduced a new employer on-line system in 2013/14. This portal facilitates secure electronic data transfer of member payroll information from employers to the Funds, serving to increasing efficiency and reducing the risk of manual errors.

Main report

- 3.1 A range of initiatives have been adopted by Lothian Pension Fund to improve and update its membership records. A summary of progress to-date is provided as follows:

Employer on-line data transfer portal

- 3.2 All the Fund's employers now utilise the electronic portal to transmit and receive forms and documents.
- 3.3 Following liaison with the system supplier, the portal was refined to fully incorporate monthly reconciliation of pension contribution payments by employers to member individual records. As advised previously, this presented an opportunity to reduce historic reliance on year-end validation and potentially achieve transformational improvement in data quality. Specifically, it allows the employer and the Fund to identify missing new member and leaver information as well as mismatches of member working hours on a monthly basis.

- 3.4 The work necessary to effectively introduce monthly contribution returns, however, should not be underestimated. Inevitably, a large number of initial data queries are identified and investigation of such, often going back many years, is time-consuming for employers and pension administration staff. Also, in certain instances, data extract reporting from employer payroll systems needs to be refined to suitably align with the portal. Otherwise some degree of data manipulation is required. Typically, this issue relates to Councils where one employee may be hold multiple posts. A unique pensions identifier reference number is already embedded in the portal to address this complication.
- 3.5 Accordingly, a phased roll-out of monthly contribution returns by employers has been targeted by the Fund. This has been designed to facilitate “quick wins” where possible and also prioritise the largest employers.
- 3.6 Sixty-two employers are currently submitting monthly contribution returns. Of the Fund’s largest employers, Lothian Buses, Scottish Water, Heriot Watt University and Midlothian Council have been submitting data since April 2013.
- 3.7 Meetings have been held with West Lothian Council, Police Scotland, Napier University, Edinburgh Leisure and the City of Edinburgh Council to clarify the detailed requirements and support employers through the process changes.
- 3.8 West Lothian Council (WLC) has sent its contribution data from April 2014. Its April return upload was split by individual post which means that a check can be done for all missing records and mismatch of hours. Unfortunately, significant data manipulation was required by its payroll team in order to produce this report and this has been deemed unsustainable. WLC, however, is procuring a new payroll system and has provided assurance that this should readily enable monthly contribution reporting. Implementation of this new payroll system is scheduled for April 2015.
- 3.9 Police Scotland and Edinburgh Leisure have been submitting monthly contribution data from April 2014. The Fund is currently awaiting replies to missing new starts and leavers queries as well as part-time hours mismatches to ensure all records are up to date.
- 3.10 Napier University and City of Edinburgh Council are currently working on extract reports from their payroll systems. Both employers use the iTrent payroll system. As this system is also used by Midlothian Council, which already sends monthly data to the Fund, it is expected that there should be few problems with these employers developing reports for upload to the portal. Indeed, good initial progress has been made by the City of Edinburgh Council and it is expected that the data extract should be finalised very shortly.

Pensions Administration Strategy and employer liaison

- 3.11 Since 2010, the Fund has set out standards for provision of data from employers in an agreed Pensions Administration Strategy. Following consultation with employers, this was reviewed in September 2013. Annual reports are issued to each employer outlining their own performance against standards and comparing this to other employers of a similar size. Fund-wide performance is reported each year in the Annual Report.
- 3.12 Annual performance reports have been issued to employers for 2013/14 year. As a whole, performance against standards remains poor. This can in part be attributed to data cleansing exercises carried out at year end and as part of the work to prepare employers for the introduction of the employer on-line system monthly contribution returns. However, data provided outside of these particular exercises still shows significant room for improvement.
- 3.13 Employers generally have acknowledged the need to develop and improve internal processes in order to improve performance in future. Key issues that have been highlighted are delays in information being provided from line managers and HR departments to payroll staff resulting in late notifications of retirements and early leavers. Employers have also highlighted that service standards cannot be achieved for certain types of members, for example early notification of retirements on ill health grounds is impractical and this is recognised by the Fund.
- 3.14 As in previous years, senior officers from the Fund are in the process of holding annual meetings with employers and these meetings will include discussion of the performance to highlight the key areas where improvement is required. . Priority is being given to 13 employers where two or more contribution payment have been paid late, employer performance (as per the Pensions Administration Strategy) is below average and/or year-end data was received two or more weeks late.
- 3.15 The Fund will be seeking improvement plans, setting out key priorities including setting priorities to resolve current data queries and also to ensure timely provision of data in the future. Fund officers are offering to meet with employers on a regular basis to identify any problems with the quality and provision of data to ensure that any issues are resolved quickly.
- 3.16 Regulation 38A of the LPPS (administration) (Scotland) Regulations 2008 give the Fund power to recover costs arising for poor performance by an employer from that employer. In addition regulation 39 (1) allows the Fund to charge employers interest for late payment of scheme contributions and agreed performance levels are outlined in the Pensions Administration Strategy (PAS) produced under regulation 60(A).

- 3.17 Committee will recall that the PAS includes the scope for the Fund to levy charges to cover any resultant costs if an employer's performance continues to fall below acceptable tolerances. This provision ensures that the administrative costs of the Fund are borne equitably by all the employers.
- 3.18 The Fund has considered the criteria for passing on its costs of poor performance to employers and they consist of any of the following:
- contributions received later than the regulatory standard;
 - not regularly addressing membership data queries;
 - consistent and repeatedly failing to meet service standards for new starts, leavers, retirements and deaths as per the PAS and no clear commitment to improve: and
 - not submitting monthly contributions via PensionsWEB or no clear commitment to implement before 1 April 2016.
- 3.19 It will be proposed that this is put in place with effect from 1 April 2015. The Fund will consult with employers over the coming months on this proposal.

Mortality screening and address tracing

- 3.20 Utilising the Glasgow City Council framework agreement, Lothian Pension Fund awarded a contract on 1 July 2014 to Tracesmart Limited for the provision of mortality screening and address tracing services. The contract is for one year, with the potential to extend by a further two years. Mortality screening will be undertaken for approximately 27,900 pensioner records and 15,400 deferred records on an initial and monthly ongoing basis. A validation against The Pensions Regulator's Common Data requirements will also be supplied. Address tracing is also being commissioned in respect of approximately 2,900 currently untraced deferred members.
- 3.21 Matching our records to the General Registrars Office for Scotland, Disclosure of Death Information (Scottish GRO) and also the National Fraud Initiative (NFI) are covered separately on the agenda in the report "Fraud Prevention Pension Payments".
- 3.22 On an initial trial basis, Lothian Pension Fund has also utilised the "FindMyLostPension.com" service. By reference to National Insurance numbers, this website is used by funds and members of the general public to find lost or forgotten pension pots. Additionally, cross referencing among pension schemes helps to identify gone-away deferred members that are active members elsewhere (not only across statutory pension schemes but commercial pension scheme too).

Other data quality actions - "Club Vita"

- 3.23 All the Lothian Pension Funds now participate in "Club Vita", which is a specialist company proving longevity monitoring and experience analyses. Various data quality assurance checks are undertaken on an annual basis. In this respect, it is particularly important for data to be clean in a number of key areas for example 'lifetime' dates such as dates of birth and death, and information which may

distinguish between those with significantly different life expectancies ('longevity predictors'), such as pension amounts or postcodes.

- 3.24 As at the last annual report in November 2013, data quality compared very favourably with the "VitaBank" of other funds. Lothian Pension Fund was stated to have data "amongst the best for deferred pensioners with correct and complete postcodes and reliable salary at retirement / exit for pensioners". The smaller Lothian Buses Pension Fund was similarly praised "...amongst the best for actives with correct and complete postcodes, and deferred pensioners with correct and complete postcodes".
- 3.25 Within a peer group of the LGPS, the Lothian Pension Fund data was "amongst the best for actives with correct and complete postcodes, and deferred pensioners with correct and complete postcodes". This comment was echoed for Lothian Buses Pension Fund, supplemented by "and reliable pensions for pensioners and dependants".

Other data quality actions - Member self-service

- 3.26 The Fund's member self service web-link enables secure on-line amendment to the individual's address record and also encourages contact with the Fund should the member wish to query salary or service details.

Actuarial Valuation 2014 – Data quality assessment

- 3.27 Data for the Lothian Buses Pension Fund and Scottish Homes Pension Fund has been analysed by the Actuary for the purposes of the triennial actuarial valuation. In respect of Lothian Buses Pension Fund the actuary commented that "The data was of good quality and we believe that it is fit for the purpose of the valuation. We were able to reconcile the employee contributions provided in your accounts to within 0.2%. The comparison to the pensions paid in your accounts and from the data was within 0.4%." For the Scottish Homes Pension Fund "In general, the data was of good quality and we believe that it is fit for the purpose of the valuation. The comparison to the pensions paid in your accounts and from the data was within 1.9%." At the time of writing, the data quality assessment for Lothian Pension Fund is awaited.

Future developments

- 3.28 Lothian Pension Fund has registered for the Government's Scheme Reconciliation Service. This will allow pension scheme administrators and trustees to reconcile the membership and Guaranteed Minimum Pension (GMP) data held on scheme records against HM Revenue & Customs' (HMRC) records in advance of the ending of contracting-out in April 2016. The service provides a list of contracted out periods and GMP data for members who have left contracted-out employment. This includes early leavers, pensioners, widows, widowers and surviving civil partners.
- 3.29 Following the introduction of the new LGPS in 2015, it is intended to undertake a business appraisal of Lothian Pension Fund seeking accreditation by the Pensions Administration Standards Association (PASA).

Measures of success

- 4.1 Data quality performance standards are measured against best practice guidance and included in the Lothian Pension Funds' Annual Report.

Financial impact

- 5.1 There are no direct financial implications as a result of this report.

Risk, policy, compliance and governance impact

- 6.1 There are no adverse risk, policy, compliance or governance impacts arising from this report.

Equalities impact

- 7.1 There are no adverse equalities impacts arising from this report.

Sustainability impact

- 8.1 There are no adverse sustainability impacts arising from this report.

Consultation and engagement

- 9.1 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.

Alastair Maclean

Director of Corporate Governance

John Burns, Pensions & Accounting Manager

E-mail: john.burns@edinburgh.gov.uk | Tel: 0131 469 3711

Links

Coalition pledges

Council outcomes CO26 –The Council engages with stakeholders and works in partnership to improve services and deliver on agreed objectives.

Single Outcome Agreement

Appendices